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Dr. Evan Mills (04.13.09)

Dr. Evan Mills is a staff scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory, Berkeley, Calif. For the past decade, Dr. Mills has studied in depth the question of the impacts of climate change on the insurance industry, both in the United States and abroad, publishing more than 50 reports, including serving as a convening lead author for the Intergovernmental Panel on Climate Change (IPCC) Third Assessment Report, under the auspices of the United Nations, and is contributing to the Fourth Assessment released in February 2007.

Dr. Mills received his Masters of Science degree from the Energy and Resources Group at the University of California at Berkeley and his Ph.D. from the Department of Environmental and Energy Systems Studies at the University of Lund in Sweden. In Sweden, Dr. Mills worked for several years with the Swedish State Power Board and the Swedish National Board for Industrial and Technical Development on energy planning projects.

The Interview

Takefive:
Dr. Mills, you just released "From Risk to Opportunity: 2008 -- Insurer Responses to Climate Change." What are the most striking findings in this year's report compared to reports published in previous years?

Dr. Mills:
The most striking top-level finding of the report is the sheer increase in activity. We tabulated 643 specific activities in 2008 as opposed to 422 in 2007. We found increases in each of the ten broad areas we tracked. These involved 244 insurance entities, plus collaborations with 34 non-insurance groups (ranging from development agencies to universities to government agencies). The efforts are becoming more sophisticated and focused and new customer segments are being targeted in increasingly creative ways.

We see a strong continuation of the transition from insurers working on climate change as a relatively superficial PR activity towards one in which the issue is more deeply and strategically institutionalized and embedded in the operations of companies. Climate change is becoming recognized as an issue of Enterprise Risk Management, spanning underwriting, asset management, and corporate governance. Insurers are engaging in climate science by sponsoring research missions to the Arctic. The CAT modelers are also devoting more resources and serving an increasingly important function in bridging the pure-science approach to climate change with economics.

One of the most constructive developments is more products and services focused on ensuring the *quality* of the customer's energy or carbon savings efforts. These include performance insurance for renewable energy systems, coverage for green buildings that don't deliver promised performance, and products that apply to carbon offset and trading activities. In all cases, loss-prevention takes the form of due-diligence, scrutiny of engineering assumptions, preventive maintenance, commissioning, measurement and verification, and other constructive interventions to help ensure project integrity and success.

Takefive:
The report notes that while property insurers drove most of the climate-related activity in 2008, there was little or no activity in some industry segments. Can you describe segments where you found activity increases and the segments where little activity was detected?

Dr. Mills:
In terms of products and services, the greatest new activity was in "green" buildings, and in personal auto, where about two dozen companies are now offering mileage-based premiums while another dozen and a half are offering discounts for low-emission vehicles. There was a big increase in climate-relevant micro-insurance for the developing world – I find this very exciting. Perhaps the biggest and most newsworthy spike was in liability products. Two companies introduced products for carbon capture and storage. D&O policies were also introduced that, for the first time, explicitly had climate change triggers.

Based on very limited data, it appears the market is responding. For example, we're seeing $1 billion in annual premium volume for micro-insurance products, 5,000 "green-buildings" policies, 1 million pay-as-you-drive auto policies, and 10 million policies with discounts for low-emissions. The true market size is no doubt much larger, but the lack of systematic reporting obscures the actual values.

Beyond products and services, there was a big uptick in efforts among insurers to participate in climate science, reduce their own greenhouse gas emissions, and "green" their investment practices. The 15 insurers for which we have data have collectively invested $11 billion (twice what we logged in 2007) in a variety of projects such as wind farms or venture capital funds for green startups. Others are providing financing for everything from purchasing efficient cars to making energy-saving home improvements. About 10 companies are now coupling carbon-offsets with traditional insurance. There was significantly increased activity this year in climate risk disclosure internationally (65 percent of companies voluntarily responding to the Carbon Disclosure Project survey), as well as the resolution of deliberations about insurer disclosures here in the United States.

The gaps or areas with particularly low activity include all of life/health segment as well as property-casualty products for commercial and industrial customers, inland marine, workers' compensation, crop insurance, standing timber, commercial auto, and warranty. U.S. insurers are closing the gap with their European counterparts. Asian companies have shown the lowest levels of new activity over the past year.

There is a lot talk about insurance for renewable energy technologies, but there is considerable ambiguity as to which of these represent truly innovative offerings rather than the packaging of traditional cover (which can have considerable gaps if not tailored to the operational characteristics of renewable energy systems).

Looking to the future, an important emerging theme is the coupling of sustainability and disaster resilience, i.e. how can a building with storm shutters over energy-guzzling leaky windows be touted as a thorough response to the problem? Conversely, a green-certified building that is built in harm's way is certainly not genuinely "sustainable" or environmentally friendly. So far, companies are only talking about this, but we'll begin to see this principle being embedded more in new products and services.

