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Insurers, Other Businesses Planning Ahead For Violent Climate Change

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Insurers, other businesses planning ahead for violent climate change

By Brendan M. Case

Political debate over global climate change rages on, but for some businesses, the issue is settled: Increasingly violent storms are here to stay, along with a host of other weather-induced changes.

Socked by two major hurricanes in a month, the global insurance industry warns that severe weather fueled by climate change will generate additional losses worth tens of billions of dollars in coming decades.

Some leading U.S. businesses are taking steps to catch up with their European counterparts, slashing emissions of greenhouse gases such as carbon dioxide, which scientists say contributes to global warming.

"Climate change is occurring," said Chris Walker, managing director of the sustainable business development unit at Swiss Reinsurance Co., a global reinsurance giant. "Major corporations believe it."

A few huge institutional funds _ including the California Public Employees Retirement System, or CalPERS _ are prodding executives to do far more to address the business implications of climate change.

Once the realm of doomsayers and specialists, climate concerns have moved to center stage since Hurricane Katrina's record devastation and Rita's pounding of the Gulf coast just weeks later.

"It's a terrible pun, but it certainly has had a watershed effect," said Tim Wagner, Nebraska's top insurance regulator. "Many will start asking the question, 'What's going on?'"

Corporate America still has plenty of high-profile doubters of the human impact on global warming, including Exxon Mobil Corp.

Skeptics question everything from the blame humans deserve for the recent build-up of greenhouse gases to whether slashing emissions would hog-tie the economy.

But big players in other industries _ including General Electric Co., Ford Motor Co. and International Business Machines Corp. _ all now see business implications in climate change.

Seventeen named tropical storms have churned through the Atlantic this year, making 2005 one of the most active on record, and there's still more than a month to go in hurricane season.

A sign of climate change?

No. The worldwide frequency of major storms is stable or even falling, at about 90 per year, plus or minus 10 storms, scientists say.

The Atlantic Ocean goes through multidecade cycles of hurricane activity, according to researchers. The Atlantic is in a time of increased activity that will bring many more storms in coming years.

"Since 1995, it's been mostly active, and this year is a clear example of that," said Phil Klotzbach, a hurricane researcher at Colorado State University's Department of Atmospheric Science. But there is some evidence that hurricanes are becoming more powerful as sea surface temperatures rise.

Researchers from the Georgia Institute of Technology and the National Center for Atmospheric Research found that the worldwide number of Category 4 and 5 hurricanes, the most powerful kind, has nearly doubled over the last 35 years.

Kerry Emanuel, a hurricane expert at the Massachusetts Institute of Technology, found that hurricane activity worldwide showed an upswing in both storm duration and maximum wind speed.

"The large upswing in the last decade is unprecedented, and probably reflects the effect of global warming," he wrote.

More powerful hurricanes will generate greater losses, insurers say.

If carbon emissions are left unchecked, the annual cost of major storms worldwide could increase by as much as two-thirds, according to a study released in June by the Association of British Insurers.

That would take the total bill in a typical year to \$27 billion in today's dollars. Flooding damages would also skyrocket, along with the cost of extreme, atypical events like Hurricane Katrina.

According to a separate study released in September by Ceres, a Boston-based coalition of institutional investors and environmental groups, insured and total property losses are already rising more quickly than premiums, population and economic growth.

Climate change would accelerate that trend.

"It's unclear how the insurance industry is going to survive in the sort of world that we're expecting," said Andrew Logan, an insurance analyst with Ceres.

"For obvious reasons, people really focus on the huge catastrophic events like hurricanes and earthquakes," he said. "But the damage from smaller events is also expected to rise, from hailstorms to forest fires to lightning strikes to floods to heat waves to droughts."

Some experts question the insurance industry's newfound concern with climate change. The last thing that consumers need is for insurers to find another excuse to hike premiums and restrict coverage, they say.

"The concern is that the insurers might actually use the climate issue to boost their current strategy, which is to raise rates and slash coverage," said Birny Birnbaum, a former associate commissioner with the Texas Department of Insurance, who is now with the Center for Economic Justice in Austin.

Yet that's exactly what could happen if climate change grows more pronounced, others say. A fast-

changing climate would throw off the historical models that insurers use to calculate the risk of extending a given policy.

One of the greatest risks comes from rising sea levels, which are expected to rise by one foot to three feet over the next century because of global warming.

That would make coastal areas more vulnerable to the kind of flooding that devastated New Orleans, said Mike Tidwell, the author of "Bayou Farewell: The Rich Life and Tragic Death of Louisiana's Cajun Coast."

Rising concern over global warming is fueling action throughout the world economy.

BP PLC, the British oil major, has been reducing its greenhouse gas emissions since the late 1990s.

GE Chief Executive Jeffrey Immelt said this summer that he would accept "meaningful common standards" on greenhouse gas emissions worldwide. Complying with global rules would be easier than meeting a patchwork of separate standards, he said.

Meanwhile, some U.S. companies have voluntarily joined the Chicago Climate Exchange, in which traders can buy and sell greenhouse gas emissions credits.

In theory, that gives them a financial incentive to cut emissions. Members of the exchange include Ford, IBM, Motorola Inc., several power companies, a steel company, universities and city governments.

Such voluntary activities could be replaced by mandatory emissions requirements on carbon dioxide and other gases in the not-so-distant future, analysts said.

Businesses that address climate change will find support from a small but growing number of investors.

Ignoring the need to adapt to a world going through climate change amounts to a business liability for many companies, said Winston Hickox, special adviser for environmental initiatives at CalPERS, the largest U.S. public pension fund, with \$195 billion under management.

"On very rare occasions, institutional investors do look ahead and see forces or influences that could create much greater risk or opportunity," Hickox said. "Climate change is one of those."

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