



Copenhagen: Back from the Brink?

A CII climate change special report

Foreword

Commentators are saying it's 'make or break'. Can a global deal in Copenhagen pull us back from the brink?

In December, delegations from 192 countries will hold two weeks of talks in Copenhagen aimed at establishing a new global treaty on climate change. Six months after the publication of its third major report on climate change and insurance, '**Coping with Climate Change: Risks and opportunities for insurers**', the Chartered Insurance Institute is looking ahead to the defining moment for the world to prevent the most dangerous climate risks from occurring.

As the leading professional body for insurance and financial services in the U.K., the CII asked leaders and experts, across the insurance sector and beyond, to share their views on why the Copenhagen talks are so important, and what we should be looking for in an agreement.

Our view on Copenhagen

The CII's view is that climate change poses a systemic risk to the global economy, and an agreement at Copenhagen is essential to prevent the most catastrophic risks from occurring – and significant markets becoming uninsurable.

As people who understand and manage risk, insurers are naturally well-placed to lead the way in mitigating these risks. The crucial test will be moving beyond simply managing the response to taking a leading role in the debate and the solutions.

The CII calls on members to take an active role by encouraging all governments to play their part in Copenhagen. We need a robust and equitable global deal, so that insurers can take up the challenge of climate change armed with the right policy framework to support them.

Insurance sector united: we must act now

We are pleased that many in the sector have listened to the call to action, and have chosen to make their voices heard.

All eleven leaders contributing their views in this document stress the vital need to address climate change now, and to be ambitious in our goals. All call for a global agreement on credible, strong targets for emissions, in line with science.

The collaborative insurance initiative ClimateWise clearly emerges as the centre of action for the sector. Many insurance sector respondents cite the group's six principles as fundamental to their climate change policy and strategy.

As a member of ClimateWise, the CII believes it should be the focal point for insurance action and lobbying on climate change. We, along with all the members of the group, have signed up to the ClimateWise Copenhagen Statement, summarised by Chairman Andrew Torrance below. As HRH The Prince of Wales, who launched the ClimateWise initiative in 2007, recently stated: "The importance of your role as society's trusted managers of risk cannot be understated."

But we can do more. Climate change is an issue that affects each and every one of us. That is why the CII fully endorses the views of Paul Pritchard, RSA, and Alice Chapple, Forum for the Future, who say that the conference in Copenhagen must not only come through with a robust agreement, but also engage with ordinary citizens to encourage a spirit of shared responsibility and international collaboration.

Alongside the risks we must not lose sight of the great opportunities that insurers have in taking up this challenge: opportunities to innovate, create new markets, and forge new relationships.

Insurance is on the front line, and we are ready to act.



Dr Alexander Scott
Chief Executive Officer
The Chartered Insurance Institute
2 November 2009



The industry expert's view

**Dr. Andrew Dlugolecki, FCII, Research Fellow, Climatic Research Unit, University of East Anglia.
Author and editor, Intergovernmental Panel on Climate Change (IPCC)**

“An agreement on global policies to tackle climate change is urgently needed for many reasons. In the first place, evidence is accumulating that the climate system may be more sensitive than we believed even in the recent IPCC report. At the same time, there has not been much progress in putting a systematic halt to emissions, so the problem will get worse. The agreement needs to include credible, strong, phased targets for emissions leading to a global reduction of 50 per cent by 2050; otherwise the price of carbon will be too low to incentivise a change in mindset. The fairest way to share these is the Contraction and Convergence model, which leads to equal emissions percapita in every country.

Developing countries are in particular need of investment and risk management services, but they lack the basic infrastructure and skills for the financial services sector. A deal in Copenhagen that promotes financial flows to those countries would help to foster development, reduce emissions and avoid a world in which uninsurable risks spread contagiously from one region to another.

“On the positive side, the current recession has slowed the growth of emissions, and there is an opportunity to channel capital for an economic stimulus in a new direction, to boost clean technology and conservation of forests, both of which can generate tens of millions of sustainable jobs.”

Specifically for insurance, negotiators should fund basic risk assessment projects. They should ensure that other international and national regulatory bodies support risk management by making high quality weather information freely accessible to all stakeholders, and by embedding climate risk into the regulations for real estate and infrastructure development and refurbishment or repair. Taxation and accounting regulations should be reviewed to reflect the intermittent nature of climatic risks in the insurance sector, e.g. through tax-deductible catastrophe provisions. Greater priority should be given to extending insurance to the financially excluded such as subsistence farmers.

