

**CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
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**A SURVEY OF INSURANCE COMPANIES' ASSESSMENT AND  
DISCLOSURE OF CLIMATE CHANGE RISKS**

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## ***Introduction***

Credible scientific evidence continues to illustrate the troubling consequences of human-induced global warming. Although a broad range of industries will be deeply impacted by global warming, it is likely that the insurance sector will be particularly affected.

In response to a letter to New York City Comptroller William C. Thompson, Jr., from New York State Assemblyman Alexander Grannis, the Comptroller conducted a survey of insurance companies to better assess how these companies have addressed this issue. The results of this survey, although reflecting only a small group of companies, were troubling.

## ***Overview***

As advisor to the City's five pension funds, Comptroller Thompson is concerned that the failure of insurance companies to fully consider potential climate-change risks in the underwriting process will adversely affect the financial performance of these companies and the NYC pension funds' investment interests.

The insurance industry is arguably among the most vulnerable to the effects of global warming. Nearly all segments of this industry are exposed, including: property and casualty; reinsurance; business interruption; health, life disability and long-term care; directors and officers; and bond underwriting. The Investor Network on Climate Risk (INCR) reported that the French insurance company, AXA, estimated that climate change affects about 20 percent of global Gross Domestic Product (GDP).<sup>1</sup> The U.S. Department of Commerce estimated that nearly 30 percent of U.S. GDP consists of weather and climate-sensitive industries.<sup>2</sup> Studies conducted by Munich Re show that insured losses from great natural catastrophes are growing at a faster rate than the economic losses and number of events. For the period 1960-1999, insured losses grew 173 percent per decade while economic losses grew 106 percent per decade and the number of events grew 50 percent per decade. Indeed, INCR is of the view that "climate change is likely to become the most financially significant environmental issue facing investors."<sup>3</sup>

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<sup>1</sup> "Investor Guide to Climate Risk," prepared for the Investor Network on Climate Risk (INCR) Research Consortium by Ceres and the World Resource Institute, July 2004, page i. This was part of AXA's response to the "Answer to Carbon Disclosure Project Greenhouse Gas Emissions Questionnaire," April 2004

INCR was established in 2003 by a group of investors, including the NYC Comptroller, to promote better understanding of climate change among institutional investors.

<sup>2</sup> U.S. Department of Commerce, "Economic Statistics for NOAA," April 2004. [noaa.gov](http://noaa.gov)

See also, John Dutton, "Opportunities and Priorities in a New Era for Weather and Climate Services," *American Meteorological Society*, September 2002. [www.ams.allenpress.com](http://www.ams.allenpress.com)

<sup>3</sup> "Questions and Answers for Investors on Climate Risk," prepared for the Investor Network on Climate Risk (INCR) Research Consortium by Ceres and the World Resource Institute, December 2004, page 2

## *Survey*

On October 25, 2004, surveys were sent to the 13 insurance companies in which the City's pension funds have investments. Each company was asked to fully disclose its actions regarding risks posed by global climate change. Eight companies responded.<sup>4</sup>

## **Summary of Responses**

### *Summary of Company Responses*

<u>Company</u>	<u>Response</u>
MetLife	Disclosed that long term climate change is not a significant risk for the company. Most of the company's obligations are relatively short term mortality risks. However, MetLife is a major provider of homeowners insurance and the company indicated that it regularly evaluates this risk as part of its business continuity and disaster planning. The company also indicated that its investment in financial assets could be divested if global warming issues affect the returns from these investments.
MBIA	The company reported that it faced no significant and direct risks from global climate change as it is a financial guaranty company that insures against credit risks of issuers of debt instruments such as municipal bonds, utility companies and asset-backed special purpose vehicles. However, climate change is viewed as part of its environmental credit risk category that includes the cost of regulation to protect the environment, and where relevant, is applied in the underwriting process and to asset management activities.
St.Paul Travelers	Reported that it has no specific strategies to anticipate global climate change, but that it actively manages its weather-related exposure. The company also noted that as a regulated business, it is generally not permitted to reserve or price based on events that have not yet happened or aren't reflected in past experience. Thus "...we don't believe we are in a position to either predict or manage for unknown global climate changes in the absence of quantifiable evidence."

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<sup>4</sup> The following companies did not respond: XL Capital, ACE, Hartford Financial, Allstate and Great American Financial.

Nationwide Financial	The company agreed that global warming is a concern but reported that it "...is not a property and casualty company and therefore has no related exposure." The company reported that it provides financial products relating to retirement savings. Therefore, its exposure is no more significant than for non-insurance companies.
American Insurance Group (AIG)	The company does not address climate change differently than any other risk factors. It tracks the scientific, regulatory and market activity related to climate change and seeks investments in renewable energy products. The company also indicated that it evaluates product ideas in insurance and risk finance to help create a more liquid market in carbon emissions trading. <sup>5</sup>
The Chubb Corporation	The company reported that the liability for risks associated with climate change is not covered by the policies it writes. The company views climate change as gradual.
Berkshire Hathaway	Did not disclose its actions to address global warming. The company reported that, "...global warming is not an important threat to our business or to the value of Berkshire shares."
Prudential Financial	The company reported that it sold its property and casualty business in 2003 and that its current operations are sufficiently diversified to manage any indirect risks associated with the issue of climate change.

The results of this small survey are consistent with similar investigations regarding the insurance industry. Friends of the Earth surveyed industry climate-change disclosures in Securities and Exchange Commission (SEC) filings.<sup>6,7</sup> Their most recent survey of SEC filings also included an examination of 27 property and casualty insurance companies. Nine of the 13 companies surveyed by the Comptroller are included in the 27 companies examined by Friends of the Earth. Only four of the 27 companies disclosed any action regarding climate change, up from three in 2004. This action consisted mainly of analyzing credible scientific evidence. Chubb, one of the companies in the Comptroller's survey, has disclosed its efforts for the past four years. Only two, Allstate and Chubb, reported any disclosure for 2003; Allstate did not disclose its efforts for 2004.

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<sup>5</sup> AIG is now engaged in discussions with a group of investors about climate change, including representatives from the NYC Comptroller's Office.

<sup>6</sup> Friends of the Earth, "Third Survey of Climate Change Disclosure in SEC Filings of Automobile, Insurance, Oil & Gas, Petrochemical, and Utilities Companies," September 2005, [www.foe.org](http://www.foe.org)

<sup>7</sup> The NYC Comptroller was part of a group of institutional investors that wrote to the SEC in April 2004, after the first Institutional Summit on Climate Risk was convened. The summit called on the SEC to enforce corporate disclosure requirements under regulation S-K on material risks such as climate change and to strengthen current disclosure requirements.

## ***Conclusion***

None of the companies viewed global warming as a financial-risk issue sufficiently significant to be included as a separate risk factor in the underwriting process. Where relevant, some companies listed it in their 'extreme scenario' (catastrophic) category; a few included it in an environmental category--as a cost of regulation; and others indicated that they had no significant direct exposure. A few companies expressed confidence that their assets or operations were diversified and capable of absorbing the financial risks associated with climate-change.

Predictions indicate that over the long-term, the impact of global warming looms especially large.<sup>8</sup> Given the increasing certainty of the science in this area and the increasing accuracy of prediction models, a passive approach to this issue will likely expose companies to greater risks.

Insurance companies must be held to a more proactive role in their evaluation of the impact of climate change. Both individual and institutional investors must insist that companies better assess and disclose these risks. We ignore this issue at our peril.

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<sup>8</sup> Dale Jorgenson et al, "U.S. Market Consequences of Global Climate Change," April 2004. Prepared for the Pew Center on Global Climate Change.

