Warming

By Gilbert Chan
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When it comes to assessing and catch-up with their European counterparts, according to a study by insurer Aon and the World Wildlife Fund.

American carriers have been slow to recognize Earth's changing climate and develop new forecasting tools to predict the risks and potential economic losses arising from increased greenhouse gas emissions, concludes the report released last week. It provides another wake-up call for an industry that has suffered massive losses from hurricanes, wildfires and floods because of extreme weather in the past two decades.

Institutional investor groups are pushing for improved disclosure. Last week, for example, the influential California Public Employees' Retirement System and eight other large investors began sending letters to chief executives of the Standard & Poor's 500 companies to embrace international climate risk disclosure guidelines.

A majority of scientists believe rising temperatures are likely to heighten the severity of wildfires, floods, hurricanes and other extreme weather around the globe. The new study forecasts the damage could reach $2 trillion worldwide by 2050.

"Climate change represents an ever-increasing risk to the insurance industry and far too great a risk to ignore. This has become a fact of life," Clem Booth, a director of Germany-based Allianz AG, said during a conference call from New York.

The climate change and insurance study examined the scientific evidence, economic effect on U.S. insurers and how the industry is responding to global warming. The study notes that the losses from previous natural disasters are dramatic: More than five dozen events ranging from wildfires to drought have cost $500 billion in damage from 1980 to 2005. Insurance carriers grappled with insured losses averaging $9.2 billion a year during the 1990s. The hurricanes in 2004 and 2005 cost insurers up to $83 billion in losses.

As a result, some insurers have responded by raising rates or abandoning risky markets, which puts pressure on taxpayer-backed state insurance pools to provide coverage to businesses and consumers.

"We need to turn that around. Insurers exiting high-risk areas is not a solution," Booth said.

The report said U.S. insurers need to follow their European counterparts and develop new methods to calculate future risks from global warming, including the effect of rising sea levels on coastal communities and wildfires to valuable watershed areas.

"The European (companies) have been a little more out front with it because of their governments," said David Unnewehr, a researcher for the American Insurance Association in Washington.

"It's a complex issue," Unnewehr said. "Because of the hurricane experience the last couple of years and the wildfires in California, people are looking on those things and asking: 'Is there a climate connection?'" 

Because of expected changes in climate, the study's authors say insurers need to go beyond the traditional risk-forecasting models that rely on historical weather data. They need to plug in the outlook for climate change.

"We're looking in the rearview mirror to try to predict the future," said Miranda Anderson, co-author of the report.

One recommendation calls for insurers to become more transparent to shareholders and disclose the companies' financial risk from climate change as well as outline business opportunities. Booth said only 15 percent of U.S. carriers do so.
The Allianz report also urged insurers and regulators to work out a plan to allow insurers to adjust homeowners’ and flood insurance rates because of climate change issues.