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Regulators Require Insurers to Disclose Climate Change Risks and Strategies

State Insurance Commissioners Break New Ground By Mandating Climate Disclosure from World's Largest Industry

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SAN DIEGO, CA - The National Association of Insurance Commissioners (NAIC) today approved a groundbreaking mandatory requirement that insurance companies disclose to regulators and investors the financial risks they face from climate change, as well as actions the companies are taking to respond to those risks.

Citing concerns about "the potential impact of climate change on insurer solvency and insurance availability and affordability across all major categories of insurance," the NAIC, comprised of the chief insurance regulatory officials of the 50 states, approved the requirement at its national meeting today in San Diego. It is the first mandatory climate risk disclosure requirement in the world.

"Climate change will have huge impacts on the insurance industry and we need better information on how insurers are responding to the challenge," said Joel Ario, Pennsylvania Insurance Commissioner and Chair of the NAIC's Global Warming Task Force. "As regulators, we are concerned about how climate change will impact the financial health of the insurance sector and the availability and affordability of insurance for consumers. This disclosure standard will give regulators the information we need to better understand these risks."

All insurance companies with annual premiums over \$500 million will be required to fill out an Insurer Climate Risk Disclosure Survey every year, with the first reporting deadline being May 1, 2010. The surveys must be submitted in the state where the insurance company is headquartered and reports its largest volume of insurance premiums, and will be aggregated and disclosed publicly on the NAIC's website.

"Today's vote is a wake-up call about the vast challenges climate change poses for the insurance industry and the overall global economy," said Ceres president Mindy S. Lubber, whose organization has been working closely with the NAIC on climate change since 2005, and which helped develop the disclosure framework approved today. "The fact that the regulators responsible for overseeing the solvency of the world's largest industry have taken the significant step of requiring climate risk disclosure should send a clear signal to policymakers in Washington that the time to deal with climate change is now. We applaud the NAIC for its leadership on this issue."

Jack Ehnes, a major insurance industry investor as CEO of the nation's second-largest public pension fund, called the regulators' action both timely and very necessary. "One painful lesson of the current economic meltdown is the need for increased attention to corporate risk management," said Ehnes, who heads the California State Teachers Retirement System (CalSTRS). "These disclosure requirements will finally create consistent and comparable information for investors to determine the real steps insurers have taken to assess important risks."

The regulators' action signals their worry that climate change may be upsetting insurers' risk models, just as new forms of lending and securitizing loans created massive unanticipated risk into the models of Wall Street financial firms. By mandating the disclosure of insurers' risks the regulators, who operate state-by-state, will get a sense of the stability of insurers writing policies in their states – including their ability to cover losses when a major crisis hits – as they also determine which companies are serious about assessing these risks and which aren't.

Insurance companies are seeing ever-increasing exposure to extreme weather events, including increased drought, harsher wildfires and more frequent flooding, that are at least partly the result of global climate change. Weather-related losses were the third highest ever in 2008, exceeding \$200 billion globally with \$40 billion in losses from Hurricanes Ike and Gustav in the U.S. alone. Many of those losses were insured.

An NAIC white paper last spring called climate change "a challenge of unprecedented scope for insurers." A report released last month by the Chartered Insurance Institute warned that climate change could cause significant insurance market failures, with the potential result that "substantial markets become uninsurable."

Today's vote comes as many leading investors are pressing the Securities and Exchange Commission (SEC) to require publicly-traded companies to provide full corporate disclosure of climate-related risks, whether from physical impacts or regulatory impacts such as emerging regulations aimed at reducing greenhouse gas emissions, a key contributor to global warming. Investors managing more than \$7 trillion of assets have publicly supported a petition sent to the SEC in 2007 requesting that it issue formal guidance on climate-related disclosure companies should be providing.

That makes today's action by insurance regulators all the more timely, says CalSTRS' Ehnes. "As our country grapples with a national energy policy and improving federal disclosure requirements, state insurance regulators have set the bar by moving forward with mandatory disclosure," he said.

The scope of issues covered by the new disclosure requirement is broad, reflecting the many ways in which climate change will impact the insurance industry. In addition to reporting on how they are altering their risk management and catastrophe risk modeling in light of the challenges posed by climate change, insurers will also need to report on steps they are taking to engage and educate policymakers and customers on the risks of climate change, as well as whether and how they are changing their investment strategies in light of climate risk.

The global insurance industry manages assets worth \$16 trillion, which are impacted by and have an impact on climate change, and the bulk of which are needed to pay off future insurance claims. Tremendous concern has been expressed about the potential

for "correlated risks" from climate change that simultaneously increase an insurer's underwriting losses while also negatively impacting the invested assets that the insurer uses to pay off those claims.

The survey also asks insurers about steps they are taking to work with policymakers and policyholders to prepare for and prevent the impacts of climate change. Insurers have a history of working with society to identify and manage new risks. Over the past century insurers played a key role in establishing the first public fire departments, founding Underwriters Laboratory to deal with a scourge of dangerous consumer products, mandating stronger earthquake standards in building construction, and hastening the arrival of new automobile safety equipment.

Insurers are also beginning to offer new products- including 'green' building policies, drought-protection in developing countries and incentives for investing in renewable energy- that both reduce risk for insurers and help tackle climate change.

About Ceres

Ceres is the leading U.S. network of investors, environmental groups and other public interest organizations working with companies to address sustainability challenges. Ceres also directs the Investor Network on Climate Risk (INCR), a network of 78 institutional investors and financial firms with collective assets totaling nearly \$7 trillion in assets focused on the risks and opportunities from climate change.