Connecticut's model approach to financial and insurance impact of climate change brings industry leaders together

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By Denise L. Nappier

Connecticut will reassert its historic leadership in the insurance industry when leaders from across our state convene next week to explore the business implications of climate change.

The day-long exchange is not a knee-jerk reaction to recent hurricanes. Plans for the landmark session have been underway for months, as the Treasurer's Office and the State Departments of Environmental Protection and Insurance encourage constructive approaches to the financial challenges and opportunities posed by our changing global climate.

It's an issue of paramount importance for Connecticut residents – as individuals, shareholders, and workers – and reflects our state's multi-faceted approach to a rapidly escalating challenge. This is not a partisan issue, nor should it be. Our state agencies are proceeding on aspects under their jurisdiction, and both Governor Rell and the state legislature have had a role in climate-related regulations already in place.

On the investment side, Connecticut's $21 billion pension fund has worked collaboratively with corporate boards and executives in numerous industries to address the ramifications of climate change. For many of our portfolio companies, the consequences, if not properly managed, could adversely affect their bottom line and therefore the long-term performance of our investments.

For example, companies could face the prospect of losing their competitive edge, incurring litigation costs, making capital investments that lose value due to new government policies, absorbing the impact of new physical risks and higher energy costs and dealing with additional unforeseen capital expenses.

We have, therefore, been seeking corporate assessments and disclosure of the impact of new and proposed state and federal regulations, and other factors associated with climate change, on long-term financial performance. This would permit investors to better understand the risks and hold management accountable for responding, especially as nations act to reduce carbon emissions - the root cause of global warming - with new laws that influence how businesses can operate.

We have long held the view that global warming is not only about the planet, it is about its people. Now, we're more convinced than ever. Dealing with basic human needs, underscored in the aftermath of recent events, obviously must always be the first concern. As Connecticut's chief elected financial official, I am also obligated to consider the financial ramifications of a changing global climate and all that comes with it.

Why am I concerned, and why should you be? Because it is not only Connecticut's 160,000 state pension fund beneficiaries whose future financial security could be put at risk by the lack of necessary analysis, planning and action. Any individual holding a mutual fund or stock in any business that suffers financially as a result of inadequate preparation for the changing regulatory and competitive business realities – let alone the physical impact of a weather-related event - can be hurt.

No industry knows better than the insurance industry that the forces of nature and the strength of our economy are inextricably linked. That's why the approach now being taken by Connecticut should serve as a model for the nation.

We have consistently asserted that to the extent businesses do not conduct essential due diligence, we are all at risk – not only from the environmental effects of global warming, but from the economic shockwaves as well.

That's why I helped to inaugurate the Investor Network on Climate Risk in 2003, bringing together major U.S. pension and investment funds, with more than a trillion dollars in assets. That's also why this past May, scores of Wall Street's leaders and the nation's top institutional shareholders gathered for the second time in 18 months at the United Nations to consider the financial risks and business opportunities and design a plan for action.

Now the discussion moves to the insurance industry. The agenda will focus on the impacts global climate change may have on underwriting, asset management, business operations, and long-term shareholder value. The prospects for innovative insurance products, such as insuring delivery of carbon credits, and carbon credit trading will also be explored among top players in the insurance, reinsurance, financial services industries, both locally and nationally.

Connecticut has long been recognized for the remarkable ingenuity and inventiveness of our workforce and business leaders. Climate change presents an historic opportunity, for our insurance industry, and the broader business community. There's no reason, for example, why our businesses can't develop the clean technologies that will place them ahead of their competition - in a position for long-term sustainability, highly profitable growth, and the jobs those expanding business lines bring.

As a nation, if we fail to seize this moment the economic consequences could be severe:

- U.S. companies could become less competitive and lose market share; foreign competitors could take control of fast-growing markets for clean energy technologies; employment and growth could easily suffer.
- Taxpayers could end up subsidizing insurance companies deluged by claims – or individuals and business owners could find insurance coverage virtually non-existent or utterly unaffordable, due to perceived risk. Neither is an appealing option.

As the upcoming assembly of insurance industry leaders underscores the fiscal imperative, we must renew our commitment to respond creatively and effectively to the financial challenges and unparalleled opportunities that our planet's changing climate represent. Once again, Connecticut is poised to lead the way.

Denise L. Nappier, Treasurer of the State of Connecticut, will co-convene Connecticut insurance executives to discuss climate risk on October 27, 2005 in Hartford.