National News

Report: Insurance Initiatives Tackling Climate Change Reach New High

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Hundreds of new insurance initiatives, including green building credits, drought-protection in developing countries and incentives for investing in renewable energy and carbon emissions trading are being offered to tackle climate change and rising weather-related losses in the U.S. and globally, according to a new report announced at the annual conference of the International Association of Insurance Supervisors.

The report, commissioned by the nonprofit group Ceres, outlines more than 400 climate-related activities in the U.S. and abroad ? double the number of products and services identified in a similar report done just 14 months ago.

"Insurers are beginning to respond to global warming ? and not just by withdrawing from coastal markets with high financial exposure," said Mindy S. Lubber, president of Ceres, a leading U.S. coalition of investors and environmental groups. "We're seeing a rapid proliferation of products that will reduce climate-related financial losses, as well as the pollution causing global warming. Yet, insurer responses to date are not nearly sufficient given the scale of the challenge. We need more insurers, especially U.S. insurers, to step up."

"The new insurance offerings are an impressive beginning considering the near-universal lack of interest in climate change among U.S. insurers as recently as three years ago," added Dr. Evan Mills, the report's author and a scientist with the Intergovernmental Panel on Climate Change (IPCC) which shared the 2007 Nobel Peace Prize last week with former Vice President Al Gore. "But many more creative services will be needed as insurers confront what is perhaps the biggest threat in the industry's history."

The report states that, despite the impressive increase in recent activity, most insurance companies are still not focused on the climate change issue and fewer still are offering climate-related products.

The report, presented in Fort Lauderdale by Mills, comes on the heels of billions of losses this year from unprecedented flooding and windstorms in Europe and wildfires in the West, and warnings by major European insurers that climate change threatens the industry's long-term solvency. While no individual weather event can be attributed to global warming, a growing body of new scientific data show that rising temperatures are likely increasing the intensity of hurricanes, floods, drought, wildfires and other extreme weather events in the U.S. and globally.

The report, "From Risk to Opportunity 2007: Insurer Responses to Climate Change," highlights the insurance industry's unique, powerful role historically in helping society grapple with and manage emerging risks. Just as the industry asserted its leadership to minimize risks from building fires and earthquakes, it is well positioned today to further society's understanding of global warming and advance forward-thinking solutions to minimize its impacts, according to the report. The insurance sector is the world's largest industry, generating about $4 trillion in premium revenue in 2006.

The report identifies 422 innovative products, services and other activities from 190 insurers, reinsurers, brokers and insurance organizations in 26 countries. Forty percent of the activities come from U.S. companies, covering climate change solutions including energy efficiency, green building design, carbon emissions trading, wind power, biofuels and sustainable driving practices.

Many of these activities have the potential to dramatically reduce greenhouse gas emissions in some of the most energy intensive parts of the economy, the report said. For instance, motor vehicles account for more than 25 percent of all U.S. greenhouse gas (GHG) emissions, and insurance policies such as pay-as-you-drive and incentives for hybrid vehicles could reduce that amount by 10 percent or more if broadly implemented. Buildings account for more than a third of U.S. GHG emissions. Green building practices can reduce energy use and emissions by up to 50 percent and well beyond that when coupled with purchases of renewable power and carbon offsets, according to the report.

The report highlighted recent insurance iniatives including:

* Renewable energy-related insurance products are allowing more companies and investors to participate in renewable energy projects and fast-growing carbon emissions trading programs. London-based Willis Holdings has launched a new product to cover potential underproduction of power from wind farms. AXA provides comprehensive insurance coverage for wind farms, which generated $14 million in premium revenue for the company in 2006.

* Lexington Insurance Co., a member company of American International Group (AIG), will introduce this fall, Upgrade to Green, a

first-of-its-kind green homeowners property insurance policy offered in the U.S., and is simultaneously offering a product for commercial buildings. Fireman's Fund introduced a first-of-its-kind suite of insurance products for green commercial buildings last year, now approved in all 50 states.

* Pay-as-you-drive (PAYD) insurance products are now being offered by 19 insurers worldwide, who recognize that reduced driving means reduced accident risk, as well as reduced energy use. Tests have shown that PAYD products can reduce overall miles driven by 10 to 15 percent or more. About 20 percent of new customers of the French insurer AGF have elected the PAYD option, with 250,000 such policies in force. Progressive and GMAC offer PAYD policies in parts of the U.S.

* Japan's Sompo Insurance has given premium discounts to 3.25 million policyholders that drive low-emitting cars, and Tokio Marine and Nichido have signed up 6.23 million policyholders, 48 percent of its total auto policy customer base, who are receiving discounts for driving low-mileage or low-emitting vehicles.

* Munich Re and Swiss Re are offering micro-insurance in parts of the developing world where insurance did not previously exist. Swiss Re created a project this year ? the Climate Change Adaptation Program ? that uses climate models and satellite data to determine when up to $2 million weather-related claims are to be paid in response to severe drought conditions causing food shortages in villages in Kenya, Mali and Ethiopia. Swiss Re has also sold weather-risk products to 320,000 small farmers in India.

Despite the dramatic growth in climate-related insurance activities, the report states that most insurance companies are still not yet experimenting with these products, and much of the activity that is occurring is outside the United States. According to the report's findings, only about 1 in 10 of the insurers that were evaluated are working in a visible way to understand the mechanics or implications of climate change, and only a third are offering innovative products and services.

Source: Ceres, www.ceres.org

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