For institutional investors, regulators should promote stronger disclosure of corporate climate risks and strategies, as the Carbon Disclosure Project has been doing on a voluntary basis. This should be complemented by new standards of asset management, including mandatory inclusion of socially responsible principles, and deferred performance – related bonuses for managers and advisors to drive a shift to long-term considerations for long-term problems like global warming.”



The Chairman's view

Andrew Torrance, Chairman, ClimateWise

Andrew Torrance, Chairman of ClimateWise, delivers the following comments on behalf of the ClimateWise group following the launch of their public statement on Copenhagen in October 2009.

“The ClimateWise group believes the climate crisis poses a systemic risk to the global economy.

The necessary response to this systemic risk must be an ambitious, robust, and equitable global deal that delivers transformational change in the global economy. In particular, the deal at Copenhagen must include:

1. A **global emissions reduction pathway** to limit the global average temperature rise to less than 2°C in line with the G8 goal announced in July 2009. Guided by science, we urge governments to adopt emission targets to limit the risk of exceeding this temperature rise.

This means:

- a 40% emission reduction by 2020 over 1990 levels for developed countries and a substantial reduction relative to business as usual for major developing countries.
 - an 85% global emission reduction by 2050 over 2000 levels.
2. An agreement on the **scale and structure of financial flows** from the developed to the developing world to support both mitigation and adaptation efforts that are needed to manage risks.
 3. Mandatory **risk reduction plans for developed and developing countries**, the implementation of which would allow the insurance industry to play its fullest role, particularly in helping to manage the large-scale, regional impacts of climate change.

The costs of transition to a low climate risk economy are manageable. Delay is not an option.”

The full ClimateWise statement is available at: www.climatewise.org.uk



The underwriter's view

Neil Carrington, Chartered Insurer, Senior Underwriting Analyst, Ecclesiastical Insurance Group

“The Copenhagen climate change agreement is arguably the last best chance of securing a robust global, equitable and enforceable agreement to address dangerous climate change. Being experts in risk management, the insurance industry is ready to take up the challenge of climate change, but we need governments to produce a policy framework that will help us address issues, both mitigation and adaptation related, in a competitive market.

Governments need to understand that insurers can only go so far in providing direct protection against the impacts of climate change. For traditional insurance to be effective as a risk transfer mechanism risks need to be manageable, measurable and claims be fortuitous. There are some good examples where governments working with insurers can create appropriate, if not perfect, responses to climate change related issues, such as the ABI/UK Government Flood Insurance Statement of Principles. Another good example of the industry leading and collaborating on the debate on climate change is the insurance industry initiative, ClimateWise.

This initiative centres on six important principles and requires individual members to report on progress on these main principles and importantly be seen to be independently reviewed.

“Recent research has suggested that there is a significant segment of the market who would have an interest in buying ‘green’ goods and services, e.g. resilient reinstatement and cover for micro renewable energy generation. This market segment is in its infancy at the moment, but with government action, both through incentives and regulation, this could expand rapidly and create even more opportunities for the insurance industry.”

The insurance industry is uniquely placed to make a real difference to help reduce the negative impacts of climate change, in terms of influencing customer behaviour as well as our own and through investment policy spread positive influence much further still. However, insurers do need a robust and consistent framework that will help guide future developments.”



The Head of CR's view

Dr. Paul Pritchard, Head of Corporate Responsibility, RSA UK

“Like just about everyone I am hoping that we can reach an agreement that gets all the principal emitting countries onto a low carbon pathway. While that remains the core I am also reasonably hopeful that some revisions to CDM will be made to accommodate forestry and land use issues and also that a funding and delivery mechanism for adaptation might be achieved.

“ The key role that could be played by the insurance sector should be at the centre of adaptation discussions. ”

Insurance availability also has a broader role in facilitating the uptake of climate friendly technology.

If I am allowed to indulge in some wishful thinking I would really love to see a greater alignment between NGOs and corporates on this – focusing on what might be achieved going forward rather than a reliance on old adversarial approaches and in particular the absolute need (as I see it) for viable market based mechanisms. I also would really like to see an acknowledgement of the necessary skills (beyond wind turbine manufacture) across many sectors and disciplines that will be required to underpin this work.

