Future Financial Climate

Global warming could cause serious problems for the insurance industry, and if it does, the effects will reverberate through the financial world.

By Richard Hoops

Global warming might make some natural disasters like storms and heat waves more common, and the insurance industry might have to pay for a lot of the damage. The cost of paying the claims could reverberate through the world of finance.

Evan Mills is an expert in climate change risk analysis with the U.S. Department of Energy. He says major hits to the insurance industry can be felt in financial markets.

"Insurers are, in many cases, the largest single investor or participant in mutual funds and stocks and bonds -- very large holders of real estate, as well -- and so if they suffer adverse consequences, then they can drag down the market in some sense along with them."

If insurance companies are hit by more natural disasters, Mills says they might have to sell assets to cover expenses or stay solvent. That in turn could disrupt prices on the stock market.

Mills says the core business of U.S. insurance -- the collecting of premiums and the paying of claims -- is actually unprofitable in most years. He says insurance companies get their financial cushion from returns on invested reserves.

"For that reason, if you have a bad year in the investment markets, it’s of material concern to the insurers because they count on those gains to offset their catastrophic and other loss payouts. And the next step in the thinking is that if you have a vulnerability of financial markets to extreme weather -- which you do -- you can have a simultaneous hit in both directions, in both sides of the books if you will, for the insurers."

Mills says connections between insurance and finance have been seen after disasters such as earthquakes and hurricanes. He says we might see them more often as we move into a warmer world.

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Additional Information:


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