Resource and Environment Group

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NEWSLETTER

INSIDE THIS ISSUE:

Please contact us:

- If you have any suggestions for articles for future newsletters or would like to comment on this one
- If you would like to offer to help
- If you have any comments on any matter related to resource and environment

RESOURCE AND ENVIRONMENT GROUP — SUSTAINABILITY

This issue contains reports on a wide range of issues including nuclear power, the potential role of insurance in adapting to climate change, and sustainability.

Two major bodies, the Royal Society and the World Bank, have both produced reports advocating sustainable development.

We are listing below email addresses for the REG managing committee. You can also contact Craig Ajimuda (craig.ajimuda@actuaries.org.uk) who is communities leader for the Profession. Many thanks to Vanessa Hodge who has stood down from the committee. We welcome new members Therese Kieve and Tony Brooke-Taylor.

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Conference volunteers required

Are you attending the Profession's Pensions conference in Brighton on the 31st May, the Risk and Investment conference in Leeds on the 29th June or September's GIRO in Brussels? REG Chair, Oliver Bettis, will be running workshops on 'Limits to Growth' at these conferences. We'd very much like to see you there. Please email tracey.zalk@gmail.com if you could help in a session, perhaps with audience participation, gaining feedback and taking down names of volunteers.

REG NEWS

Nuclear Power - an Actuarial Role?

The need to reduce greenhouse gas emissions has resulted in nuclear power being looked at again (Fukushima notwithstanding), and the UK coalition Government endorsed the previous government's decision to provide a framework for the building of new nuclear power stations in the private sector. The intention is that new power stations will not be subsidised by the taxpayer (as happened in the past). As one aspect of this, the Energy Act 2008 provides that the future costs of decommissioning and waste disposal will be funded by the operators whilst the power stations are still in use. Ring-fenced funds will be established by the operators for this purpose.

A power station may run for 40 years and then need to "cool-off" for 20 years before waste disposal can be completed. Given these timescales, the need for actuarial advice on the financing of these liabilities can be readily appreciated. However, most of us are not experts on nuclear power so actuaries would need to work in conjunction with scientists in order to consider adequacy.

DECC (Department of Energy and Climate Change) is currently consulting on changes to the regulatory regime which governs the procedures for the approval of the funding for decommissioning and waste disposal, see: http://www.decc.gov.uk/en/content/cms/consultations/regs_waste_new/regs_waste_new.aspx

It will be seen that they are proposing to allow a verification report to be divided into a technical report and a financial report, which could facilitate the involvement of actuaries (in the latter).

Where might actuaries be working? Perhaps with potential power station operators in developing their funding plans, perhaps acting as independent regular financial verifiers of funds established for decommissioning and waste disposal, and also acting for DECC in reviewing funding plans and subsequent changes. Indeed, the Nuclear Liabilities Financing Assurance Board, an independent body established by DECC to advise them on the financial arrangements for decommissioning submitted by operators, already includes actuaries.

However, before we get too excited, it seems that no new power stations have yet been agreed. Nevertheless, it would seem that some actuaries could have a valuable, if challenging, role to play in this area in the UK, and possibly in other parts of the world, in future. What actuarial skills are required? There are some similarities with pension fund valuation and investment but the term may be longer and the uncertainties greater.

Tackling Climate Risk - an Insurance Contribution

Many readers will have come across the Geneva Association, "….the leading international think tank of the insurance industry." Just prior to the Durban UN climate change conference at the end of last year they published an interesting paper emphasising the role that the insurance industry already plays regarding climate and environmental risks, and how it can contribute more to these challenges. See: http://www.genevaassociation.org/PDF/BookandMonographs/GA2011-Tackling_Climate_Risk.pdf

The Geneva Association paper addresses opportunities for governments to facilitate climate change adaptation measures by both drawing on insurance risk management expertise and also through changes to regulatory conditions. The paper argues that in order to fully capture the insurance industry's potential, a "conducive political, legislative and regulatory framework needs to be established."

