



Association of British Insurers

The UK's approach to climate change: politics, PR, legislation and markets

Jane Milne
Climate Change Leader
Association of British Insurers

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Climate change awareness



- Climate change is widely recognised by the public, politicians, government, business and, increasingly, investors as an issue
- For many, climate change = carbon, or at best a regulatory source of risk
- Business leaders have played a prominent role in highlighting the issue, along with 'trusted sources' such as Sir David Attenborough and the BBC

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Climate change risks

- Reputational risks
- Regulatory risks
- Litigation risks
- Physical risks

....but there are opportunities too!



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Reputational risk = Brand value

- Energy companies shown how to make a virtue of necessity
- Some sectors much more vulnerable to public censure:
 - Airlines – 50% intangible value at risk
 - Oil, gas, retail, banking, telecomms all at 2-3% at risk
 - but the retail sector is keen to woo 'green aware' customers

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Regulatory risks

- Energy and water standards eg Building Regs, domestic appliances, cars
- Renewable energy targets eg Mandatory Energy target
- Emissions targets eg EU ETS
- Development planning risk
- Climate Change Bill



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Sectoral exposures to carbon risks – gross (%EBIT exposure)

- Generators 65-70%
- Food production 12%
- Logistics companies 65%
- Supermarkets 6%
- Building materials 55%
- Hotels and leisure 5%
- Industrial gases 30%
- House building 4%

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Draft Climate Change Bill

- Puts statutory emissions targets in place
- These can be reviewed via secondary legislation
- Allows international emissions trading
- Informed by independent Committee on Climate Change
- Provides for regular monitoring
- Acknowledges that adaptation measures are also necessary

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Draft Climate Change Bill

- Provides international leadership
- Gives significant level of certainty
- Will encourage technological development and long term investment
- Envisages using market based solutions
- Is very lightweight on climate impacts and adaptation needs
- Doesn't monitor or report frequently enough
- Has too many get out clauses

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ABI's Climate Change Bill

Would put climate impacts and adaptation at the heart of the Bill, emphasising the need for GHG emissions reductions to prevent further impacts



- Extend role of CoCC
- Link monitoring and review to Government spending rounds
- Limit scope for 'banking and borrowing'
- Ensure transparency and accountability

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Liability risks



- These exposures could also determine whether the sector/company is targeted in legal action
- To date US EPA has been the main target
- UK/EU regulation probably offers a safe harbour
- But professions will need to think about professional indemnity issues arising from the advice they give

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Physical risks



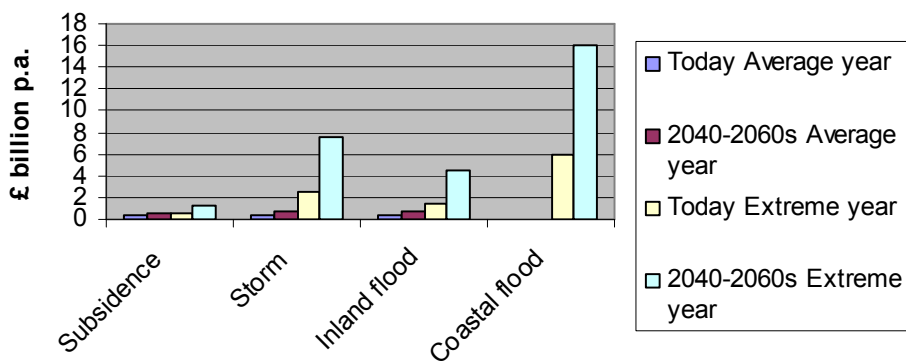
- Will vary according to geography and sector
- Coastal and offshore facilities likely to be affected earliest
- But don't forget supply chain (particularly energy) and distribution chain effects....
-and impacts on customer demand patterns

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Cost of insured losses

Climate change and UK weather damage



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Opportunities

- **New products** eg low energy alternatives, flood guards, water saving devices
- **New processes** eg carbon sequestration, clean coal
- **New services** eg insuring hydrogen cars, Green mortgages, climate risk consultancies.....



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In conclusion:

- Climate change is happening – faster than predicted: public and political attitudes are changing rapidly too
- Markets and brand leaders are already driving change in some areas
- Markets can't deliver everything on their own – climate change is an 'externality'
- But over-regulation would stifle innovation and economic growth
- At present the UK government is striking a fair balance, providing a regulatory framework that enables business to respond to public priorities

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