ClimateWire
THE POLITICS AND BUSINESS OF CLIMATE CHANGE
An E&E Publishing Service

POLICY: Administration finds risks, role for insurers in climate change (Thursday, June 18, 2009)

Evan Lehmann, E&E reporter

The Obama administration is highlighting the insurance industry as being "particularly vulnerable" to climate change, saying increasing catastrophes threaten to drain the global network's financial holdings.

Intensifying events like hurricanes, wildfires and heat waves could increasingly pummel insured products, including homes, crops, highways and human health. The rising rate and unpredictability of those events can leave insurers gasping for breath between paying damage claims, according to the administration's first report on global warming, released Tuesday.

"Virtually all segments of the insurance industry are vulnerable to the impacts of climate change," says the document, "Global Climate Change Impacts in the United States," which was prepared by 13 government agencies over 18 months.

The report signals a deepening emphasis on the world's largest industry, some experts say. It comes as insurers are being pressed to strengthen their financial safeguards against climate risks and to become more active in their efforts to provide policies that invigorate people to create less carbon dioxide pollution and deter population shifts toward dangerous coastlines.

Warming means more lightning damage

image removed

There is a strong correlation between higher temperatures and the frequency of lightning-induced insured losses in the United States. Each marker represents aggregate monthly U.S. lightning-related insurance claims paid by one large national insurer over a five-year period, 1991-1995. All else being equal, insurers' risks are likely to increase with temperature.

"I think there's a growing recognition that insurance is part of the process," said Evan Mills, a staff scientist at the Department of Energy's Lawrence Berkeley National Laboratory. He wrote the report's section on insurance.

Lightning strikes and schools of thought

U.S. insurers are gradually embracing climate change, with many companies investing in renewable energy projects and insuring emerging technologies, like carbon capture and sequestration projects.

Overall, however, U.S. insurers are moving more slowly than their European counterparts to help abate man-made warming and prepare for a host of intensified damages, according to sources in and out of the industry. They don't just face periodic storms with a first name. Insurers will be exposed to a growing number of smaller threats that could slowly drain their reserves.

Lightning strikes, for example, are increasing the number of damage claims as temperatures rise, the report says. Other risks include strengthening thunderstorms, more rain, more drought and hotter summers. They can all add to the claims that insurers pay.

Some industry officials, however, are concerned that the challenges faced by the industry are magnified by non-insurers who connect them to climate change. The industry has been facing an ebb and flow in disasters throughout its history.

"It represents a school of thought which has been subject to debate," David Snyder, general counsel of the American Insurance Association, said of the report. "Nevertheless, we do want to partner with government to reduce exposure to natural catastrophes regardless of their cause."

A 'good sign' of progress

Climate advocates are pressing the industry to get more involved. They believe insurers, with their massive economic wealth and political influence, could persuade state and federal lawmakers to pass policies that consider the future effects of rising seas and stronger storms.

That effort is two-sided. Advocates are also pressing regulators to make insurers reveal their climate efforts, hoping the publicity will drive companies to move faster to address environmental issues.

The report is "a good sign from the administration that the industry can and should play a greater role in understanding climate," said Sharlene Leurig, who oversees insurance issues at Ceres, a group of environmental investors pushing companies to embrace climate change.

"We've noticed a significant increase in the level of attention that's coming from investors, from policymakers, and from the industry itself," she added. "This is a problem of joint survival and well-being for both the industry and society at large."

The report warns that emerging climate threats are outpacing another element that endangers insurers: huge population shifts to the coasts. There is no more dangerous area in the United States for insured losses than Florida, also known as Hurricane Alley, in part because of massive beachfront development. Highly populated shorelines along the Gulf Coast, Southeast, and Northeast are also highly exposed.

Still, the report suggests that climatic convulsions account for far more damage than that inflicted on people crowding the coasts with homes, resorts and businesses.

"What is known with far greater certainty is that future increases in losses will be attributable to climate change as it increases the frequency and intensity of many types of extreme weather, such as severe thunderstorms and heat waves," the report says.

Is the threat from climate change or politics?

Robert Hartwig, president of the Insurance Information Institute, an industry group, disagrees. He says piles of people near the ocean are responsible for the "vast majority" of increasing damages.

"Climate change is real," he said. "We just have to understand that the appropriate proportion of the damage that we're seeing is ascribed to the demographic factors."

Policymakers caused that problem, Hartwig added, by offering low-priced public hurricane insurance and by holding down the rates that private insurers could charge in areas most susceptible to storm strikes. That encouraged people to move seaside.

"There's no question that states have enabled this construction by subsidizing rates," he said.

The report's inclusion of insurance is "no surprise" from the British perspective.

"Climate change is a direct impact on insurers around the world," said Malcolm Tarling of the Association of British Insurers, before offering a simple reason why: "Insurers pick up the tab."

In the United Kingdom, insurers are pushing the government to impose stricter building codes, build new flood defenses and prohibit construction in some areas vulnerable to sea level rise.

In return, private insurers have agreed to continue offering flood policies in homeowner coverage. That's different than the approach in the United States, where flood insurance is a public program, which, critics say, encourages risky development by offering subsidized rates.

"What we've said to government is, 'You've got to react,'" Tarling said.

About ClimateWire

ClimateWire is written and produced by the staff of E&E Publishing, LLC. It is designed to provide comprehensive, daily coverage of all aspects of climate change issues. From international agreements on carbon emissions to alternative energy technologies to state and federal GHG programs, ClimateWire plugs readers into the information they need to stay abreast of this sprawling, complex issue.

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