Finally (and this is probably an unrealistic expectation) it would be fantastic if the conference could engage with ordinary citizens (and consumers) in a way that they feel they can participate personally through changes in their personal behaviour.”



The environmental auditor's view

Alice Chapple, Director of Sustainable Financial Markets, Forum for the Future

“We need an agreement that recognises the massive scale of the transition to a low-carbon economy. In Copenhagen we have to find ways to join up with the politics with the science on climate change, not just in terms of the targets for emissions but in terms of specific practical policies that create a predictable investment environment. An agreement at Copenhagen has to create incentives for investment in a wide range of low-carbon technologies, in the knowledge that they will all have to be a part of the solution.

“It has to deliver a meaningful carbon price, as well as regulations and standards (for example for vehicles or properties) that drive greater energy efficiency.”

It has to find a way to reward reductions in deforestation and forest degradation, and because of the urgent need for action here the payments cannot rely on the carbon markets alone. It has to take reasonable account of the impact that historical carbon emissions are having on the poorest countries of the world and support adaptation in these countries but also – as importantly – consider how they can pursue low-carbon growth.

There is a danger in creating expectations that are too high. But Copenhagen has to make substantial and concrete progress on these issues if we are to have any chance of acting in time to avoid dangerous climate change.

And the dialogue at Copenhagen will inevitably bring into play a much wider set of issues. For example, how a growing human population shares the limited resources of this planet; the interdependence of all countries in the face of climate change and resource depletion; the need to better value a range of assets in the natural world – not just climate but also clean water, forests, biodiversity and fertile soil.”

“Copenhagen needs to deliver tangible results on carbon reductions, but it also needs to create an appetite for countries to solve these wider problems together.”



The editor's view

Scott Vincent, Deputy Editor, Insurance Day

"The most important international talks for decades – this is how December's Copenhagen climate talks are now being branded amid mounting warnings of the consequences of inaction. The talks are of such pivotal importance that pressure is mounting for heads of state to be at the table representing their countries.

"Two weeks of meetings cannot solve the chaos caused by two centuries of rising emissions, but it is essential a framework is put in place this December that creates a mechanism that will first limit emission growth and eventually create carbon-neutral societies."

For Copenhagen to become the defining moment for nations to come together, major industrialised nations must accept that they do not dictate terms and conditions of any agreed framework. The aversion to any suggestion of liability or compensation among industrialised nations is also a potential stumbling block in the negotiating process. But the demand for 'climate justice' among the developing nations already feeling the effects of climate change is strong. This must be recognised by those nations that have traditionally ruled the world in political negotiations.

Technology transfer is a critical tool in the mitigation and adaptation process for the developing world. Financing this technology transfer and other adaptation measures is likely to be the principal stumbling block when negotiators sit down in Copenhagen in December.

“ The success or failure in agreeing any framework for the future will be determined by how willing countries are to forego short-term economic gains in favour of long-term sustainable survival. ”

Public financing agreements are needed in Copenhagen, and industrialised nations must arrive with money on the table. Public financing can create a framework on which private investment can help build a more sustainable society for the future. Insurance mechanisms can play a role in this private investment as risk-transfer will remain an essential component of the management of natural disaster risks in the hazardous world of the future."



The business view

Jim Haywood, Environment Impact Director, Business in the Community

“Whilst much anticipated, there will be life after Copenhagen – but we risk the quality of that life being dramatically degraded if we don’t get things right now.

“The clock is ticking on the need for decisive and coordinated response to tackling climate change.”

Copenhagen needs to help turn rhetoric into practical action – encouraging business to adopt a low carbon business model, helping consumers to live more sustainable and carbon efficient life styles, putting greater value on a living tree than a felled one, properly recognising the services provided by natural ecosystems, and resolving to consume less.

Copenhagen needs to be a beacon of hope, addressing the barriers to effective action, helping remove these and incentivising each section of society to play their part.

“ Business in particular needs encouragement to see climate change as both risk, potentially closing the business down, and opportunity, potentially opening up new markets for low carbon products and services. ”

Through work of research like the recent Catlin Arctic Survey, the results of which will be presented at Copenhagen, we can now predict the loss of summer Arctic sea ice within a few years. Copenhagen must result in real resolve to act, act now, act fast and act decisively.”



