Reactions

Comment: A changing political climate

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The US appears to slowly be moving towards action on climate change and the insurance and reinsurance industry must make sure it is at the centre of the debate, says Reactions managing editor Michael Loney.

Barack Obama has been an extremely unpopular US president among Wall Street businesses. But his statements this year may well have brought him more fans among insurers and reinsurers than just famous billionaire Democrat supporter Warren Buffett.

In his speeches in 2013, Obama has been in feisty mood. He outlined an ambitious agenda for his second term during his State of the Union address on February 12. Among his proposals were big ticket items such as immigration and education reform. However, insurance observers' ears would have pricked up when Obama then went on to say the US must do more to combat climate change "for the sake of our children and our future".

"If Congress won't act soon to protect future generations, I will," he said. "I will direct my Cabinet to come up with executive actions we can take, now and in the future, to reduce pollution, prepare our communities for the consequences of climate change, and speed the transition to more sustainable sources of energy."

These strong comments followed the president also highlighting climate change in his inauguration speech in January. "Some may still deny the overwhelming judgment of science, but none can avoid the devastating impact of raging fires, and crippling drought, and more powerful storms," he said then, making a not-so-veiled reference to Republicans.

A US president outlining a determination to tackle climate change in such stark terms is unprecedented.

Many of the broader policies that Obama outlined in his State of the Union address have zero chance of going anywhere in the grid-locked US Congress but it is possible that some progress will be made on addressing climate change. It may even become one of the biggest battles of his second term.

Obama is unlikely to get any help from Republicans, whose default mode is to oppose anything he favours, let alone the fact that even considering the possibility that climate change may exist is enough to get shunned by Grand Old Party leadership.

But, for a start, Obama can direct the Environmental Protection Agency to begin limiting greenhouse gas emissions from existing coal-fired power plants. The administration is also in favour of promoting safe development of natural gas, new rules requiring the disclosure of chemicals used in fracking, doubling the amount of electricity generated from renewable sources, and moving vehicles away from relying on oil.

Industry observers will be cheered by all this. It raises hopes that the US may finally be slowly moving towards the same kinds of efforts the insurance industry has made to manage climate change related risks.

"Insurers have become quite adept at quantifying and managing the risks of climate change, and using their market presence to drive broader societal efforts at mitigation and adaptation," said author Evan Mills, a scientist in Lawrence Berkeley National Laboratory's environmental energy technologies division, in a study published in journal Science in December.

Mills said responding to shareholder, regulatory and market forces, three global initiatives – UN Environment Program Finance Initiative (1995), ClimateWise (2007), and the Kyoto Statement (2009) – have compelled 129 insurance firms from 29 countries to engage in activities including: supporting climate research; developing climate-responsive products and services; raising awareness; reducing in-house greenhouse gas emissions; quantifying and disclosing climate risks; incorporating climate change into investment decisions; and influencing public policy. The ultimate goal of these industry activities is reducing climate-related losses among their customers as well as reducing their own exposure to risk, which is rising in step with the magnitude and frequency of extreme weather-related events.

Insurers and reinsurers have been using sophisticated analytical tools to quantify and diversify their exposure to climate change risk, more accurately price and communicate risk, and get adaptation and loss-prevention efforts up and running.

So if there is work to be done on climate change during Obama's second term, insurers should be deeply involved in it. The industry is and should continue to place itself at the centre of the climate change debate.

Reinsurers such as Swiss Re and Munich Re have been especially active. For example, Swiss Re in January released a report, *Building a Sustainable Energy Future*, describing the impact of the changing global energy mix on climate change and providing a framework for decision-makers when it comes to questions of renewable energies, greenhouse gas emissions and how to adapt to climate change. The report concludes with a look at how insurance can enable development in the energy sector.

"Insurers should support the further development of low carbon-intensive power production," says Agostino Galvagni, CEO of Swiss Re Corporate Solutions. "They need to be innovative and provide solutions along the whole value chain. For example, insurers can enable project financing through construction insurance and reduce cash flow volatility of intermittent energy production through weather risk transfer solutions."

Swiss Re is also the only insurer involved in the NYS 2100 Commission, set up in the aftermath of Sandy and tasked with finding ways to improve the resilience and strength of New York state's infrastructure in the face of natural disasters and other emergencies. Swiss Re Americas director and former chairman Walter Bell is a member of the commission, which will be co-chaired by Judith Rodin, president of the Rockefeller Foundation, and Felix Rohatyn, former chairman of the Municipal Assistance Corporation.

European reinsurance rival Munich Re has been just as active. For example, in the past few years, Munich Re has initiated major innovative projects, such as the Munich Climate Insurance Initiative and the desert energy initiative Dii GmbH.

"Climate change is one of the greatest risks facing mankind this century," says Peter Höppe, head of Munich Re's Geo Risks Research/Corporate Climate Centre. "Through a part of its core business, the insurance industry is directly affected and therefore assumes a leading role in devising solutions for climate protection and adaptation to the inevitable changes."

It is easy to assume that insurers are trying to use climate change as a reason to jack up pricing. But the industry cannot fool each other, and intense competition and overcapacity means pricing reacts to catastrophes year on year. It cannot and should not try and incorporate a longer-term view into pricing now.

Rather the industry's role in addressing climate change is more to ensure the industry stays relevant. If it cannot help policyholders address risks and reduce volatility it may end up having to stop covering them.

It is for both the good of the industry and society that insurers and reinsurers take a leading role in combating climate change. Thus, climate change not only could be a defining issue of Obama's second term; it will be the defining issue of the insurance industry's next century.