Close this window

Print this page

Insurance Cos Push Green Revolution To Stay In The Black

By Christopher Hinton

Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- It will be to no one's surprise that insurance companies' favorite customers are those who pay a regular premium, but never have to collect.

To help reduce potential losses, insurers have become experts in safety and in methods used to change the behavior of individuals. Auto insurers, for example, have pushed for state seat belt and motorcycle helmet laws to reduce injuries.

Now U.S. insurance companies want to do the same thing to roll back global warming, a phenomenon that has the potential to devastate the world's largest industry through catastrophic weather. Last year, the global insurance sector saw revenue of more than $3 trillion, about a third greater than that of the oil and gas industry. At the same time, insurers saw a record $71 billion in weather-related property payouts, largely from hurricanes Katrina and Rita.

Insurers are also thinking of ways that could reduce the affect of catastrophic weather, either through new building codes or land-use policies. As a percent of net premium earnings, damage from U.S. catastrophes was 13.8% in 2005, well above the 3.3% average for 1984 through 2004, according to the National Association of Insurance Commissioners. In the late 60s, catastrophe losses were about 1% to 2% of premiums.

"(Insurers) are vulnerable, and they have a stake in getting out in front of the problem," said Evan Mills of the Lawrence Berkeley National Laboratory for science and engineering research. Mills was co-author of an August report on climate change and insurers for the business-policy think tank Ceres.

"Climate change is increasingly recognized as an ongoing, significant global environmental problem," global heavyweight American Insurance Group (AIG) recently said in a policy document, "with potential risks to the global economy and ecology."

Enemy No. 1: Emissions

Greenhouse-gas emissions are the primary suspect behind the warmer weather trends blamed for rising ocean temperatures and the growing intensity of hurricanes in the North Atlantic, typhoons in Asia, winter storms in Europe and droughts in the American heartland.

Substantially reducing greenhouse gases could mitigate climate change, and that's one area insurance companies could eventually have an impact, according to Ivo Menzinger, head of Swiss Reinsurance Co.'s (RUKN.VX) sustainability and emerging risk management department.

The world's largest reinsurer by premiums, Swiss Re is offering to underwrite carbon-emission credits for big businesses investing in emission-reduction projects in the developing world.

"Coverage for natural catastrophe has been rising for more than 10 years at an average rate of 9.4%," Menzinger said. "Climate-change mitigation, or anything that helps reduce emission, would be a positive."

By underwriting carbon-emission credits, insurance companies could encourage greater development in renewable energy, bringing investors a financial return with a "carbon kicker," Menzinger said.

U.S. companies are beginning to show some interest in similar types of insurance, and will likely show more interest now that California has passed litigation to cap its emission output, according to Rick Shanks, national managing director at Aon Corp.'s (AOC) agribusiness and food system industry group.

In addition to the obvious, like coal-fired power utilities, another possible customer for the carbon-credit underwriting could be dairy farmers. Dairy companies have already been looking into digesters to convert methane from manure into power. The new carbon-credit insurance could encourage the dairy farmer to invest further in the technology to bring their emission credits to market for trade, Shanks said.

However, most emissions are expelled from power utilities. Hans Verolme, the World Wildlife Fund's managing director of climate change, has been working with the insurance industry to develop their environmental policies, including pushing for more energy efficient, "green" buildings to reduce energy consumption.

"Efficiency is the proverbial stepchild of climate change, which is very unfortunate because you can make amazing cost savings if you focus on efficiency," Verolme said.

It may not be "sexy," but simply equipping more buildings with efficient light bulbs and better insulation along window edges has the potential to reduce greenhouse gases by a third over the next 25 years, he said.

"Efficiency," Verolme added, "is 30% of the solution."

This Fall, Fireman's Fund Insurance Co. (FRN.XX) intends to offer discounted premiums or rate credits for commercial buildings that meet certain environmentally friendly and structural standards.

FM Global (FMG.XX) took similar steps prior to Hurricane Katrina. By encouraging its Gulf Coast customers to invest $2.5 million in reinforcing their property, the insurer said it was able to avoid about $500 million in hurricane losses, while reducing damage for each customer by 75% to 85%.

A Push For Better Land Use

The NAIC, which assists state insurance regulators with public policy, would like to see insurance companies get behind land policies that discourage development in high-risk areas.

Currently, individual states, such as Louisiana and Florida, have created what are known as "windstorm pools" to help property owners buy insurance in areas subject to weather-related damage.

NAIC Director Tim Wagner said the move was a bad idea because the pools essentially hide from homeowners the true risk of living in such areas, while encouraging builders to enter areas that would be better left undeveloped.

Undeveloped wetlands, for example, are able to absorb flood runoff and create a barrier between property owners and extreme weather.

"For the last 80 to 100 years we have seen populations concentrating in areas exposed to catastrophe," Wagner said. "We have cleared lands and drained swamps...Had the true cost of risk been appropriately recognized, these individuals might have made different buying or building decisions."

The windstorm pools also force insurance companies to insure properties they would prefer not to, even at a rate subsidized by the government. Insurance companies then pass on the cost of that risk to customers living in more secure areas.

Allstate Corp. (ALL), along with other home insurance companies, moved out of high-risk areas in Florida because it would've likely made its premiums for other customers in the state too expensive, Wagner said.

Companies could do what Japanese insurers did in Asia, where they've pushed for protection of mangroves to help reduce typhoon-related damage.

With most of the world's population living near sea levels, increasing catastrophic weather trends could lead to a catatonic or retreating insurance industry, slowing economic growth and development.

"If businesses and people are unable to buy insurance, (the economy) becomes a very fragile system," NAIC's Wagner added. "Lending stops, you can't sell your property, mortgages could be in technical defaults."

-Christopher Hinton; Dow Jones Newswires; 201-938-5285; christopher.hinton@dowjones.com

(END) Dow Jones Newswires

September 20, 2006 14:14 ET (18:14 GMT)

Close this window