The broker's view

Eric Galbraith, Chief Executive, BIBA

“The outcome of the Copenhagen conference is critical to the insurance sector; if successful it will reduce uncertainty and provide financial incentives for taking action. Managing environmental risk is an integral part of managing financial risk; whether in response to regulation, changing energy supplies or catastrophic weather events (insurance companies are already seeing an increase in claims because of climate-related events). This is particularly relevant in the UK where the market is changing rapidly in response to the risks and opportunities posed by climate change. Investments in smart electrical grids, large-scale energy efficiency projects, as well as infrastructure for producing clean energy are already underway and legislative instruments such as the Carbon Reduction Commitment (CRC) which will capture 5,000 of the UK's largest energy consuming organisations in a cap-and-trade mechanism are being introduced.

“These market changes, along with success at Copenhagen, will provide a clearly understood playing field and set high expectations for a future where investors and insurers can help deliver a sea change in how the world and the UK addresses sustainability.”

As the global economy continues to find its bearings following the financial crisis, it is important that sustainability does not become a second priority. Success at Copenhagen will reinforce the importance of action; failure may push sustainability to the back room.

“ The UK insurance industry has already taken a proactive stance to address climate change through the collaborative insurance initiative, ClimateWise. ”

Members of the ClimateWise initiative have committed to take action individually and collectively to inform public policy, support climate awareness, incorporate climate change into investment strategies, and importantly, reduce the environmental impact of their businesses.

At BIBA we have been working over the past year to reduce our environmental impact with our partner Carbon Smart. The practical actions we have taken include reducing our office energy consumption, reducing resource usage, and engaging our staff. The benefits have been great: cost reduction, improved staff morale and a positive message for our members.

As the insurance community continues to take practical action to address the challenges posed by climate change, it is our hope that the outcome of Copenhagen will confirm the importance of that effort and resonate beyond government and mobilise businesses – large and small.”



The Fellow's view

Ian Coates, FCII, Knowledge Development Manager, AXA Corporate Solutions

“What we need is bold measures that are genuinely committed to addressing the problem.

My views are as follows:

Mitigation: devising ways to reduce greenhouse gas emissions

- Why not legislate to limit greenhouse gas emissions e.g. setting limits on car emissions, gas consumption?
- Western governments should use more taxation incentives or penalties to change both individual and corporate behaviour
- We should set statutory limits on CO2 energy production that require companies to increase their percentage of output from green energy sources
- We should greatly increase the designing of energy saving features into domestic appliances, as well as buildings both public and private, commercial and domestic, and all consumables

Adaptation: taking action to adapt to the negative consequences of climate change, such as droughts and floods

- We should introduce better flood protected housing and building e.g. on stilts and look to build on non-flood plains
- We should assist people to move from barren drought areas and change the use of these areas to solar or wind energy production
- We should compensate national governments and indigenous peoples whilst looking at the same time to “internationally protect” key areas such as the rain forests in the same way that Antarctica is protected

Technology: finding ways to deploy climate-friendly technology

- Incentivise green energy design and building through greater tax breaks or guaranteed markets such as government and public authority procurement policy
- We should ensure that planning rules have a presumption towards any proposed green projects
- Make technology more accessible to domestic households i.e. more domestic sized wind-turbines
- Provide public money to build wind farms and tidal power facilities
- Create centres of excellence in our universities to build up a sizeable and suitably expert body of engineers and designers to meet our future needs. Incentives should be provided to encourage students to apply for these places

Financing: financing adaptation and mitigation measures

- Introduce increased climate tax levies on all profits of energy suppliers and producers derived from non-green energy methods
- Insurers to be made to provide products to meet needs of green energy industry and domestic users
- Windfall taxation on financial institutions to be used to finance green energy production – this taxation to be commuted if companies can demonstrate minimum percentage levels of investment in green energy technology design, production or supply
- Governments to provide taxation breaks for companies or individuals buying green energy e.g. green energy products to be VAT free or at reduced level.”



