Insurers Go Green

by Robert C. Meder

There is an old saying, "Everyone complains about the weather, but nobody does anything about it." On the heels of the 2004 and 2005 hurricane seasons, which caused a record $79.1 billion in insured losses for the two years (including $40.6 billion from Hurricane Katrina alone) according to the Insurance Information Institute, the debate continues whether recent extreme weather events are attributable to the impact of climate change. Evidence seems to show that rising temperatures are likely increasing the intensity and frequency of hurricanes, floods, tsunamis, wildfires and other extreme weather events that trigger insurance losses in the United States and globally. Climate change and the rising number of weather-related losses have become a major area of concern among insurance buyers, insurers, reinsurers, agents and brokers.

While the insurance industry may not be capable of doing anything about the weather itself, action is being taken to try to minimize the human impact. Dozens of new insurer activities, such as premium credits for "being green," incentives for investing in renewable energy, and insurers' establishment of "green teams" and exclusive products, have recently emerged. Specific business sectors, such as real estate, have begun initiatives to be environmentally friendly. Thus, it is in everyone's best interests to address these issues, as ultimately it is the consumer who will experience the benefits or consequences.

Many insurers, including AIG and Swiss Re, have begun offering incentives-financial and otherwise-to their clients to! "go green." It is worth looking at a few examples of how the insurance industry is responding to the environmental concerns of their customers.

Fireman's Fund: Green-Gard

Designed for the unique property exposures of green commercial buildings, Fireman's Fund's Green-Gard coverages feature the elimination of limitations for vegetated roofs, full coverage for alternative power and water systems including loss of income, and expenses associated with hiring a LEED-accredited professional to oversee post-loss repair and/or reconstruction. (LEED stands for Leadership in En! ergy and Environmental Design, a certification developed by the U.S. G reen Building Council.) Debris removal coverage is extended to cover the additional expense of recycling.

In addition, Green-Gard has a green upgrade component: coverage is designed for traditional buildings to be upgraded with green features following a loss. "Like kind and quality" replacement cost provisions are replaced with more liberal language allowing replacement with building components, personal property and interior finish products that are aligned with green certified property. In the event of a total loss, Fireman's Fund will pay to rebuild the building as green certified, including all green filing fees charged by the U.S. Green Building Council. Coverage for alternative energy and plumbing systems is also included if the insured already has these systems.

In addition to Green-Gard for commercial real estate, Fireman's Fund is developing green coverage for their personal lines policy (pending approval), allowing residential property owners to replace damaged property with green upgrades-examples include energy efficient electrical fixtures, automatic shut-offs, green common areas, etc.

Chubb Green Team

The Chubb Group of C! ompanies has formed a green energy team of underwriters and engineers, designed to develop products and services specifically in the energy sector, such as renewal energy producers and distributors, wind turbines, ethanol and bio diesel plants, solar energy systems, etc. Pete Thompson, vice president and worldwide energy manager at Chubb, says that the creation of Chubb's green energy team "will allow us to look beyond traditional renewable energy production and distribution risks, and explore the insurance and loss control issues facing our other commercial customers." Thompson describes Chubb's initiative as a three-pronged effort that includes targeting clients in the renewable energy sector; providing such clients with specialized services, technologies and expertise, and developing specific green insurance products in the future for specific industry sectors

"Our goal is to develop a clear strategic direction for! Chubb, across all commercial departments," says Thompson.

Travelers' Green Strategies
Travelers recently announced plans to raise awareness of climate change through a series of workshops and sponsorships. In addition, the company has initiated new underwriting strategies that are responsive to climate change. Examples include:

- the first national insurance discount of 10% for hybrid automob ile drivers, offering consumers incentive to minimize environmental impact
- new generation boiler and machinery product that provides for the replacement of damaged equipment with equipment that improves the environment, and increases efficiency and safety
- targeted insurance programs tailored to emerging "clean energy" firms, such as wind power farms

Travelers will also be providing support to the Institute of Business and Home Safety (IBHS) to promote property damage mitigation strategies and is sponsoring the National Hurricane Survival Initiative to promote hurricane preparedness through various media and a website (www.hurricanesafety.org). And Travelers' two main business campuses in St. Paul and Hartford have been certified as "Energy Star" by the EPA for energy efficiency.

A Green Focus
Even non-U.S. insurers are tackling environmental issues resulting from climate change. In September, it was announced that 16 insurance companies in Canada, including AIG, Allianz, Lloyd's and Zurich, have signed up to be part of a major initiative called Climate Wise, intended to encourage more climate-friendly customer behavior. The principles, developed by a working group consisting of the Association of British Insurers and His Royal Highness' Business and the Environment Program and Business in the Community, intend to not only promote, but to change customer behavior.
Peter Hubbard, chief executive of AXA Insurance and chairman of the industry working group that drew up the principles, says that "Climate Wise demonstrate! s the importance this industry attaches to this challenge. The principles set a framework for us taking up this exciting challenge of changing behavior, raising awareness, and encouraging new ways of working."

Regulatory insurance organizations have noticed these trends. In March 2006, the National Association of Insurance Commissioners (NAIC) announced the establishment of a Climate Change Task Force, intended to examine the impact of climate change on the U.S. insurance industry and on insurance consumers. At the time of its formation, Tim Wagner, director of the Nebraska Department of Insurance and one of the task force's leaders, commented that "it's becoming clearer that we are experiencing more frequent and more powerful weather events that pose huge challenges for the insurance industry." The task force is also looking at whether insurers have ade! quately factored extreme weather occurrences such as hurricanes, droug hts, etc. into their financial and risk models.

The Ceres Group, the largest coalition of investors, environmental and public interest organizations in North America, released a report last year examining the insurance industry's response to climate change and global warming. In the report, Dr. Evan Mills, a scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory, said that the "green" incentives on the part of insurers are an impressive beginning, considering the near-total lack of interest in climate change among U.S. insurers as recently as two years ago. "The insurance sector is poised to make a major contribution to long term national and international efforts to curb the growth of greenhouse emissions, while helping to fortify society against the near term impacts of climate change," says Mills.

Andrew Logan, director of insurance programs at Ceres, adds that European insurers and reinsurers like Swiss Re, Munich Re and Allianz have been warning about the consequences of climate change for years. "Munich Re has calculated that by 2050, climate change could cost up to $300 billion annually in weather-related damages," he says. He also cites a recent Lloyd's of London report that states "the insurance industry must start actively adapting in response to greenhouse gas trends if it is to survive...there could hardly be a debate of greater importance to the insurance industry." Logan feels that U.S. insurers have often tended to focus on reducing their risk exposure through financial means, such as raising prices and pulling back from at-risk areas, which can lead to consumer backlash. "If scientists are correct about the impact of climate change, the industry wil! l essentially have to exclude itself out of business," he says. "To de al with climate change, [the insurance industry] must do what it has done in the past with major new risks: take a proactive approach, engaging customers and policymakers to find ways to reduce and limit risk so that the insurance function can continue."

Based on the scientific data, it is generally agreed upon that man-made climate change is occurring. Given their expertise in dealing with historic risk, insurers are uniquely positioned to deal with climate change in a broad way, by encouraging society to embrace adaptation, while also encouraging behavioral change that will hopefully make climate change's impact less severe. The introduction of green initiatives and specialized insurance products is a good beginning in minimizing climate change's impact in an environmentally positive way.

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