

Insurance Regulators Mull Climate Change, Katrina (Update1) 2005-09-07 11:59 (New York)

(Adds U.K. environment minister's comment in 23rd paragraph.)

By Kim Chipman

Sept. 7 (Bloomberg) -- U.S. insurance regulators, who were set to gather in New Orleans this week to discuss how climate change and extreme weather events might affect their industry, say Hurricane Katrina made their case for them.

The talk was to be part of the annual National Association of Insurance Commissioners meeting. Investors and former Vice President Al Gore also were to attend. Scientists say human-generated emission of greenhouse gases is causing temperatures to rise, leading to more frequent and larger natural catastrophes.

"New Orleans seemed like a superior place to have this conversation because I'd seen maps showing how the city would no longer be there if we lose our polar ice caps," said Tim Wagner, Nebraska's insurance director and chairman of the insurance association's property and casualty committee. "Little did I envision that the clarity of the issue would hit home in this way."

Katrina struck Louisiana, Mississippi, Alabama and western Florida on Aug. 29, decimating coastal cities and leaving most of New Orleans underwater. Katrina will cause more than \$100 billion in economic losses, said Risk Management Solutions Inc., an industry consultant based in Newark, California.

While a single storm can't be directly linked to climate change, some scientists say rising ocean temperatures lead to more frequent and intense hurricanes.

"There's scientific evidence that global warming is making hurricanes more intense," said Dan Lashof, a senior scientist at the Natural Resources Defense Council in New York.

Kerry Emanuel, a climate professor at the Massachusetts Institute of Technology in Cambridge, wrote in the journal *Nature* last month that hurricane intensity has increased by 50 percent over the past half-century as ocean temperatures have risen.

Impact on Insurers

How fiercer weather and other effects of climate change might

impact insurers was what Wagner had hoped to emphasize at the meeting.

“Some of the projections I've seen would give anyone pause,” he said. “And it's not simply hurricanes. It's droughts, floods and violent hailstorms. As an industry, we need to figure out how to maintain an infrastructure where there can be some kind of stability in the marketplace.”

The Bush administration, which is due to issue a new report on global climate change this year, has questioned the science behind global warming concerns.

Various estimates by groups such as Risk Management and the New York-based Insurance Information Institute show insured losses

from Katrina of \$20 billion to \$35 billion. Hurricane Andrew in 1992 had been the costliest storm, with roughly \$20.8 billion in claims.

Covering Losses

Katrina's devastation might renew debate about how the government can help insurers cover losses from extraordinary disasters. Wagner said most state commissioners back a plan that would allow insurers to build tax-deductible reserves for natural disasters before they strike.

“The central question here is, what are the implications of climate change for insurance?” said Evan Mills, a scientist at the Lawrence Berkeley National Laboratory near San Francisco who specializes in climate and insurance issues. “It won't be to anyone's benefit if insurers become insolvent.”

A report by Mills that looks at how the insurance industry can address risks posed by climate change will be published tomorrow.

While European insurers such as Swiss Re and Munich Re have long spoken out about the risk that climate changes pose to the industry, U.S. counterparts have been more wary.

“It's mostly been a wait and see attitude here,” said Richard Roth, the former chief property and casualty actuary for the California Insurance Department, who is now an insurance consultant in Huntington Beach, California.

Mitigating Risk

That's starting to change, as climate change gets more attention in the U.S., said Gary Guzy, a senior vice president at the brokerage arm of New York-based Marsh & McLennan Cos., the world's largest insurance broker.

"The U.S. insurance industry is coming to realize that global climate change is a significant issue," he said. "The industry needs to be finding ways to help mitigate and reduce the potential risks."

American International Group Inc., the world's biggest insurer, is looking at how to reflect climate change risks in its modeling, said Joe Boren, president of the New York-based firm's environmental arm. It's also considering whether it should invest only in companies "doing something" about climate change.

Some insurance officials, along with an increasing number of energy companies and investors, say climate change also needs more attention in Washington.

Cap Rejected

Since taking office in 2001, President George W. Bush has rejected a mandatory cap on carbon dioxide and other greenhouse gases that scientists say are causing earth's temperatures to rise. Bush also has questioned the science behind the Kyoto Protocol, an international agreement on global-emissions standards that the U.S. refused to join.

"It's very necessary to achieve some coherent policy for addressing climate change and global warming in particular," said Wagner, the Nebraska insurance director. "Ultimately, there is going to have to be a federal cap of some type."

Government officials from countries including Germany and Japan have said the storm underscores the need for the White House to take climate change more seriously.

The U.K.'s environmental minister said today that the planned Bush-led investigation into how Katrina was handled should include a study of possible links to global warming.

"I hope the inquiry will look at the frequency of hurricanes and its link to rising sea temperatures," Elliot Morley said in an interview in London. "We know that rising temperatures may be linked to global warming."

Stephen Johnson, the U.S. Environmental Protection Agency

administrator, said now isn't the time to debate climate change.

"I think it's a real tragedy, the fact that people are trying to link the political issue of climate change to a national disaster," Johnson said in an interview. "We need to be focusing our attention on recovering and keeping people safe down there. Our next task will be to restoring that environment."

Critics

The U.S. is due to publish a report on rising global temperatures this year as part of Bush's 10-year climate-change research program. His administration has said there's no proof that global warming, caused by gases such as carbon dioxide, is causing a change in the weather.

"As a scientist at EPA for almost 25 years, certainly what I have read and what I understand is that there is absolutely no scientific link between climate change and frequency or magnitude of hurricanes in the Gulf or Atlantic area," Johnson said.

--With reporting by Alexander Hanrath in London, Jesse Westerbrook in Washington and Heather Burke in New York. Editors: Bostick, Fireman, Todd, Bostick

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