The consultant's view

Esther Rodriguez, Carbon Smart

"The principal aim of Copenhagen is to formulate a concerted international policy framework to tackle an issue that is likely to define our generation. The crucial objectives of the conference revolve around mitigation, adaptation, technology and financing of climate change issues. There is strong consensus that Copenhagen will prove to be the cornerstone of a transition to a low carbon global economy. If agreement is not reached, uncertainty will remain in the marketplace and will hinder the insurance industry in its role as financial backers for low carbon related investments. An absence of agreement will have serious implications including:

- Increased probability of escalating claims arising from climate change related events which will ultimately cost the industry dearly
- Reluctance to invest in the low carbon economy. Without the right level of Government support investors will avoid making long term financial commitments

It is in the direct interest of insurers to reduce the uncertainty associated with low carbon investments and to minimise the adverse effects of climate change. As investors, insurers will need to make sure they are supporting the right technologies and companies. Whatever instruments and processes come out from Copenhagen they will have to be credible and reliable. Effective monitoring, verification and enforcement mechanisms will be key success factors. Current CDM and JI mechanisms are far from being perfect. In the past years we have seen how certification bodies such as DNV and SGS have been banned by the UN to verify offset projects.

The UN is certainly sending a strong message that the credibility of the information reported and the competence of verifiers actually matter.

“ This message was reinforced by President Barack Obama in his recent speech to the G8: ‘We also agreed that the actions we take to achieve our reductions must be measurable, reportable and verifiable.’ ”

The Chartered Insurance Institute is actively involved in raising awareness as demonstrated with their sponsorship to the Carbon Smart research project: “Best Practice Assurance: Benchmarking the Credibility of FTSE350 Sustainability Reports”. The project is also sponsored by DEFRA, BAT, Barclays, BP and SAP.

Credible verified data underpins any measuring, reporting and reduction strategy, whether personal, organisational, national, or international. It is of utmost importance that the levels of awareness and education among the investment community with regards to credible carbon performance are raised and companies are held accountable for their own emissions. It is decisive that Copenhagen incorporates the need for transparent verified data so that carbon has an equitable tradable value and that realistic performance targets can be set with progress monitored effectively.”



Association of British Insurers

The policy adviser's view

Melanie Sue, Policy Adviser, Association of British Insurers

In the lead-up to UNFCCC discussions, the Association of British Insurers (ABI) is calling for a global commitment to significant emissions reduction.

“ Global temperatures have already increased and further warming is inevitable – substantial and urgent action is required to curb further rises in temperature. ”

The ABI is a member of ClimateWise – a global collaboration of leading insurers focused on reducing the risks of climate change. In October 2009, ClimateWise launched a statement on the UNFCCC Copenhagen negotiations that outlined what ClimateWise members believe must feature, as a minimum, in the deal coming out of Copenhagen, namely:

- 40% reduction in global emissions by 2020 over 1990 levels for developed countries and a substantial reduction relative to business as usual for major developing countries leading to an 85% global emission reduction by 2050 over 2000 levels.
- An agreement on the scale and structure of financial flows from the developed to the developing world to support both mitigation and adaptation efforts that are needed to manage risks.
- Mandatory risk reduction plans for developed and developing countries, the implementation of which would allow the insurance industry to play its fullest role, particularly in helping to manage the large-scale, regional impacts of climate change.

“Responding to the risks of climate change provides opportunities for creative, co-operative risk strategies.”

The insurance industry can help to develop mitigation and adaptation strategies and has potential to incentivise climate-friendly behaviour and investment.

The insurance industry seeks to play a leading role in ensuring that its customers have ongoing protection from the risks of climate change. So far, this has involved assessing risks and providing advice to customers on how to reduce and manage them, such as guidance on making new buildings able to withstand extreme weather, and rebuilding and repairing property so that it is less vulnerable to future loss. On a broader scale this means conducting research, working with decision-makers and creating a case for change.

The ABI will publish new research on the financial risks of climate change on 4 November 2009. This research provides new data on the expected losses resulting from climate change and the subsequent impact on insurance pricing; this further supports our call for urgent action on adaptation and mitigation, and emissions reduction.

The CII is the world's leading professional organisation for insurance and financial services, with over 93,000 members in 150 countries. We are committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation. Our Charter remit is to protect the public by guiding the profession.

For more information about the CII's work on climate change, such as our new Energy Policy, membership of ClimateWise, and research, including our third major report, Coping with climate change: risks and opportunities for insurers, please see www.cii.co.uk/environment

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