Examples of ways to promote GHG reductions and adaptation are discussed:

- Through property insurance provisions stipulating replacement of existing materials with weather-resilient materials following an insured event.
- Mandating certain building code changes after a disastrous event.
- Requiring general corporate disclosure of actions to protect assets and manage potential liabilities relating to climate risks.
- Government policymakers not distorting market forces in areas such as underwriting and pricing. Premium rates should correspond to risk.
- Developing public-private climate initiatives, political initiatives and incentives to fully engage the insurance industry, which has expertise in balancing risk exposure and financial sustainability.

The paper also discusses areas where insurance solutions could improve the effectiveness of public policy measures designed to address the climate change challenge. The Association of British Insurers' (ABI) has been active in supporting the integration of climate risks into future development decisions.

There is a need for closer dialogue between governments and the insurance industry regarding actuarially sound risk-based premium rates that can influence individual and corporate behaviour. As extreme weather events are expected to make it increasingly difficult for private sector insurers to fully absorb catastrophe losses related to climate change, risk partnerships between insurers and governments should be considered.

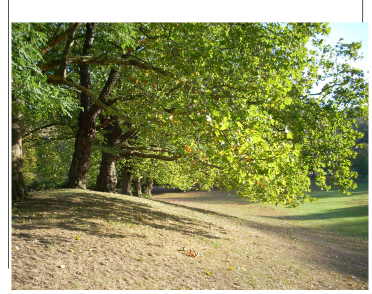
Most of these proposals will require government action and there may be a perceived tension between such proposals and policies to improve competitiveness and reduce "red tape". These sort of measures can however play an effective and efficient role in combating climate change over the medium term. Industry bodies such as the ABI and ClimateWise have an important role.

Investors urge increase in carbon price

Last month the Institutional Investors Group on Climate Change (including Aviva Investors, Blackrock and the BT Pension Scheme) urged EU finance ministers to revise the emissions trading scheme to combat the exceptionally low price of carbon. Current low carbon prices do not create the right incentives for private investors to allocate capital to low carbon sources. See:
http://www.iigcc.org/__data/assets/pdf_file/0020/15356/IIGCC-EU-ETS-Reform-Press-Release.pdf

FSA issue warning on carbon credit investing

Whilst not directly related to the previous item, this warning regarding the activities of unscrupulous firms trying to persuade investors to buy dubious carbon credits (see: http://www.fsa.gov.uk/consumerinformation/scamsandswindles/investment_scams/carbon_credit) is a reminder that new instruments need to be very carefully designed, monitored and regulated if they are to achieve the desired objectives.



"The continued functioning of the Earth system as it has supported the well-being of human civilisation in recent centuries is at risk"

The Royal Society: People and the Planet

See: http://royalsociety.org/uploadedFiles/Royal_Society_Content/policy/projects/people-planet/2012-04-25-PeoplePlanetSummary.pdf

World Bank: the Economics of Sustainable Development

See:
http://siteresources.worldbank.org/EXTSDNET/Resources/Inclusive_Green_Growth_May_2012_Overview.pdf

Both the Royal Society and the World Bank have published major reports in recent months advocating socially inclusive and sustainable development, focussing on what needs to happen to avoid getting locked into unsustainable paths and causing irreversible environmental damage. The Royal Society report deals at greater length with issues relating to population growth.

Both also state that better indicators of economic performance are needed: GDP only measuring short-term growth, whereas indicators like comprehensive wealth, including natural capital, help to assess sustainability. Other commentators also question of course the usefulness of GDP for assessing national "well being" and the issue is being explored in the UK and the EU.

IAA Environmental Working Group ("EWG")

Congratulations to our Chair, Oliver Bettis, who has been appointed as Co-Vice-Chair of the IAA EWG. This appointment was made by the Executive Committee of the IAA. Oliver shares the role with a US actuary and we look forward to developing our links with overseas actuaries.

There is now a Resources and Environment group on LinkedIn which you can join automatically if you have joined the EWG (and of course LinkedIn).

REG Googlegroup

REG has created this group so all members can exchange information as it emerges. In deference to our "Inbox", it is not intended as a discussion forum as such! Use the LinkedIn group (above) for discussions.

To join, email: resenv+subscribe@googlegroups.com

Visit the webpage (if you log in you will have access to a more complete list of REG documents):
http://www.actuaries.org.uk/members/pages/resource-and-environment-member-interest-group