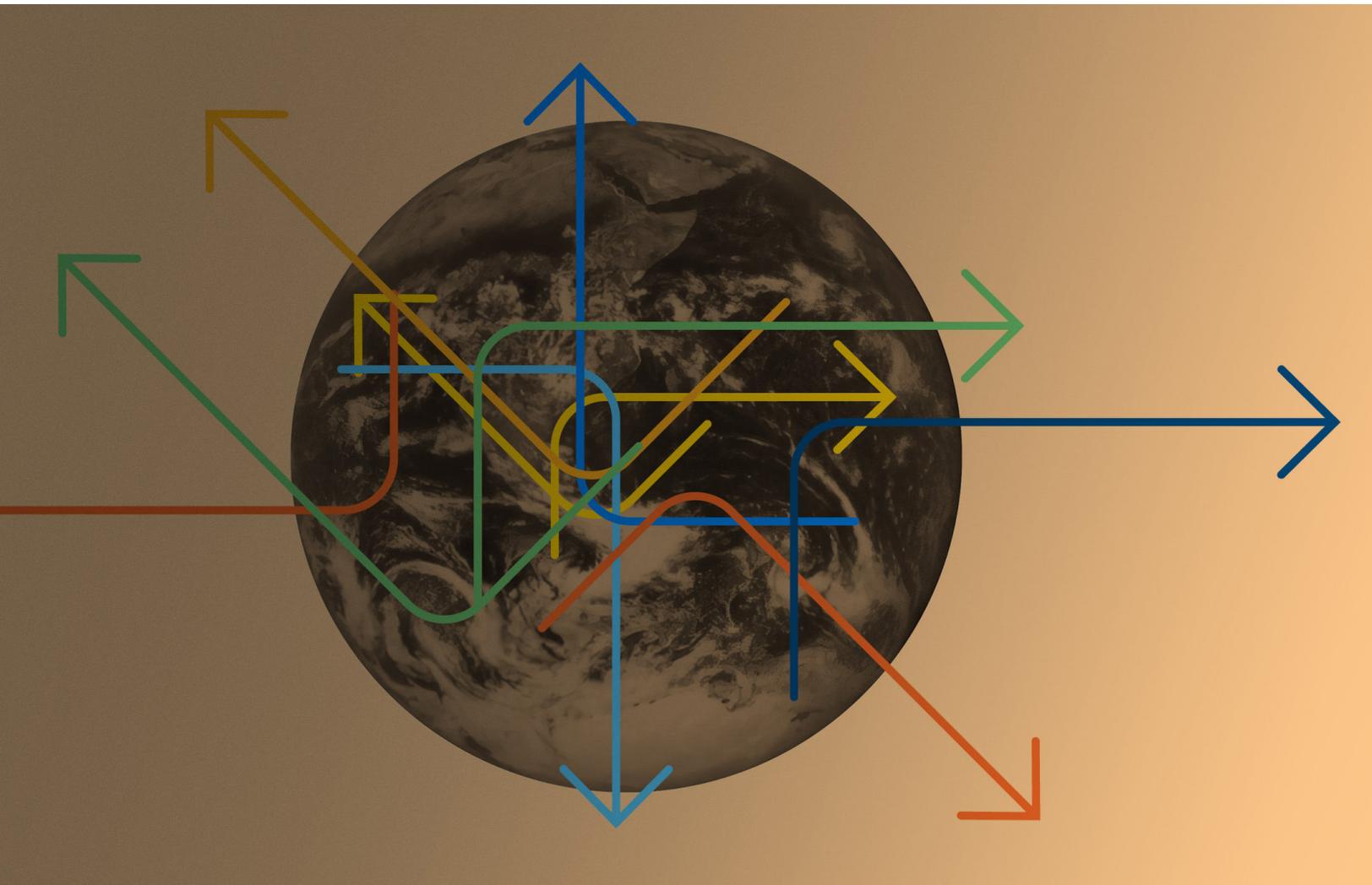


INSURANCE FUTURES

Cultural attitudes to climate: Shocks ahead?

