

## Is the U.S. Insurance Industry Prepared for Climate Change?

2012 was the warmest year on record in the lower 48 states and the second most extreme weather year in United States history. Insurers are increasingly acknowledging that extreme weather has become the new normal, yet a new report from Ceres finds that many in the industry are only just beginning to think about how to address the effects climate change may have on their business – while a small group of companies is leading the way.

The Ceres report, *Insurer Climate Risk Disclosure Survey: 2012 Findings & Recommendations*, is based on 184 company disclosures in response to a climate risk survey developed by insurance regulators. Surveys were completed by insurers licensed to operate in three states – California, New York and Washington – that require climate risk disclosure. Collectively, these companies represent a significant majority of the American insurance market.

Ceres found only 23 companies in the property & casualty, life & annuity and health insurance sectors have comprehensive climate change strategies. Those companies provide a roadmap for the rest of the industry as it begins to wrestle with the issue.

“Every segment of the insurance industry faces climate risks, yet the industry’s response has been highly uneven,” said Ceres president Mindy Lubber, who wrote the report foreword. “The implications of this are profound because the insurance sector is a key driver of the economy. If climate change undermines the future availability of insurance products and risk management services in major markets throughout the US, it threatens the economy and taxpayers as well.”

“Climate change is potentially a serious financial threat to the insurance industry, and needs to be on insurers’ and regulators’ radar,” said Washington State Insurance Commissioner Mike Kreidler, a leading advocate for stronger climate risk disclosure and action by insurance companies. “If insurance is to remain available and affordable, companies will need to adapt. The last thing we want to see are unprepared companies simply pulling out of markets or seeking unreasonable rate hikes.”

Eleven extreme weather events each caused at least a billion dollars in losses last year in the United States. Hurricane Sandy alone caused \$50 billion in economic losses, including tens of billions of insured losses by P&C firms whose quarterly profits suffered as a result. Additionally, American taxpayers are absorbing even bigger financial hits thanks to losses sustained by the National Flood Insurance Program (NFIP) as well as growing costs for disaster relief spending.

At first glance it might appear that only property and casualty insurers have reason to be concerned about claims related to climate change. In fact, every segment of the insurance industry has climate risks. Life insurers, for example, own hundreds of billions of dollars worth of real estate in vulnerable coastal areas.

“As a long-term investor, CalSTRS is dedicated to making sure climate change is factored into the regular risk management practices of our portfolio companies,” said Jack Ehnes, chief executive officer of the California State Teachers’ Retirement System (CalSTRS), the largest educator-only pension fund in the world and former Colorado insurance commissioner, who spoke at today’s news conference. “By integrating climate change risk management into their practices, insurance companies greatly improve their abilities to offer sustained shareholder value. This report gives us yet another tool as we engage with companies on climate change and other sustainability challenges.”

#### Key report findings

The quality of overall disclosure and performance by the 184 insurers was low – the average score, on a scale developed by Ceres, was 7.3 points out of a possible 50 points.

Of the 23 insurance companies with a comprehensive strategy to cope with climate change, 13 of those companies are foreign-owned, and eight are P&C companies.

Based on their climate risk disclosure responses, the industry leaders include: ACE Ltd., Munich Re, Allianz Group, Swiss Re Group, Farmers Group, The Prudential Group, Travelers Group, Hartford Insurance Group, Kaiser Foundation Health Plan and Zurich US Insurance.

Smaller insurance companies tend to be far less prepared to manage climate risk than larger companies.

Property and Casualty (P&C) insurers (including multiline) demonstrate far more advanced understanding of the theoretical risks that climate change poses to their business. P&C insurers also tend to be at a further stage of development in implementing the tools needed to manage climate change risks, when compared to the Life and Annuity and Health segments of the industry, irrespective of the size of the company.

Though most insurers view climate change as a risk that will inherently be captured in their Enterprise Risk Management strategies, the tendency for companies to plan to the short-term compromises their ability to cope with the dramatic changes projected to occur in the coming decades, including sea level rise, extreme wildfire, more persistent drought and more severe heat waves.

The survey reveals five main motivators of action on climate change, including:

Impacts on revenue and profits - The exposure of the company’s operations, revenue and profitability, is a motivator for 110 out of 184 companies, although this is primarily due to concern for current extreme weather events, rather than climate change per se.

Emergent risks from future climate trends—88 out of 184 companies viewed climate change as a potential future loss driver, even though scientific assessments such as the recent IPCC Extreme Events report and draft National Climate Assessment emphasize that climate change is already amplifying extreme events that lead to insured losses.

Client exposure to climate change was cited by 72 out of 184 companies, with concerns including clients' exposure to carbon regulation, extreme weather damage to clients' physical operations or assets and damage to clients' investments.

Sustainability and related reputational benefits. This driver is relevant for all segments, but especially so for health insurers. While only nine companies include the reputational benefits of acting on climate change, a far higher number highlight correlations between sustainability programs and reputational benefits (77 firms, or over 40% of the survey).

While the insurance industry has begun to recognize the potential impacts of climate change and to evaluate its likely effects on their business, significant challenges remain. Some leading insurers and reinsurers are promoting new products and policies that will help reduce carbon pollution, which is driving climate change. Others are focused on building stronger resiliency to climate impacts, especially sea level rise, stronger storms and extreme precipitation events.

"Just as the insurance industry asserted leadership to minimize building fire and earthquake risks in the 20th century, the industry has a huge opportunity today to lead in tackling climate change risks," Lubber said.

## Recommendations

The Ceres report recommends that insurance companies:

- Treat climate change as a corporate-wide strategic issue, affecting all functions, at all levels, and formalize this in a public corporate policy statement.
- Assess how a warming climate will alter extreme weather events, disease vectors, political risk and infrastructure resilience, and implement strategies to adapt their underwriting and investment practices accordingly.
- Develop catastrophic models that anticipate the probable effects of climate change on extreme weather events.
- Advocate for public policies that will help reduce carbon emissions and maintain an economy that is resilient to climate risk.

Insurance regulators have a role to play as well. Ceres recommends regulators:

- Continue to mandate annual, public climate risk disclosure by insurers.
- Engage with insurers, consumers and other public policy makers to better understand the nature of climate change risk, including how rates should be adjusted to reflect changing risks, and the steps insurers and regulators need to take to better incentivize consumers to reduce their vulnerability to these risks.

Click here to read the report: [www.ceres.org/resources/reports/naic-report/view](http://www.ceres.org/resources/reports/naic-report/view).

#### About Ceres

Ceres is an advocate for sustainability leadership. Ceres mobilizes a powerful coalition of investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy. Ceres also directs the Investor Network on Climate Risk (INCR), a network of 100 institutional investors with collective assets totaling more than \$11 trillion.

For more information, visit [www.ceres.org](http://www.ceres.org) and [www.incr.com](http://www.incr.com).

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