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Global warming called insurance peril

State regulators and scientists warn of huge losses from climate shifts.

By Gilbert Chan -- Bee Staff Writer

Published 2:15 am PDT Friday, September 9, 2005

Consumers are increasingly paying a steep price for wildfires, hurricanes and other catastrophic weather as insurers grapple with a 17-fold increase in financial losses over the past three decades, according to a study released Thursday.

In the wake of the growing losses being racked up from Hurricane Katrina, researchers warned that global climate change could threaten the financial health of the insurance industry and pocketbooks of consumers.

At the same time, state regulators and institutional investors are urging the insurance industry to examine the financial risks posed by global warming.

"We're looking at about \$80 billion a year in economic losses from weather-related natural disasters. About a quarter of that is insurance (losses). There is an expectation that consumers absorb a larger share of the loss," said Evan Mills, a scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory and lead author of the study "Availability and Affordability of Insurance Under Climate Change - A Growing Challenge for the U.S."

The report, commissioned by Ceres, a Boston-based investor and environmental coalition, found catastrophic losses for the insurance industry in the United States soared from \$600 million in 1971 to \$27.5 billion in 2004. The total doesn't account for smaller weather-related losses of under \$25 million.

Adjusted for inflation, the total losses grew nearly 17-fold from \$1.5 billion to \$25 billion over the past three decades. The losses averaged \$4.5 billion a year in the 1980s and \$12 billion in the '90s.

For consumers, the study said, the consequences have been profound:

* Texas homeowners saw premiums double after water-related mold claims surged to \$3 billion in 2002. Dozens of insurers stopped writing or renewing homeowners policies.

* After last year's wave of hurricanes, seven private insurers stopped writing new homeowners policies in Florida. A new state-run insurer is now the second largest provider in Florida.

* Crop insurance losses have increased 10-fold in recent decades.

* Damage from wildfires in the West could quadruple in the coming years because of stronger winds and warmer temperatures. Already, wildfire damage is double today compared to the 1970s.

* In addition to raising premiums, insurers are capping losses and raising deductibles for coverage such as flood damage. Insurers are adding more exclusions like mold damage.

An insurance industry spokesman said insurers are spreading the risk to keep premiums affordable and carriers solvent.

"It does no good to offer unlimited coverage (and) by doing that bankrupt the industry," said David Snyder, a vice president of the American Insurance Association.

Snyder said insurers are focused on improving measures to prevent damage and losses. The industry is advocating changes to building codes or improved government disaster planning.

"The debate over global warming is misplaced," Snyder said. "The science is somewhat contradictory over the ... issue."

But Mills and other scientists argue climate change could magnify the insurance losses in the future.

"We are continually being caught by surprise by (weather-related) events. Very few insurers have examined this," Mills said during a telephone news conference Thursday.

State regulators said insurers can't afford to ignore the risks from warming global temperatures.

"Insurers need to be able to anticipate losses. If there continue to be surprising losses, eventually we are going to have solvency issues," said Joel Ario, Oregon's state insurance chief and vice president of the National Association of Insurance Commissioners.

In recent months, institutional investors such as the California State Teachers' Retirement System have put pressure on insurers and other other corporations to take a serious look at the economics of global warming.

"The financial losses are growing," said Jack Ehn, chief executive of CalSTRS, the nation's third largest public pension fund. "Investors are increasingly concerned about the risks posed by climate change."

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