By Peter Kingsley and Ian Kearns of The Oracle Partnership

DECEMBER 2019



Pressure on the corporate and financial sectors to respond to climate change is mounting. Investors and regulators such as the U.K. Prudential Regulation Authority (PRA), are demanding financial institutions assess short and long-term climate risk. In a sign of the changing mood, Christine Lagarde, the new President of the European Central Bank (ECB), has made clear she wants to put climate change at the heart of monetary policy via the ECB's new strategic review.

Delegates to the COP 25 conference in Madrid meet against a background of growing public concern and activism. For all the attempts to create top-down action, in this essay we explain why the public mood and the narratives about climate change will be decisive.

Cultural attitudes to climate, biosphere and environmental challenges are fundamentally uncertain. Over the next decade and beyond, in some parts of the world, 'strong government' will drive urgent change, under public pressure. In others, the financial and psychological costs of deep cuts in emissions and, more broadly, changes in consumer behaviour will continue to slow progress.

There are a growing number of viral narratives and weak signals that indicate the potential for disruption in the short-term. These may deliver shocks, changing the nature of the risk landscape and attitudes to insurance value.

Contrary to conventional wisdom, in chaotic economic and political conditions culture can change abruptly. This has potentially profound implications for insurance, both because cultural attitudes to the long-term will be felt short-term and because they will impact risk appetite. This is more about emotion and sentiment than analysis and logic. We can expect culture shocks to reverberate through the financial system long before the physical impacts of climate change—such as irreversible damage to low-lying cities—emerge. The imagined future shapes short-term asset management.

As the climate debate unfolds, all industries face reputational risk. Insurance has an opportunity to position itself for the endgame in the public mind and as a key player in the transition to a sustainable world.

The power of narrative momentum

The change in public opinion about plastic waste illustrates how major shifts in industry, market conditions and regulation can emerge without apparent warning. Over the last two years momentum has not only built up behind the narrative that plastic waste is deeply damaging to the natural environment, but also behind the view that it is a cause of species extinction and a problem for human health. The fact that most plastic is derived from fossil fuels has made the link between plastics and climate change in the public mind.

Some of this narrative shift has been attributable to China's decision in 2017 to stop receiving, burning, or disposing of much of the rest of the world's waste. This made a problem that had previously been invisible to many people suddenly visible. Popular nature documentaries such as the BBC's Blue Planet, which brought millions of viewers around the world face to face with the damage to wildlife and natural habitats created viral conditions. The combination of these developments, together with the transmission mechanisms of social media, drove a new narrative into the global mainstream.

The result has been that single-use plastic bans have been introduced around the globe. More than 140 countries have introduced taxes or partial bans on plastic use. This includes some of the most populous countries in the world, such as China, India, and Bangladesh, and more than 34 countries in Africa.¹ Laws have been introduced to ban or fine the use of plastic bags in supermarkets. Plastic-free shops and restaurants are also emerging.² In May 2019, 180 member states of the United Nations agreed amendments to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, to better regulate the global trade in plastic waste, make it far more transparent and less likely that microplastics will end up in the world's oceans.³



Emerging narratives

There are other narratives emerging that may have the power to bring similar, short-term shocks. Some of them, like the Green New Deal, which is an over-arching term used to describe an urgent, radical overhaul of the current economic system in order to simultaneously deal with the climate crisis, create millions of well-paid jobs and tackle deep-rooted sources of economic injustice, have gone from almost nowhere to the mainstream in the last two years. The Green New Deal has been adopted by radical green and progressive politicians around the world, though it has yet to be implemented anywhere. If and when it is, few should be taken by surprise.

FLIGHT-SHAMING

Less sweeping, but still potentially shock-generating narratives are also emerging. Barely registering just a few months ago, ‘flight shaming’ has momentum, particularly in Europe. It illustrates how changing public attitudes can have a short-term impact on industry.

A public backlash against airlines may emerge at a time when airlines have no ‘clean’ alternatives. These remain some time away, despite progress with electric planes. The total ‘climate impact’ of air travel is, according to recent research, higher than the widely-used estimate of the two percent contribution to carbon emissions.

