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Connecticut insurers take on risky challenges of climate change

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Washington -- Whether you believe in climate change, your insurance company is making you pay for it.

The nation's insurers are grappling with their risks in the face of the increasing number of weather-related catastrophes.

"As a major property casualty insurer, we are continually monitoring, anticipating and reacting to changing climate conditions across all of our operations," says a Travelers Insurance statement on climate change.

Insurers are trying to protect themselves from a costly exposure to the devastation caused by extreme weather by lobbying for tougher building codes, persuading their customers to fortify their homes -- and build away from the coast -- drive less and buy hybrids and electric cars. They are also using new technology aimed at predicting future losses that could result from climate change.

But ultimately homeowners and business property owners will pay for the damage through higher premiums and "hollowed out" policies that carry higher deductibles, lower payout limits and more exclusions, said Evan Mills, a staff scientist at the Lawrence Berkley National Laboratory in California.

According to the Connecticut Insurance Department, the average homeowner policy premium in Connecticut has risen 30 percent since 2004. That's lower than the national average of 86 percent. But the department has had 35 requests for rate increases this year, and larger requests are expected when insurers are allowed to factor in last year's weather-related losses.

Weather-related losses have been increasing for years, but when it comes to catastrophes, 2011 was a banner year: Hurricane Irene, blizzards, heat waves, drought and wildfires in the Southwest, flooding along the Mississippi and Missouri rivers, and hundreds of tornados.

Insurers spent $44 billion in claims related to severe weather and suffered massive losses in paying out claims for those catastrophes.

In Connecticut, insurers paid out about $1.50 for every dollar they earned in premiums last year, in large part because of the thousands of claims from Irene, crippling blizzards and October's massive storm, said George Bradner, director of the property and casualty division at the Connecticut Insurance Department.

Bradner sits on the Climate Change and Global Warming Working Group of the National Association of Insurance Commissioners.

The NAIC caused a stir a few years ago by suggesting that insurers be required to fill out annual surveys that asked them how climate change may affect their business. Some insurance companies feared that information might be used in lawsuits or by competitors.

But three states, California, Washington and New York, decided to require the disclosure anyway. In Connecticut, the disclosures are voluntary -- and confidential.

However the NAIC posted the responses of Hartford Insurance to a 2009 survey.

"The Hartford follows closely the evolving scientific literature regarding the potential effects of climate change on the risks we bear and recognizes that climate change may result in increased severity and frequency of weather-related catastrophic events," it said.

Some scientists say global warming is largely man-made, a result of greenhouse gases produced mainly by the burning of fossil fuels and forests. Others, including manufacturers and the owners of power plants who fear new regulations on their emissions, argue that climate change occurs naturally as one of the Earth's cycles. Still others, including GOP presidential candidate Rick Santorum, call global warming a myth devised by environmentalists.

While most insurers are staying out of the political fight over what causes global warming, they acknowledge it exists. And Allstate and some reinsurers -- companies that cover some of insurers' excess risk -- say climate change is here to stay and will likely intensify the frequency and severity of weather-related catastrophes.

"We need a national policy related to climate and weather," said Franklin Nutter of the Reinsurance Association of America at a Capitol Hill news conference earlier this month.

Going green

In addition, the Hartford -- and other insurers -- have gone green, partly to set an example to their customers.

Jay Bruns, vice president for public policy at the Hartford, said his company has reduced the use of paper, encouraged telecommuting and installed electric vehicle-charging stations at its headquarters.

He's proud that Newsweek ranked the Connecticut-based insurer 12th on a listing of the nation's greenest companies last year.

"We've rejiggered the enterprise," Bruns said.

The Hartford, Travelers and other insurers are also employing new methods of "emerging risk management" to try to predict the climatic chaos of global warming over the next few years and the long term.

"You model based on the best scientific evidence you can find," said David Snyder, vice president of the American Insurance Association.

State insurance regulators who have the authority to approve rate hikes traditionally only consider historical claims data. But they are now under pressure to consider what *will* happen because of climate change.

Bradner, of the national insurance commissioners' organization, is sympathetic.

"They need to make sure they are charging the appropriate rate or they'll go out of business," he said.

Peter Kochenburger, executive director of the Insurance Law Center at the University of Connecticut, said it's bad business for insurers to ignore the threat of global warming.

"Global warming is something that can dramatically impact your market," he said. "Not to be on top of it is a matter of bad corporate governance."

The Insurance Law Center hopes to host a conference on global warming in the fall.

But some in the industry say the focus on climate change is overblown.

Robert Hartwig of the Insurance Information Institute said insurers have been sensitive to weather changes "since the beginning of time."

"Insurance companies for centuries have been adjusting their rates because of climate patterns," he said.

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