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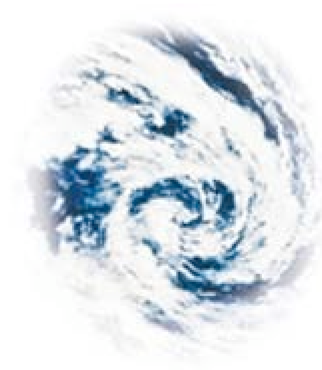
Higher insurance premiums
Blame climate change?



Coming soon to your mailbox: higher bills for home and auto insurance, larger deductibles, and more restrictions, courtesy of global climate change. That's the conclusion of a recent report commissioned by Ceres, a coalition of institutional investors and environmental groups in the U.S. and Europe. "Insurance as we know it is threatened by a perfect storm of rising weather events," says Mindy Lubber, president of Ceres.

The report found that insured losses from weather-related disasters in the U.S. have increased 15-fold in the last 30 years, more than at any other time on record. Losses from natural disasters have outpaced population growth and inflation, so they can't be attributed solely to people who have placed themselves and their property in harm's way. International climate experts envision more, and more-severe disturbances, including windstorms, hailstorms, and droughts.

You may soon feel the effect, if you haven't already. The report predicts that insurance will become less available and less affordable as the costs of disasters challenge insurers' ability to pay. (Hurricanes Dennis, Katrina, Rita, and Wilma caused an estimated $55 billion to $75 billion in insured property losses, according to Robert Hartwig, chief economist of the Insurance Information Institute, an industry research and public-relations group.) The gradual transfer of risk back to consumers and governments in the form of higher premiums, higher deductibles, and government-backed high-risk pools is likely, the report said. Insurance shortages also may occur: After 2004's hurricane season, seven insurers stopped writing new policies in Florida. In the long run, if private insurers can't cover the risks and operate profitably, the government may have to help, as it does with the National Flood Insurance Program, and that might boost taxes.

Swiss Re and some other European re-insurers (they insure insurance companies) regard climate change as a fact and are incorporating it into risk analyses used to design policies and set premiums. They're already planning to hike some premiums in 2006, which may show up in your property-insurance bills.

Yet U.S.-based insurers have been slow to acknowledge climate change. In December 2005, 20 institutional investors representing $800 billion in assets sent a letter urging 30 of the largest publicly held insurance companies in North America to disclose their financial exposure from climate change and steps they're taking to reduce it. The investors included two of the nation's largest public pension funds, as well as state treasurers and comptrollers from eight states and New York City. The investors are concerned that climate change could affect the value of stocks and bonds issued by insurers and held by pension funds.

The Ceres report was to be discussed in fall 2005 at a conference in New Orleans. Katrina foiled that plan.

See our Hurricane Recovery & Disaster Guide for practical advice.