This may be one of the early examples of an industry sector vulnerable to short-term cultural change. The sector has not articulated a clear way forward. Some senior airline executives, including the CEO of SAS, see ‘flight shaming’ as an ‘existential risk’, having been quiet on the subject for years. The CEO of Lufthansa sees it as a threat to growth. The CEO of KLM has urged passengers to “make responsible decisions about flying”.

In June 2019, the International Air Travel Association Director General Alexandre de Juniac said that “Unchallenged, this sentiment will grow and spread” and asked the public to “give aviation time to come up with green methods of propulsion”. The CEO of Qantas raised fears that the industry could be brought to a halt.



Greta Thunberg’s sail to New York, added to the viral quality, drawing positive coverage in mainstream and social media alike. The structural weakness is that in some scenarios, if climate activism grows, cutting airline travel and international tourism will be seen as an easy, symbolic lifestyle change. ‘Cruise shaming’ is a similar weak signal that is gaining momentum.

TIME RUNNING OUT

Another narrative with disruptive potential reads that there is little time left to address the climate challenge. The conclusions of recent Inter-Governmental Panel on Climate Change (IPCC) reports, and warnings from the Executive Secretary of the UN Convention on Biological Diversity, have established that time is running out.⁴ The idea of ‘tipping points’ and ‘too little, too late’ have momentum amongst leading scientists and regulators.⁵ These narratives have risen up the list of concerns seen as most pressing to voters. They have also driven a new wave of disruptive direct climate action as frustration at the slow speed at which conventional politics moves has spilled over into something more radical.⁶

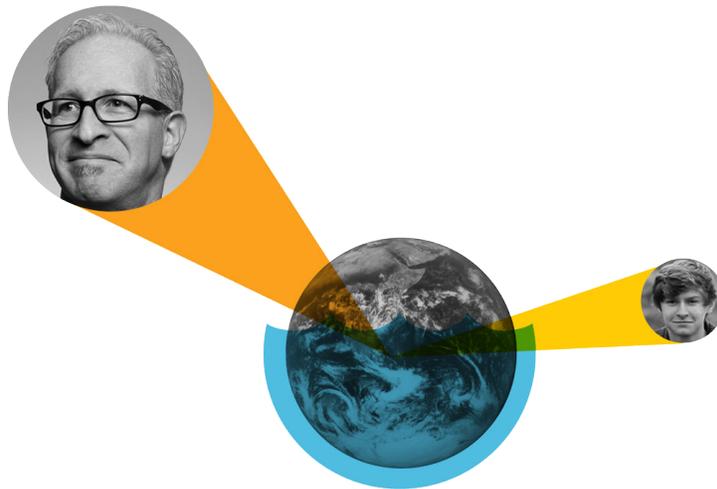
A group calling themselves Valve Turners have interrupted the flow of oil from Canada to the United States through the Keystone Pipeline. In Germany, hundreds of climate protesters in the Ende Gelände movement have occupied coal mines, closing down operations for days at a time. Mass action by Extinction Rebellion activists has disrupted daily life and business activity in London, Berlin, Paris and Rome and many other cities around the world.

This is not spontaneous, but well organised and planned. In Europe, training camps were run through the summer of 2019 for thousands of activists, focusing on how to conduct civil disobedience campaigns and resist arrest.⁷ It is hard to predict exactly where direct action will be focused, but fossil fuel enterprises, non-renewable power-stations, banking, rail stations and airports are all likely targets.

INTERGENERATIONAL TENSION

In September 2019 the idea of an inter-generational fissure on climate change gained narrative momentum through a series of youth- and schoolchildren-led climate strikes. This became a global event, involving millions of people in protests against climate change and for more urgent measures to address it. Strikes took place not only in expected locations in climate-concerned Europe but across Africa, including in Nigeria, Ghana, Ivory Coast, Senegal and many other parts of the continent. Politicians in many countries felt compelled to support the strike. The elected Mayors of Paris, New York, Copenhagen and Los Angeles were exemplars, issuing a strong joint statement of support.

