Ceres

Insurance and Climate Change

Climate Change Threatens Insurers' Financial Solvency; Addressing It Is Vital to Their and the World's Economic Health

Severe weather events are on the rise. Recent years have seen the greatest number of natural disasters in U.S. history; 2010 set a new record for such disasters with 247 recorded[i]. 2009 set the previous record with more than 200 natural disasters and 2011 is likely to be yet another year for the history books.[ii]

Beyond the human toll, disasters bring significant economic loss.

- The April 2011tornadoes that struck the Midwest caused **$7 billion in losses in just 3 days.**
- Flood damages from the Mississippi and Missouri Rivers and Hurricane Irene this year are expected to tack significant losses onto the National Flood Insurance Program's **nearly $20 billion of debt.**
- Losses from the 2011 drought and wildfires in Texas are pegged at **$5 billion.**

Though climate change cannot be definitively linked to single weather events, the rise in natural disasters and their severity fit the pattern of what scientists say we can expect as global temperatures rise. Moreover, new methods of statistical analysis are making it increasingly possible to link individual events to climate change, such as the Russian heat wave in July 2010 that killed 700 people.[iii]

Taxpayers are Footing the Bill for Escalating Losses

In many parts of the U.S. insurers have responded to massive losses by simply excluding coverage or exiting markets, which usually passes the financial risk of natural disasters on to taxpayers.

In Florida, 20 percent of the insurance market is backed by the state and its taxpayers. The state-run insurer of last resort, Citizens Insurance, now is the largest carrier in the state, with roughly 1.5 million policies in force. Many states from Massachusetts[iv] to Texas[v] are on a similar path, and taxpayers each year hold a greater piece of the risk.[vi]

Taxpayers already pay for homeowner flood insurance through the National Flood Insurance Program (NFIP). Today NFIP has $1 trillion in exposure and is $20 billion in debt from Hurricane Katrina. And if losses continue accelerating in the coming decades, insurers could drop coverage for commercial flood insurance as well.

The ability of insurance to help communities stay resilient to disaster is at stake as losses from wildfires, floods, droughts and hurricanes multiply. Climate change will increase the size and frequency of natural disasters and, without meaningful action, persistent and severe economic losses could drain the budgets of regional economies, leave individuals vulnerable to devastating losses, and discourage the normal risk-taking that's a key element of economic growth.

How can Insurers Drive Solutions to Climate Change?

Insurance, a $30 trillion industry, is the largest in the world. Troubles there would inevitably ripple through the larger world economy. So the industry must help shape solutions to climate change. It already has a long history of spurring positive societal change, from fire building codes to seat belt laws, in response to new or increasing risks.

> "Insurance drives the economy. You can't buy a house, drive a car, or start a business without it."
>
> **— Jack Ehnes, CEO of the California State Teachers' Retirement System**

Insurers must be part of the economic transformation toward a low-carbon economy. They can do that by:

> "The assumption underlying some people's view is that this is an anomaly in severe weather, and that we'll go back to the good old days when non-model [catastrophes] were in the $500 million range, not the $2 billion range. We're not running our business that way. We're running our business as if this change … is permanent.. … and we need to recover those costs."
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> — Allstate CEO Thomas J. Wilson, August 2011

- **Creating innovative insurance products that enable low-carbon technologies like renewable energy and energy efficiency.** For example, Energi, a Massachusetts-based insurance underwriter, has joined a new consortium to help South Florida commercial building owners boost energy efficiency. The partnership, which includes Barclays Bank, Lockheed Martin and reinsurance giant Hannover Re, will unleash $550 million of low-interest financing to catalyze efficiency projects in six cities, including Miami. The loans allow businesses to retrofit commercial buildings at no up-front cost, cutting energy use by about a third.

- **Shifting their $23 trillion in assets from dirty to clean fuels.** Insurers are among the largest investors in the world. The money they receive from policyholders is invested in bonds, stocks and real estate. Today, most insurers are as likely to invest in the dirty energy sources driving climate change as they are in climate solutions. Moving insurer assets into low-carbon technologies has the potential to move billions of dollars to low-carbon investments and speed that sector's growth to competitive scale.

- **Encouraging behavior change with products such as Pay-as-You-Drive insurance and policies that help customers rebuild in environmentally-sound ways following a loss.**
  - **MileMeter** (http://milemeter.com/), for example, provides insurance by the mile.
  - **Zurich** offers Better Green property insurance[vii] to provide businesses with a way to address losses and expenses associated with the repair, replacement or rebuilding of damaged property in a green fashion. If there is a total loss, Zurich rebuilds to green standards and also has coverage for existing LEED buildings as well.

- **Working with policymakers to promote clean energy solutions.** California-based Fireman's Fund has advocated for a national policy framework to drive energy efficiency retrofits in 50 million U.S. commercial and residential buildings by 2020.

Insurers must also help communities understand how risks are changing and how to build in the face of changing risks. Local governments need to know what potential climate-related losses they face, how much can be averted, and what investments will be required.

Ceres is working with insurance companies to advance solutions to climate change. For more information, contact Sharlene Leurig, senior manager of Ceres' Insurance Program at leurig@ceres.org or 617-247-0700 X127.

Ceres leads a national coalition of investors and environmental organizations working with companies to address sustainability challenges, such as global climate change and water scarcity. www.ceres.org

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[i] 2010 NATURAL CATASTROPHE YEAR IN REVIEW, Munich Re, January 10, 2011
http://www.amre.com/webinars/2011_01_natcatreview/munich_re_2010_natcat_review.pdf

[ii] 2011 Already a Record-Setting Year for Federal Disaster Declarations http://www.iii.org/press_releases/2011-already-a-record-setting-year-for-federal-disaster-declarations.html

[iii] "Increase of extreme events in a warming world." By Stefan Rahmstorf and Dim Coumou. Proceedings of the National Academy of Sciences, Vol. 108 No. 43, Oct. 25, 2011.

[iv] http://www.capecodonline.com/apps/pbcs.dll/section?category=SPECIAL09

[v]

[vi] Managing Natural Catastrophe Risk: State Insurance Programs in the United States
Rev Environ Econ Policy (2011) first published online June 7, 2011

[vii] www.zurichna.com/zna/realestate/greenbuildingsinsurancearticle.htm