

The Insurance Industry and Global Climate Change

Various positions of insurance companies on the issue of climate change

“There is a significant body of scientific evidence indicating that last year’s [1990] record insurance losses from natural catastrophes was not a random occurrence. Instead it may be the result of climatic changes that will enormously expand the liability of the property-casualty industry.”
(Swiss Reinsurance representative cited from Leggett 1993, in Gordes 1996: 5.)

“Somebody had got off the fence ... they said, if you’re asking us, yes, there is a direct link, and this could have an affect on your business. ... We started to incorporate the statements that we had received and the areas we had been warned about, into our whole rating base, which we are glad to say resulted in us reducing our commitments in areas like Florida.”
(Anon. syndicate of Lloyd’s of London cited from Leggett 1993 in Gordes 1996: 5.)

“[C]limate experts that Lloyd’s hired could not tell the insurer that global warming was to blame for the unusual severity of recent catastrophic storms, droughts and floods. They [said], ‘We can’t prove there is global warming. But by the time we can, you chaps will be in real trouble’.”
(Richard Keeling in *The Hartford Courant*, 30 March 1995, cited in Gordes 1996: 7.)

The [US insurance] industry mindset is: Is this part of a normal cycle? Or... is it something that society is bringing onto itself and will get worse? This is the fence companies are sitting on. I feel that fossil fuels may be the cause, but I’m afraid of throwing a whole lot of resources at it and finding out it’s something completely different.”
(Wallace Hanson, Property Loss Research Bureau, cited in Gordes 1996: 11)

“Higher sums insured, the increasing insurance degree, changed insurance conditions and regulatory practice -- these determinants alone will lead to rising loss burdens for the insurance industry, even if the number of natural catastrophes and major man-made [sic] losses should not change substantially.”
(North American Reinsurance Corp 1993: 23. Swiss Re, *Sigma* No. 2/1993: Natural catastrophes and major losses in 1992 - Insured damage reaches new record level.)

Comments by scientists

“[P]ublic discussions have been shaped in part by the voices of skeptics who argue that because we cannot fully predict the timing or magnitude of climate change, policy responses should be delayed. To insurance executives, however, this is a strange argument, since all of their business -- indeed, its very nature -- involves making important decisions in the face of large uncertainties. ... To an insurance executive, the very uncertainties associated with climate change may be the best reason for taking it seriously.” (C. Flavin 1994: 12-13.)

Major Windstorms¹ Worldwide: Annual Impact 1960-1992

	1960s	1970s	1980s	1990s ²
No. of storms	0.8	1.3	2.9	5.0
Total damage ³	2.0	2.9	3.4	20.2
Insured cost ³	0.5	0.8	1.7	11.3

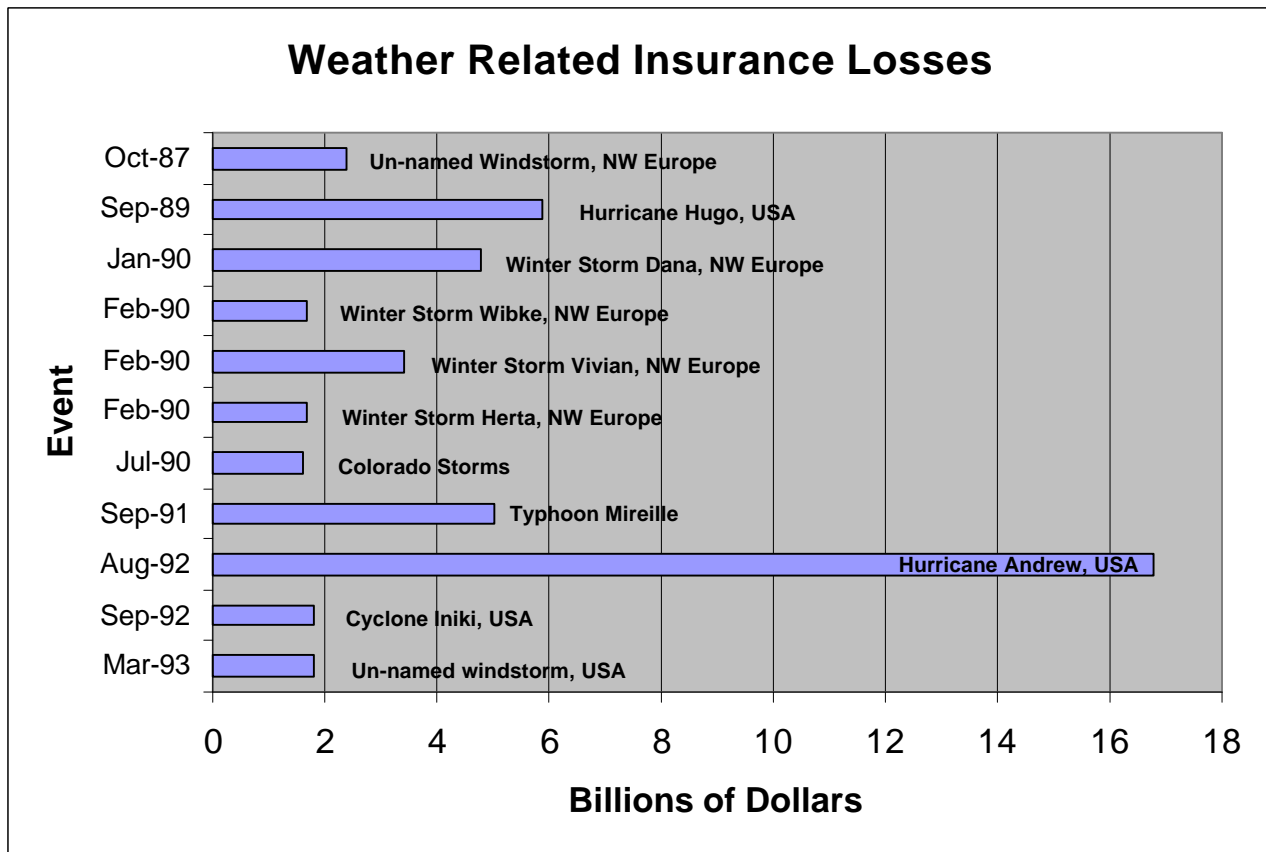
¹ -- a major windstorm is defined as one costing more than \$500 M in total damage

