

# Climate Change Insurance in the U.S.

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# There is NO National Market

- No national regulation
- States 'admit' coverages
  - Dictate (minimum) coverages, terms
  - Set permitted prices for different coverages
    - Rates in principle are based on past claim costs adjusted for future trends -- profits in one state cannot be used to subsidize rates in another
  - Could, in principle, demand new coverages
- Insurers can pick markets across states
- 'Surplus lines' or 'excess' coverages are offered in all states, by many underwriters

# 'Captive' Insurance Firms

- Used by many large firms to comply with requirements that they carry insurance.
  - The captives are subsidiaries of the firms
  - While captives are accepted as covering under many federal requirements, some states do not accept them for the same purpose under their regulations
- Each state has its own 'captives' rules;
- Companies can pick the state in which to incorporate their captives
- Vermont is the preferred home state

# The Environmental Exclusion

- CGL coverage as once written was for all risks, on an occurrence basis.
- Rise in claims under CERCLA led to a total exclusion of any environmental claims under CGL overages
- Insurance ‘archeology’ pursued old CGL covers to pay for cleanups of decades old pollution
- CGL – and environmental – cover is now only available on a ‘claims made’ basis

# State-Level Regulations

- Want to assure access to coverages
- Want to assure financial reliability of insurers
- Want to hold down costs, analogously to offering lower taxes
  - To residents, to facilitate consumption
  - To companies, to reduce business costs
- Require Insurers' participation in state risk pools for high risk insureds

# National Association of Insurance Commissioners

- Attempts coordination across states
- Cannot dictate requirements to the states, but if one state adopts a policy, companies selling coverages there must comply
- March, 2009: mandated that large insurers disclose climate change risks & responses
  - alterations in their risk management and catastrophe risk modeling,
  - steps taken to engage, educate policymakers and policyholders
  - changes made in their investment strategies



***Merci  
de votre  
attention***

# Does Environmental Insurance Include Climate Coverages?

- AIG: yes; Zurich: no; ACE: maybe
- 'Green buildings' do not always get lower rates; company approaches differ in their attention to building materials risks
- Corporate strategies shaped by concern for litigation as much as future claims



# CC Insurance Issues in the US

- Ideally, insurance can be a tool to facilitate deployment and send price signals
- State regulations and the Federal Flood Insurance Program distort price signals
- Need a common lexicon and unified carbon, energy and environmental policy to avoid interplay problems
  - Across states and between them and Feds
  - Across industries and their regulators
  - Across courts and their jurisdictions, rules

# ***But does this really have anything to do with climate change?***

ACE brochure on Renewables coverages:

- ‘By the year 2030, renewable energy use (excluding hydroelectric power) in the U.S. is predicted to double, ...’
- ‘Recognizing that the world’s current sources of energy will not last indefinitely, ... governments and businesses are aggressively pursuing alternative sources of available energy. ...’
- ‘Current sources being sought by the U.S. will: Seek to decrease the dependence on imported oil ...’

# 'Climate Triggers' for Claims

- Basic policies may not be new, but bases for claiming a loss and filing a claim are
  - New causal bases for filing claims for losses
  - New risks incorporated into old coverages
- 'Parametric' Weather Insurance is new:
  - For failure to meet weather parameters
  - Proof of loss not required for claim payments
- Market awaits regulatory actions to define CO2 limits, compliance requirements

# 2009: A New U.S. 'Climate'

- Science has value – there is a problem!!
- Over \$100 Billion in Federal funding, as part of stimulus spending and new 2009-10 budget
  - Energy efficiency
  - Renewable Energy
  - Mass Transportation (even high speed rail)
- Legislation for a cap-and-trade system
- 'Energy Users Should Take Cost-Effective Action Now to Manage Energy Costs and Anticipate Climate Change Legislation'
- New parameters for insurance coverages