The notion of inter-generational tension on climate change is backed by survey evidence. In the US, for example, among the over-55's climate scepticism has been as high as 25 percent in some surveys, while among 18-24-year olds, it falls to six percent.



There are also signs that attitudes to climate change are linked more to age than to party political identity. Recent tests of opinion of Generation Z and Millennial Republicans in the US show that young Republicans are as concerned about climate change as their Democrat counterparts.⁸

It remains to be seen how the attitude of the young translates into political action but a global tidal wave of demand for radical action to address the climate emergency cannot be ruled out.

EXTREME EVENTS MAKE THE POLITICAL WEATHER

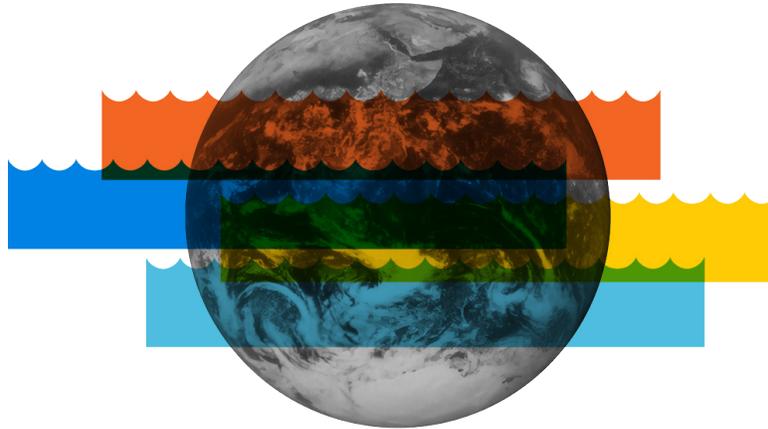
Another narrative pointing to disruptive change concerns the link between physical climate events and public attitudes. Evidence is mounting that extreme weather events power public climate concern. Surveys indicate, for example, that the people most exposed to extreme weather events are the ones most likely to acknowledge that climate change is real and that human behaviour is responsible.

In practice, this translates to very high levels of concern about climate change across Asia and the Middle East, with 10 of the top 13 most concerned countries in a recent YouGov survey coming from Asia. When asked whether they thought climate change would have at least a moderate impact on their own lives, people in 14 of the top 15 ranked countries came from Asia and the Middle East. The top-ranking country outside of Asia and the Middle East is Italy, which came in 15th overall. Italy is notable because it is on the front-line of secondary effects, like climate influenced flows of people from Africa to Europe, an issue which has had huge profile in Italian politics over the last two years and has been a big factor in growing support for the populist Lega party.

CLIMATE CHANGE DENIAL

Not all emerging narratives, however, point in the same direction.

Although levels of climate concern are high and getting higher around the world, climate denial still has influence, particularly in the United States. A YouGov survey of 32,000 people in September 2019 showed that 15 per cent of Americans either did not believe climate change was happening or did not believe it was happening as a result of human activity. That number is five times higher than in China and India and three times higher than the global average.⁹



CLIMATE POLARISATION

There is also growing evidence that climate change is the source of polarisation in legislative and party-political terms. Again, the US seems to be at the extreme. Data compiled by the non-partisan League of Conservation Voters shows that since President Trump's election, Democrats in Congress have voted for pro-environmental legislation 92 per cent of the time, compared to just 5 per cent for Republicans.

Even in Europe, opposition to measures designed to address climate change is influencing party politics. A new political party, No to More Toll Money, has emerged in Norway in response to environmentally motivated increases in road toll charges in major cities. In Finland, the nationalist True Finns have made campaigning against environmental measures an important part of their programme. In the most high-profile backlash against new environmental taxes, the Gilets Jaunes movement in France has led to violence and major disruption in Paris and other cities. In this case the Macron administration had to back down and withdraw the measures it had wanted to introduce.

A common theme in many of these protests is that measures to address climate change disproportionately hurt the poor and those outside of major metropolitan centres.

