# The Climate Change Peril That Insurers See

*By John Morrison and Alex Sink*
Thursday, September 27, 2007

A wildfire burns at the base of Crown Butte in Simms, Mont., this month. (By Robin Loznak -- Great Falls Tribune Via Associated Press)

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Montana is burning again. This summer, some of the nation's worst wildfires incinerated homes, barns and fences, killing livestock and forcing families to evacuate. Wildfires have increased fourfold since the 1980s, and they are bigger and harder to contain because of earlier-arriving springs and hotter, bone-dry summers. Last year's fires broke records; this year could be worse. As courageous firefighters beat back the flames, insurance companies continue to pay out billions for wildfire losses across the West.

Meanwhile, Florida is bracing for the duration of the hurricane season even as rebuilding continues from the eight hurricanes that crisscrossed the Sunshine State in 2004 and 2005. Storms grow ever more intense: Since the 1970s, the number intensifying to Category 4 or 5 hurricanes has almost doubled, costing insurers tens of billions of dollars.

Montana and Florida are not the only states suffering huge insurance losses from natural disasters. Increasingly destructive weather -- including heat waves, hurricanes, typhoons, tornadoes, floods, wildfires, hailstorms and drought -- accounted for 88 percent of all property losses paid by insurers from 1980 through 2005. Seven of the 10 most expensive catastrophes for the U.S. property and casualty industry happened between 2001 and 2005.



Ten years ago, Peter Levene, chairman of Lloyds of London, was skeptical about global warming theories, but no longer. He believes carbon emissions caused by human activity are warming the Earth and causing severe weather-related events. "At Lloyds, we feel the effects of extreme weather more than most," he said in a March speech. "We don't just live with risk -- we have to pick up the pieces afterwards." Lloyds predicts that the United States will be hit by a hurricane causing $100 billion worth of damage, more than double that of Katrina. Industry analysts estimate that such an event would bankrupt as many as 40 insurers.

Lloyd's has warned: "The insurance industry must start actively adjusting in response to greenhouse gas trends if it is to survive." The Association of British Insurers has called on governments to "stem ominous weather related trends" by cutting carbon emissions. U.S.-based companies AIG and Marsh -- respectively, the largest insurer and broker -- have joined with other corporate leaders to urge Congress to reduce U.S. greenhouse gas emissions 60 to 80 percent by mid-century. AIG's policy statement on climate change "recognizes the scientific consensus that climate change is a reality and is likely in large part the result of human activities that have led to increasing concentrations of greenhouse gases in the earth's atmosphere."

Marsh issued a similar statement, as did European insurance giants Swiss Re, Munich Re and Allianz. The chief research officer of Risk Management Solutions, an industry risk forecaster, responded to an April report of the Intergovernmental Panel on Climate Change by announcing that climate change is already increasing "financial losses from extreme weather catastrophes." A.M. Best, the historical voice of insurance, began a series in the August edition of Best's Review on the risks, regulatory issues and economic impact of climate change.

Nervous investors have begun asking insurers to disclose their strategies for dealing with global warming. At a meeting of the National Association of Insurance Commissioners, Andrew Logan, insurance director of the Ceres investor coalition, representing $4 trillion in market capital, warned that "insurance as we know it is threatened by a perfect storm of rising weather losses, rising global temperatures and more Americans living in harm's way." Ceres cites estimates that losses related to catastrophic weather have increased 15-fold in the U.S. property casualty industry in the past three decades.

Insurance companies are reacting. Some have simply abandoned catastrophe-prone markets or are jacking up rates. Other insurers have taken steps in the battle against climate change by offering premium incentives for "green" construction and hybrid cars, investing in companies that cut carbon emissions or develop clean energy, and offering "pay per mile" car insurance. Still others are reducing their own carbon footprints, promoting markets for carbon-credit trading and even moving to protect carbon-consuming forests.

Insurance companies make money by accurately assessing risk. For decades environmentalists have been sounding the alarm about global warming. Now major insurers are becoming engaged as they look after their own assets and those that they cover. Federal reluctance to commit to international agreements on climate change, or otherwise cap total carbon emissions, appears to be driven by influential businesses that fear the limitations will hurt their bottom lines. But the risk perceived by the insurance industry -- the world's largest economic sector -- may shift that political balance. At the least, it should tell us something.

*John Morrison is the state auditor of Montana. Alex Sink is the chief financial officer of Florida. Both oversee state insurance departments and are members of the Climate Change Task Force of the National Association of Insurance Commissioners.*