Climate change broadens scope of risk

By JUDY GREENWALD
Feb. 11, 2008

INDIAN WELLS, Calif.—Climate change and the risk it creates can alter risk management practices by broadening their scope, observers say.

It should also lead to the coordination of risk management on an enterprisewide basis, said Warren Isom, Philadelphia-based senior vp at reinsurance intermediary Willis Re Inc., who spoke at a session on climate change risk implications at the annual American Bankers Assn.'s Insurance Risk Management conference in Indian Wells, Calif., last month.

Mr. Isom pointed to the Geneva-based Intergovernmental Panel on Climate Change's Fourth Assessment report, which was issued in November and included assertions that climate change was linked to human activities.

"Greenhouse gas emissions have increased dramatically" over the past 35 years, he said. And even if emissions were eliminated, the consequences of what has happened so far will still be reflected in the next decades, he said.

The IPCC report provides information on many of the effects of climate change, said Mr. Isom, including increased rainfall, changes in both ocean currents and salinity, changes in wind patterns and shifts in plant and animal habitation.

Furthermore, "there are things we do to make the impact worse," including urbanization, development, land use and population shifts, said Mr. Isom.

For instance, urbanization throughout Europe, including construction in flood plains, exacerbated the problems caused by the February 1995 floods in the Netherlands, said Mr. Isom. "We put ourselves in the path of climate disasters," he said.

The most destructive hurricane to hit the United States was in Miami in September 1926 when "there was not that much there." At that time, the hurricane caused $100 million in damage, which would amount to $157 billion today, he said.

We have also put our primary food sources "where water is scarce," said Mr. Isom. "If the IPCC is correct, water will become increasingly scarce in the future," which reflects on our ability to feed ourselves, Mr. Isom said.

Discussing the challenges created by climate change, Mr. Isom pointed to reports on the topic issued by Boston-based Ceres, a coalition of investors, environmental groups and other public interest organizations that address issues including climate change. Ceres rated banks on their sensitivity to climate change, said he said.

Investors "expect corporations to take strategies" that address the issue of climate change, said Mr. Isom, who noted that a company's response to climate change creates exposure to directors and officers liability.

"It changes the scope of risk management," he said, including the risk associated with the financial institution's physical plant, how they manage their own risk and the effect of climate change on the bank's investment portfolio.

Companies must take "an enterprisewide view of their risk," said Mr. Isom. As companies look at their existing programs, they should ask, "How do they respond to climate?" he said.

The one point that the scientific community is in agreement about is that the greenhouse effect is causing changes in weather patterns, said Joseph L. Boren, chairman and chief executive officer of AIG Environmental, a unit of American International Group Inc. in New York, who also spoke during the session.

If you look at insured property values "it's just staggering," said Mr. Boren. Insured coastal property in Florida and New York totals $1.9 trillion each, while Northeast states' insured coastal exposure totals $3.73 trillion, he said.

A "nightmare scenario" would be a Katrina-type hurricane hitting the New York area. "It would be devastating," he said.

"There's a growing acknowledgement that the impact of climatic changes are likely to be profound," he said. He noted that more than 30 lawsuits have been filed against companies for climate change issues.

He referred to a decision last November, in which the 9th U.S. Circuit Court of Appeals ruled in favor of 11 states and others in litigation brought against the National Highway Safety Administration over the issue of fuel economy standards for light trucks and sport utility vehicles. "The courts are now taking a very close look at this issue," he said.

Mr. Boren said there are now 422 examples of climate-related products and services from 190 insurers, reinsurers, brokers and insurance organizations in 26 countries across all product lines.

"There will be plenty of opportunity for insurance companies to provide new products," Mr. Boren said.

The session was moderated by William F. McAllister, manager vp at PNC Insurance, a member of the Pittsburgh-based PNC Financial Services Group.