GREEN RADICALISM AS ECO-TERRORISM

Another counter-narrative that may gain momentum seeks to frame environmental radicalism as a form of eco-terrorism. In the autumn of 2018, for example, Ryan Zinke, the former US Interior Secretary blamed wildfires in the west of the US on "environmental terrorist groups that have not allowed public access, that refuse to allow the harvest of timber."¹⁰

At around the same time, 84 members of the US Congress wrote to the Justice Department to ask that oil pipeline activists be prosecuted as terrorists. A few months later, a group of activists heading for a UN climate conference in Katowice, Poland, were either arrested and deported, or refused entry to the country, on the grounds that they were a national security threat. There have been reports too, that the French counter-terrorism police have been involved in investigations of climate activists.

This apparent ‘securitisation’ of the issue makes sense, perhaps, if one is the owner of assets being disrupted by Green Radicals. Given the wider context, however, a hardened response to green protests by authorities around the world might suggest more confrontation is inevitable, and that some of it might turn violent.

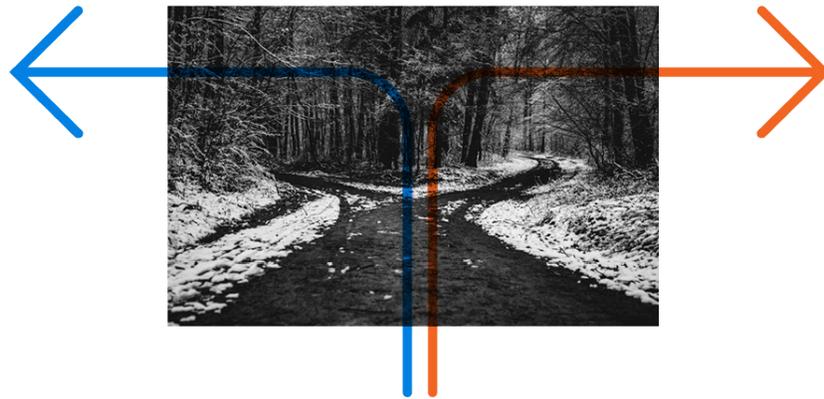
Two Scenarios

Against this background, two scenarios may emerge.

In one extreme, grass-roots activism and public pressure transforms politics. National and city leaders are forced to take radical action, shifting from ‘prevarication to panic’. Climate change dominates the US political agenda. The Extinction Rebellion and mass-scale strikes around the world add to pressures. Young people place the environment at the top of their agenda. The Green New Deal unites disparate political factions around a shared purpose. City leaders, responding to shifting political attitudes, collaborate across boundaries. Many force substantive cuts in emissions, curbing fossil fuel vehicles in city centres.

In this scenario, leading asset managers, insurance companies and investment funds deliver on their better intentions, cutting funding and insurance support from many forms of emissions-linked corporate activity. Some central banks impose standards for transparent reporting of climate risk over the long-term in order to protect investors. Corporations are mandated to develop scenarios and test strategies against them. Similarly, cities raising long-term capital face demands to present cohesive resilience strategies, or face funding shortfalls.

In this scenario, public opinion, city leadership, corporate boards and the financial community align around radical and urgent action, creating structural shocks in underwriting, increasing market risk and unprecedented volatility in investment asset values.



At the other extreme, in another scenario, public attitudes, investment sentiment and politics change slowly. There is a mismatch between the need for urgent, system-wide action and levels of commitment. ‘Transition risks’ act as barriers to change amongst entrenched interests, outweighing changing sentiment. Short-term costs and concerns dominate. This is most marked in coastal regions, for example in the US, where the idea of ‘retreat’ to higher ground is culturally an admission of failure. The embedded narrative is that man controls nature, that technological solutions will contain climate risk while sea and flood defences will deliver protection and resilience.

In this scenario, the investment community continues to operate on the basis that risk can be priced in the short-term, rather than intervene strategically, acting as a catalyst to transform the system for the long-term. Limits are placed on high-risk city, infrastructure and corporate assets. The underlying system remains unchanged, even as some parts of the world become uninsurable.

