

Property Casualty 360

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, click the "Reprints" link at the top of any article.

On Climate Change, a Do-Nothing Strategy is Not Risk-Free

BY EVAN MILLS

March 13, 2013 • Reprints

Whatever insurers may think about the presence or causes of climate change, one thing is certain: the business climate is changing, rapidly.

New technologies are entering the market for saving and supplying cleaner energy in buildings, transport, and industry—and insureds are adopting these “green” technologies left and right. Renewable energy investment around the world topped \$257 billion in 2011 (80% of the investment in fossil fuel capacity), approaching half of all new electrical generating capacity globally. Energy efficiency and “green-buildings” have also become multi-billion-dollar markets, and growth is showing no signs of slowing.

With this comes a need to assess and manage associated emerging risks, as well as be an early mover to capture business opportunities and stay in tune with customers who are increasingly “going green.”

Read Mills' "From Risk to Opportunity 2012: The Greening of Insurance" [HERE](#)

I have cataloged over 1100 climate-oriented activities conducted by 378 insurance entities in 51 countries. Surprisingly more are based in the U.S. than any other country, although some of the most concerted efforts are to be found elsewhere.

Care should be taken that these well-intended efforts to curb greenhouse-gas emissions don't have inadvertent consequences. That said, some pundits have focused myopically on potential downsides, without considering the prospective co-benefits. For example, insurers have long found that facilities that institutionalize a “culture” of careful energy management experience fewer losses.

Related story: [Ceres: Insurers Acknowledge Climate Change, but Are Not Prepared for Threats](#)

New technologies, by definition, certainly lack a history of loss experience. This fact of life has been part of the insurance landscape since the times of Hammurabi. Consider the first car, the first boiler, or the first airplane. While insurers may have temporarily shied away from these new risks, doing so would clearly not have been a prudent or necessary long-term strategy. Instead, efforts were proactively made to engineer risk out of the green equation.

As a case in point, whether building structures can support and remain resistant to moisture from the increasingly popular “green” (vegetated) roofs is a fair question. FM Global has offered a level-headed response by issuing guidelines for the right way to do green roofs. This, coupled with their own green-buildings insurance offering, represents a best practice with respect to mitigating climate risk without inadvertently taking on new avoidable risks. That Allstate's headquarters has a vast green roof says it all.

Beyond mitigating climate change, green technologies can even reduce conventional risks. Many insurers note that dual-paned windows are more fire-safe than single-paned ones (failing more slowly under heat stress, thereby helping block and keep down the supply of air to the fire). Pay-as-you-drive insurance helps reduce emissions from cars by rewarding reduced driving while lowering the probability of accidents. There is a long list of similar win-win strategies.

Insurers are even finding that some strategies reduce emissions while helping directly fortify infrastructure against climate change impacts. Tokio Marine knows this, and has for over a decade been replanting mangrove forests across seven Pacific-rim countries for the dual purposes of pulling carbon-dioxide out of the atmosphere and reducing storm damages.

To do this right, insurers will want to look squarely at the whole constellation of responses to climate change and consider their *comparative* risks. There is a colorful cast of characters. Energy efficiency is arguably the most risk-free climate change response strategy. It doesn't hurt that it saves money as well. It mitigates risks such as vulnerability to forced power plant shutdowns during droughts and heat waves or weapons proliferation and fuel-import vulnerabilities posed by (mostly) carbon-free nuclear power. In fact, targeted efficiency makes the electric grid more robust and helps customers weather power outages.

Sadly, as proven methods of trimming emissions are delayed, concerned scientists and policymakers are increasingly looking to more desperate approaches such as “solar radiation management” by continuously dumping dust from high-altitude jets into the atmosphere or flinging *trillions* of reflective Frisbees into space (I kid you not) to block incoming solar energy, or dumping megatons of iron filings into the ocean to capture carbon in massive carbon-capturing algae blooms. These strategies are feared to usher in a variety of unintended side effects such as drought—not to mention fostering complacency. It will be interesting to see whether private companies proposing to conduct this work will be successful in obtaining insurance.

With burgeoning climate risks, a do-nothing strategy is of course not risk-free. The wisest response is to “greenline” emissions-reduction technologies rather than “redlining” them.

EVENTS

CONNECT

© 2013 PropertyCasualty360, A Summit Business Media website