I’ve spent some time over the past two years studying the relationship between the insurance industry and climate change. Yesterday there was an important development in this area: the National Association of Insurance Commissioners (NAIC) , the group of state regulators that collectively regulate insurance in the U.S., adopted for the first time a requirement that large insurers complete an annual climate risk disclosure survey.

The insurance industry bears much of the financial risk associated with climate change. These risks include likely long-term physical impacts of the changing climate such as sea-level rise and less predictable weather, but also include regulatory risks borne by high greenhouse gas emitters, liability risks stemming from policyholders’ legal duties to third parties relating to climate risk, and the risks of business interrption from extreme weather. At the same time, climate change and associated changes in the world economy present opportunities for insurers, including managing the risk associated with new products that help to address climate change, and creating products that help others to manage climate risk. (For more information about this topic, see my articles here and here [free download available from SSRN], and also take a look at my co-author Evan Mills’s important work on the subject, including numerous articles in scientific and policy journals.)

Insurance regulation is both part of the problem and potentially part of the solution. Regulation of insurance by states has traditionally focused on affordability and availability of insurance to consumers, and on insurer solvency. But while affordability and availability are laudable goals, sometimes keeping prices low and insurance widely available will allow or encourage people not only to take unsound risks, but to impose those risks on others (by, for example, encouraging people to invest in coastal property in Florida that may be inundated from sea level rise over coming decades, or that may be at extreme risk for wind damage from storms). And regulation of businesses’ insurance for solvency and for affordability has not generally taken into account the panoply of potential risks to carbon-intensive industries or to industries that are likely to be impacted by climate change’s effects. (This article by Dr. Mills, published in the UCLA Journal of Environmental Law and Policy last year, contains his recommendations for how insurance regulators might help to address climate change, focusing on how insurers can more effectively incorporate climate considerations into analysis and capacity building, promoting disaster-resilience and loss prevention, maintaining insurance availability and affordability, minimizing litigation over climate-related liabilities, and safeguarding insurer reserves and customer surplus.)

Over the past few years, U.S. state insurance regulators, influenced by the work of Mills and others, have begun to take notice of both the threats and opportunities that climate change brings to the insurance industry. Last year, the National Association of Insurance Commissioners (NAIC) adopted a white paper, The Potential Impact of Climate Change on

Insurance Regulation, that explored some of these issues.

And yesterday, the NAIC adopted the annual climate risk disclosure survey requirement I mention at the top of this post. According to the NAIC: "All insurance companies with annual premiums of $500 million or more will be required to complete an Insurer Climate Risk Disclosure Survey every year, with an initial reporting deadline of May 1, 2010. The surveys must be submitted in the state where the insurance company is domesticated. "

(Note: The NAIC doesn't seem to have available on its website either the final white paper or risk disclosure survey. The versions I've linked to above are posted on the website of the National Association of Mutual Insurance Companies, a trade association of insurers that runs the interesting website Climate and Insurance. These late drafts likely are identical to the adopted versions or nearly so.)

The insurance industry has consistently resisted this type of reporting. It will be interesting to see how insurers respond to the survey, and more importantly, what insurance regulators do with this information once they obtain it. Insurers have the potential to be a major force in addressing climate impacts, and regulators' efforts will be critical to making it happen.