Implications for insurance

In each scenario, the insurance industry, through decisions about underwriting and investment, faces strategic challenges. Governments conventionally deliver ‘last resort’ support for the vulnerable. Yet before extreme decisions are taken, insurers have opportunities to collaborate across institutional boundaries, in the public interest. Decisions about which cities and industries will have long-term backing are already political. The industry’s strategic positioning will signal where to look for winners and losers.

As we explore in some of the other essays in this series, one of the major decisions the insurance industry must take is whether to take a leadership role as a social actor in its own right, attempting to use the underwriting and investment power at its disposal to drive long-term adaptation and resilience, or focus more narrowly on short-term security.

Beyond that, it is clear that it must come to terms with a set of risks that cannot be calculated by probability, the application of logic and backward-looking catastrophe models. The ability to detect changes in cultural and political narrative and to monitor for developing momentum in some narratives rather than others, will be key to navigating a volatile landscape. This implies the ability to develop and integrate a new set of methods alongside conventional risk assessment methods.

Without these, the industry faces more shocks and surprises. After all, in the extreme, we may see the emergence on the horizon of a perfect storm: runaway climate change; political panic measures; radical, systemic innovation; culture shocks; and environmental activism. Public cultural attitudes and values will be decisive in the transition to a sustainable world. The insurance industry has a vital role to play.

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 - 2 The Rise of Zero Waste Grocery Stores, available at: <https://www.smithsonianmag.com/innovation/rise-zero-waste-grocery-stores-180971495/>
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 - 3 180 nations reach deal to curb plastic ending up in world’s oceans, available at: <https://www.straitstimes.com/world/180-nations-reach-deal-to-curb-plastic-ending-up-in-oceans>
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 - 5 Timothy Lenton et al, Nature, 27 November 2019 <https://www.nature.com/articles/d41586-019-03595-0>
 - 6 <https://foreignpolicy.com/2017/09/01/the-green-radicals-are-coming-environmental-extremism/>
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 - 8 On Climate Change, Younger Republicans Now Sound Like Democrats: https://www.salon.com/2019/09/10/on-climate-change-younger-republicans-now-sound-like-democrats_partner/
 - 9 Survey underscores high levels of US scepticism on climate change: <https://www.ft.com/content/e5374b6c-d628-11e9-8367-807ebd53ab77>
 - 10 ‘The term eco-terrorist is back and it’s killing climate activists’, available at: <https://grist.org/article/the-term-eco-terrorist-is-back-and-its-killing-climate-activists/>

About the author

Peter Kingsley, Chairman and Co-Founder of The Oracle Partnership, chairs PJR, a specialist foresight and strategic advisory firm. He has provided foresight and thought leadership to major financial institutions, corporate boards and wealth managers for more than 20 years. Earlier in his career, he held senior strategic positions at Reuters and Dow Jones, amongst other things designing information and editorial services. He was a partner at Stanford Research Institute's futures think tank. His more recent work has included advising the leadership teams of international banks; the senior partner of a major hedge fund; the leadership team of one of Lloyd's largest insurance underwriters; one of the world's leading software companies; a regulator; one of the world's largest water engineering firms; and several utility firms. He originated, designed and led the Coutts 'Futurescope' foresight and thought leadership programme.

Ian Kearns has 25 years' experience working in the public, private and NGO sectors, the last 13 of them in leadership positions. He is a former Acting Director of the Institute for Public Policy Research (IPPR), Britain's leading policy think tank, and launched the IPPR All Party Commission on National Security. In 2011, he co-founded the European Leadership Network (ELN), a political, military and diplomatic network of former Prime Ministers, Foreign and Defence Ministers, diplomats and senior military figures across greater Europe. Ian served as the organisation's first Director, establishing ELN as a well-respected feature of the policy landscape on foreign policy and security issues. He serves on the Executive Board of Directors. He has written for The Guardian, The Times, The Independent, Newsweek and The New Statesman and he has been a commentator on the BBC and international media. His recent book, 'Collapse: Europe After the European Union' was published by Biteback in April 2018.

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