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August 29, 2006

How Insurers Are (and Are Not) Tackling Climate Underwriting, Investing, and Policies

by Bill Baue

A new report from Ceres identifies almost 200 activities rece introduced by insurers to address climate change, but calls industry for further action.

SocialFunds.com -- The insurance industry inhabits a pivota addressing climate change--but is only just beginning to fulfi potential of this role, according to a new report from Ceres, investors and environmental groups that promotes corporat sustainability. Entitled *From Risk to Opportunity: How Insure Proactively and Profitably Manage Climate Change*, the rep 190 real-world examples of climate risk mitigation strategies opportunities from 104 insurers in 16 countries.

"These activities represent an encouraging start, but only the tip of the iceberg when compared with what the industry could be doing and what is needed," state report authors Evan Mill and Eugene Lacomte. Dr. Mill is a scientist at the Lawrence Berkeley National Laboratory and a co-leader of the Intergovernmental Panel on Climate Change (IPCC) Third Assessment Report's insurance chapter. Mr. Lacomte is president emeritus of the Institute for Business and Home Safety (IBHS) and a 50-year insurance industry v

"Most US insurers have yet to even experiment with these r presumably because many companies have not looked clos underlying question of climate change," Dr. Mill and Mr. Lac "No one insurer has developed what we would consider a comprehensive portfolio of best-practice strategies, nor are resources being invested in these endeavors."

The report notes that insurance represents the world's large with $3.4 trillion in yearly premium revenue plus another trilli investment income. This structural duality both lends incredi to the sector in setting the agenda for mitigating climate risk opportunities to profit from the transition to a carbon-constra economy, and also makes the sector very vulnerable.

"Tremendous concern has been expressed about the poten 'correlated risks' from climate change that simultaneously in insurer's underwriting losses while also negatively impacting assets that the insurer uses to pay off those claims," state t

On the flip side, this potential double-whammy heightens th
for insurers to use their role in quantifying the monetary cost
inspire more comprehensive responses to climate change a
the insured and companies held in insurance investment po
190 activities identified by the researchers (half of which inv
US-based companies) span the gamut, from underwriting to
to more general climate-related policies and disclosures.

Underwriting examples include new "green" coverage from F
Fund, an Allianz (ticker: ALVG) subsidiary, which rewards er
building practices certified by the Leadership in Energy and
Environmental Design (LEED) program--especially for rebuil
claim. While these practices clearly advance environmental
also represent smart business by reinforcing buildings again
damage and losses. The authors highlight similar links betw
environment-friendly practices and insurance risk reduction
the report.

Investment examples include the launching of the Green Fu
in corporate environmental leaders by AIG (AIG) subsidiary
International Assurance in the Hong Kong Mandatory Provi
Market. AIG's Japanese SRI equity fund also includes envir
selection criteria.

Ceres also applauds AIG (the world's largest insurer) and M
(MMC--the world's largest broker) for issuing statements rec
climate change this year.

"Prior to this, US insurers had been largely silent on the issu
authors in the report.

In terms of disclosure, AIG is the only US-based insurer to p
the Carbon Disclosure Project (CDP), an investor coalition s
corporate transparency on greenhouse gas (GHG) emission
policies, all three years so far (from 2003 through 2005). In
of the non-US insurers listed in the report have responded t
most recent version of the survey.

The report also looks at practices that have yet to be imple
show great promise for addressing climate change. For exa
Re (TUKN.SW--the world's largest reinsurer) has floated the
issuing directors and officers (D&O) insurance contingent o
governance around climate-related issues.

"Chris Walker of Swiss Re . . . notes that energy giant Exxo
accounts for roughly one percent of global emissions and h
aggressively lobbied against any efforts to reduce greenho
states the report. "'So,' said Walker, 'we might go to them a
you don't think climate change is a problem, we're sure you
we exclude climate-related lawsuits and penalties from your
Officers] insurance.'"

The report ends with a ten-point strategy for insurers to add
change. In addition to the strategies listed above, the repor
others such as actively participating in carbon markets as in
risk managers and reducing insurers' own carbon footprints
positive example.

"Given that insurance is the world's largest economic sector

insurers reach virtually every consumer and business in dev
countries, the prospect for their involvement in the developr
promotion of climate change mitigation strategies stands as
but as yet largely untapped opportunity," the report concluc

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