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FINANCE

Insurers Are in the Hot Seat on Climate Change

Firms face rising risks and are under pressure from politicians

By Jean Eaglesham Follow
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A California wildfire burning through an oil field in 2019. PHOTO: JOSH EDELSON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Insurers are caught in the crossfire of an escalating battle over climate change.

The biggest U.S. insurance firms are facing pressure from three sides. They are raising premiums and are cutting back coverage because of more damaging storms and wildfires, made worse by climate change. They insure the fossil-fuel producers whose products are blamed for causing climate change. And, as big investors, they fund these same companies. Most try to promote their climate bona fides.

This is a recipe for making lots of powerful people unhappy. Texas lawmakers want to ensure that insurance companies “do not hinder” oil companies. Connecticut lawmakers want the opposite. Republican state attorneys general accuse insurers of going too far in the fight against climate change. Democratic senators are asking if the companies are going far enough.

"We're caught right in the middle between these very different agendas," said David Sampson, head of the American Property Casualty Insurance Association, an industry group. "What we're seeing is the weaponization of the business of insurance...to [try to] achieve certain public policy objectives."

The remains of manufactured homes that were razed after damage last year from Hurricane Ian. PHOTO: REBECCA BLACKWELL/ASSOCIATED PRESS

Adding to their stress, many insurance companies are struggling with losses because of severe weather, inflation, supply-chain bottlenecks and other factors. They are pushing up rates significantly for some types of coverage.

Public Citizen, a consumer group, called Farmers Insurance's move this week to restrict sales of homeowners policies in California and Florida a "prime example of the insurance industry's hypocrisy on climate change."

Activists say insurers are giving priority to short-term profits from fossil fuels over their concern for the planet. "The claims by the insurance industry that they are addressing climate change is like tobacco companies saying they care about peoples' health," said Tom Swan, executive director of Connecticut Citizen Action Group.

Insurers counter that they shouldn't be forced to deny coverage to legitimate companies, said Sampson of the industry group. The reasons for the pullback from home insurance are more complicated than simply an increase in bad weather driven by climate change, he added, saying there is "runaway lawsuit abuse" in Florida and a regulatory "dysfunctional marketplace" in California. A Farmers spokesman declined to comment.

Allstate, which recently stopped offering new home-insurance policies in California, says climate change poses three main risks for it as a company: higher losses, a drop in the value of investments in exposed sectors such as oil and gas, and reputational risk. “Climate change matters deeply to internal and external stakeholders,” the insurer’s website says.

That reputational danger hit the U.S. insurer Liberty Mutual Insurance in 2021, when its ownership of an Australian coal mine created a furor among climate and local community groups. Liberty dropped plans to develop the mine and has since quietly sold it, according to a spokeswoman. It has reduced its coal investments by more than 86% since 2019, according to its website.

The company is still criticized by the climate group Insure Our Future as being one of the “insurers of last resort” willing to underwrite new coal projects, as well as being a major oil and gas insurer. Coal is considered among the dirtiest fossil fuels because it produces higher quantities of carbon dioxide when it is burned.

The spokeswoman for Liberty Mutual said it offers policies “to meet the realities and demands of today’s economy.” As an insurer, Liberty Mutual “understands the risks posed by a changing climate” and is supporting its customers as they transition to a low-carbon economy, she added.

In contrast to Liberty Mutual, more than 40 global insurers have restricted coverage for coal in the past five years or so, according to the Insure Our Future campaigners. That has squeezed the choice available and pushed up premiums, companies say.

Eric Francia, chief executive of the Philippine energy company ACEN, said insurance costs for its former coal plant more than quadrupled over the past four to five years. ACEN in November sold the plant in a deal that commits to cutting its 50-year operating life in half. Since then, “We are getting significantly more interest from insurers,” he said.

Many overseas insurers are restricting coverage for oil and gas projects, although few U.S. insurers apply such curbs. An exception is Chubb’s demand this year that oil and gas producers cut methane emissions.

Such initiatives are coming under criticism from the campaign by conservatives against financial firms’ use of environmental, social and corporate governance, or ESG, criteria.

The campaign began against mutual funds that used these criteria to pick stocks. For insurers, the situation is more complicated since the risks they face are more concrete.

A new Texas law bars insurers from charging different rates based on ESG factors alone. But it still allows them to charge more where there is a higher risk “that may be tied to climate,” such as locating an oil refinery on the hurricane-prone Gulf Coast, said Tom Oliverson, the Republican chair of the Texas House Insurance Committee.

Some blue states appear headed in the opposite direction. A Connecticut bill this year proposed a 5% surcharge on “any premium payments from any fossil fuel company” to any insurer licensed in the state. The proposed legislation hasn’t gone to a vote.

California holds a unique place in the debate. The state is a leader in addressing climate change, but insurers say its regulations have made it hard for them to raise rates to address the risk of wildfires. Several major insurers have restricted coverage in the state after suffering big losses. Michael Soller, deputy insurance commissioner, says California “recognizes the impact of climate change” and is spending billions of dollars to try to reduce the wildfire risk.

Opposition from Republicans in the U.S. is spilling overseas. The threat of an antitrust lawsuit against insurers who joined forces to cut carbon emissions effectively disbanded the United Nations-sponsored group.

A senior official at a European insurer said the “blunt and aggressive” approach of the U.S. states persuaded the company to quit the alliance, even though it doesn’t believe an antitrust case would stand up in court. “We want to spend time working on reducing emissions, not combating litigation,” added the official.

Amy Barnes, head of climate strategy at the insurance broker Marsh & McLennan, said the alliance’s near-collapse hasn’t affected company policies. “None of the insurers are going back on the way they prioritize decarbonization,” she said.

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