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The co-chair of the climate change working group at The Geneva Association and chairman of Axis Capital explains why the global insurance industry must take a stand on climate change.

Climate change is happening. The latest research leaves little doubt that it is occurring faster than expected. And there is considerable evidence that mankind's influence is very material. It goes without saying that the prospect of a radically altered risk landscape because of climate change and its potentially devastating economic and social consequences are of great concern to the insurance industry. This is why The Geneva Association, the think tank supported by the CEOs of the world's largest insurers and reinsurers, has recently put forward a detailed research report on climate change and our industry's role in responding to it. On that basis, more than 50 CEOs have agreed on the Kyoto Statement of The Geneva Association, which outlines their climate-related position *vis-à-vis* customers, policy-makers and the public at large.

Demonstrating thought leadership

Policyholders expect our industry to excel at anticipating, analysing, managing and mitigating complex risks, including those which emerge slowly. We are, therefore, committed to enhancing our research capabilities in order to provide a better evaluation and management of climate risks. And, of course, we will continue to share our research findings on climate change with the public – something the reinsurance industry started to do as early as 1973, long before climate change was on the public and regulatory agenda.

Embracing climate-conscious underwriting and product development

Most importantly, the insurance industry can make a big impact through its core business: underwriting and product development. For example, we can promote mitigation efforts by designing products that incentivise offsetting or reducing greenhouse gas emission levels. In the long run, this helps both the industry and society at large. In general, when it comes to underwriting climate

exposures, risk-adequate pricing on the basis of science-based loss models and methodologies is fundamental. Risk-based premiums send crucial economic signals to society and perform an important steering function by encouraging prevention.

Additional measures include restricting coverage, applying deductibles, improving claims handling, reinsurance, insurance-linked securities that transfer risks to the capital markets and public-private action on improving building codes and flood defences.

Further, the industry is making efforts to develop microinsurance schemes, which support mitigation and adaptation strategies in developing countries. In a nutshell, insurers and reinsurers are willing and able to design insurance products that facilitate low-carbon energy development projects and to help attract investments to such projects.

Last but not least, as one of the world's largest institutional investors, the insurance industry directly funds low-carbon energy projects.

Maintaining insurability through public-private initiatives

The insurance industry is prepared to help counter climate risks through active public-private cooperation, for example by implementing building codes or similar means that encourage the use of sustainable practices. We also offer to work closely with policy-makers on communicating to our customers their climate risk levels, possible strategies of mitigation and adaptation and in quantifying the financial benefits of those strategies. This commitment includes funding relevant research and providing tools to customers to assess and counter climate risks. However, governments have to do their part, for example by collecting robust data and making it freely available. This would help risk assessment and facilitate efficient and adequately priced pooling solutions.

Pushing for appropriate legal and regulatory frameworks

The insurance industry provides innovative solutions to tackle climate change and its consequences. New insurance instruments – for example, catastrophe bonds – can play an important role to help bridge some of the adaptation financing gap. Another example is microinsurance products, which can be embedded into micro-credit products, thereby greatly facilitating access to financing for individual farmers, reduce poverty traps and increasing resilience to shocks. For these innovations to further develop a reliable legal and regulatory framework is indispensable. At the end of the day, insurers and policy-makers have to join forces to ensure that climate risks remain insurable at affordable terms and conditions. The forthcoming United Nations' Climate Change Conference in Copenhagen COP 15 [in December] seems to be an excellent opportunity to recognise the crucial contribution our industry is willing and able to make.

Walking the talk

Signing statements is one thing, following up with actions another. Measurable actions include further reductions of our – relatively moderate – carbon footprint. Much more relevant, however, are measures related to our core business: the management and absorption of risk. This is a powerful lever to pull as it directly affects the behaviour of individuals and organisations. In order to further strengthen our industry's credibility in the climate change debate we must effectively embed incentives for climate-conscious behaviour into our policies (even if this goes against short-term revenue maximisation), develop innovative insurance solutions which facilitate the transition to a low-carbon economy as well as encourage and make direct investments in projects that help reduce emission levels. ●