² -- include only 1990, 1991, and 1992

³ -- valued in 1990 prices, in billion dollars; data from Munich Re and Swiss Re

(Source: Data extracted from A. Dlugolecki in IPCC 1996: 547, Table 17-1. © 1996 IPCC. Reprinted by permission of the IPCC.)

“If the huge (\$1.5 trillion per year) fossil fuel industry is the only industrial lobby that actively engages in the climate battle, it is likely to prevail and progress in addressing the global climate dilemma will continue to stall. Few industries are capable of doing battle with the likes of the fossil fuel lobby. But the insurance industry is. On a worldwide basis, the two are of roughly comparable size -- and potential political clout.” (Flavin 1994: 20.)



Source: Adapted and modified from Gordes (1996).
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Newspaper excerpts

“[Commerce Insurance Co.] spokesman Tony Batista said Commerce is ceasing to write homeowner policies on Cape Cod, the Islands, and [locations] within two miles of the Massachusetts coast north of Plymouth because it cannot find suitable reinsurance to protect itself from potential losses from hurricanes and other storms.”

(Coakley, T. 1993, p 1. “Insurers wreck calm before next storm.”)

“Maxine Texeira lives a good 10-minute walk from the nearest beach -- on protected

Boston Harbor. She has made it through hurricanes and Northeasters in the past 23 years with no insurance claims for storm damage. So why, she asks..., has her insurance company included her among 18,000 [Massachusetts] residents whose homeowner coverage will not be renewed because of her home’s ‘susceptibility to catastrophic coastal storms.’... Maxine Texeira isn’t sure what she will do. And she still can’t figure out why her policy isn’t being renewed. “I don’t live on the coast,” she said. “I live in East Boston.”

(Coakley, T. 1993: 1,15. “Insurers wreck calm before next storm.”)

Determinants of Insured Damage

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INSURERS CALL FOR CUTS IN GREENHOUSE GAS EMISSIONS --

Adapted excerpts from a press release during the Second Conference of Parties in Geneva, July 9, 1996

Insurance executives speaking on behalf of almost 60 insurance companies addressed delegates of the climate change negotiations in Geneva by calling for early and substantial reductions in greenhouse gases. The executives presented a position paper highlighting the industry's concern that, while the effect of climate change on the frequency or severity of extreme weather events remains unknown, it is clear that even small shifts in regional climate zones or storm patterns could lead to increased property damage. The insurers also pointed out that climate change could potentially have large implications for investment activities as society anticipates and adapts to the new climate regime.

"While some industries think more about the costs of taking action against climate change, insurers know from experience how expensive it can be when people fail to protect themselves adequately from risks," UNEP Executive Director Elizabeth Dowdeswell said.

Because property insurance is particularly vulnerable to direct climatic influence, a higher risk of extreme events due to climate change could lead to higher insurance premiums or the restriction of coverage for property in some vulnerable areas. However, as it is still not possible to quantify any present or future changes in the risk of extreme events, insurance companies find it difficult to adjust their products and capital reserves appropriately. The withdrawal of insurance would increase direct financial losses to property owners and businesses, with serious long-term implications for communities and governments. In addition, if unexpectedly severe events started causing insurance companies to become insolvent, other economic sectors such as banking and public finances could feel the ripple effects.

Several large industrial associations have taken an aggressive stance against climate change, emphasizing the existence of scientific uncertainty, the high cost of changing technologies, and the possible benefits for some regions. Faced with this situation, and the growing importance of such global issues to their activities, a number of insurers decided in November 1995 to combine under the aegis of the UN Environmental Programme to constitute the UNEP Insurance Industry Initiative on Sustainable Development and the Environment. This gives the insurance industry its own voice on climate change and can offer policy-makers better information on appropriate solutions to cope with the financial challenges of climate change.

Source: Robert Bisset, UNEP Media/Information Officer, Nairobi, Kenya. ©1996 reprinted by permission of *UNEP News Release*. Robert Bisset.