Takefive:
The report reveals that more insurers are attempting to improve their corporate citizenship. Do you see this as a growing trend among insurers, and what advice do you have for a company that is trying to figure out where to start?

Dr. Mills:
People often say insurance isn't a "polluting industry". While it's certainly not a traditional heavy industry, the buildings sector (including those owned and occupied by insurers) is responsible for a remarkable 40 percent of all energy-related greenhouse gas emissions. This year we developed the first global estimate of insurer's "carbon footprint". It's equivalent to the emissions of 2.5 million cars or 60,000 train carloads of coal each year. We identified 22 insurers, reinsurers, and intermediaries who claim to have attained carbon neutrality.

We are aware of at least 25 insurers, reinsurers, and intermediaries who now publish annual CSR reports. Many more have mounted aggressive in-house energy management programs (targeting buildings, transportation, and even supply chains), which of course save money irrespective of the resulting emissions reductions.

Companies should be encouraged to view these efforts not as "check-the-box" activities, but as a constructive process of internal reconnaissance, efficiency improvement, and getting disparate parts of the company to compare notes and develop a platform for innovation in the green space. As far as the framework to use for corporate responsibility reporting, my advice would be to follow the Global Reporting Initiative. About 1,000 companies around the world followed their reporting guidelines in 2008.

For insurers large or small, getting on top of the risks and opportunities is a daunting proposition. In our report we offer ten relatively modest suggestions on how to get started, as well as a list of best practices to shoot for in an evolved set of programs.

Takefive:
Some of the news coverage around your report seems to be quite critical in saying that insurers are not doing enough. Is this your view?

Dr. Mills:

As the saying goes: "if it bleeds, it leads," but I prefer a less sensational analysis. Those who know the "industry" do not talk about it as a monolith. Any generalized criticism (or praise!) is not very meaningful. Certainly many insurers have yet to make a single effort in this arena while others have only taken baby steps – sometimes half-heartedly. But there is a vanguard of companies – many among the world's largest insurers – who have made remarkable efforts. While the industry as a whole is in its "infancy" on climate change, the leading companies should be counted as among the most innovative of any industry. Of course, much more can be done, but that is not a criticism. In my view, insurers are on a very positive trajectory.

While, by headcount, most insurance companies have done little or nothing, in terms of revenues and the market share of companies that become active, they represent $1.2 trillion in annual revenues – which is more than a quarter of global premiums – and $13.3 trillion in assets, which represents a far larger fraction. One way to get a sense of the actual range of effort is to note that the companies in our database have an average of 2.5 activities going on (they must have at least one to be in our database). The most active companies have ten-times as many activities underway.

We have very little hard data on the market uptake of green products and services. More information may help allay some of the criticism – and any concerns about greenwashing – but it is also important to recognize that it takes real time to build up in-house expertise and foster awareness and demand in the market. Remember, also, that for this to get to scale the customers have to create demand for the new products and services. It's a partnership.

One thing that I would criticize is the shrinking minority of insurance organizations parroting anti-scientific propaganda about climate change. The things they say at times are actually embarrassing. The remaining vestiges of the climate deniers seem to be worried more about big government and regulation, rather than climate change itself. It would be more constructive to legitimately debate those issues directly rather than commandeering climate change as a Trojan Horse for their underlying ideological concern. The irony is that many elements of the climate solution don't even require these feared interventions.

Takefive:
Finally, the report appears to sound a positive outlook for continued climate-related innovation within the insurance industry despite the current global financial crisis. What signs do you see within the industry to make you feel so optimistic?

Dr. Mills:

With the current state of the world economy, the impacts of climate change stand to wreak far more structural-economic damage than would be the case in good times. Wealthy-robust economies are far more prepared for climate change than ours is today, so it is more important than ever to become proactive and manage these risks. When it comes to customer relations and loyalty, tightening terms and conditions will injure customers more in today's market than when they have extra money in their pockets.

Meanwhile, insurers urgently need to regenerate value for their shareholders and customers, and rebuild reputations. This can be done in part by investing in the climate-friendly technologies and practices of the future, as well as taking advantage of new markets for green products and services, and the imminent carbon-trading market here in the United States. One thing all the chaos in the world's financial markets tells us is that more, not less, disclosure and improved corporate governance would be a healthy thing for everyone concerned.

The coming year will likely see a shakeout in the "green-insurance" world, i.e. products that are only window-dressing may go by the wayside (and should anyway), while those from forward-looking companies and based on material business logic should endure. We may see a slowdown in the raw number of activities, but their quality and effectiveness will increase. The financial meltdown will be relatively short-lived, while the issue of climate change will be with us into the foreseeable future. Only time will tell which way insurers will go, but choosing the green road would speed recovery.