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Insurers embrace the winds of change

Insurers respond to the growing risk of weather-related losses.

Photo: *Rob Banks*

By Peter Weekes and Jacinta Hannaford
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DOZENS of new global-warming related insurance policies, such as cheaper premiums for hybrid cars, are about to become available as insurers respond to the growing risk of weather-related losses.

Consumers will soon be able to choose from a slew of products that encourage them to cut their greenhouse emissions. A recent report by Ceres, a US-based coalition of investors, identified at least 190 greenhouse policies that are now in the pipeline.

In Australia, Insurance Australia Group, RACV, Suncorp and GIO are among the insurers developing new policies.

"We realise climate change has the potential to cause significant volatility in weather conditions and that means more of our premiums get paid out every year on those events," said Lyndell Fraser, GIO's head of personal insurance.

"Obviously we want to keep people insured and keep the cost down. If the community is able to take steps that actually help in improving the long-term use of resources and weather events then that's a very good step for our industry and our nation."

The insurance industry was the first sector to realise the possible financial impact of climate change.

In 2004, Insurance Australia Group developed a partnership with local councils, including East Gippsland Shire, to determine the most appropriate flood planning levels amid predictions of future sea level rises and storm surges.

The reason is simple. While some US insurers have been forced into bankruptcy after Hurricane Katrina struck New Orleans, FM Global was one of the most profitable that year.

The company says this was because 500 locations it insured had implemented all of its hurricane loss-prevention engineering proposals.

While global warming can be blamed for any one storm, many insurers define history as pre- and post-2005 - the year when insured weather-related catastrophe losses topped $US80 billion worldwide (equivalent to four September 11s) out of total economic losses of $US216 billion.

Projections for the coming years are even worse.

An analysis linking climate models with insurance loss cited by the Ceres report shows a 44 per cent annual increase in winter storm economic losses in Europe due to more frequent and intense storms.

In Australia, the CSIRO is predicting more and harsher bushfires, heatwaves and coastal storm surges plus a rise in the sea level.

"Climate change poses unprecedented risks to the insurance industry, but it also creates vast opportunities for new products and services to help consumers and businesses reduce their losses, while also reducing the pollution causing global warming," said Ceres president Mindy Lubber.

"We've seen encouraging progress from big-name insurers and brokers since (New Orleans') devastating hurricanes, but many more creative services will be needed as we confront what is perhaps the biggest threat in the industry's history."

Insurance is the world's largest industry, with annual revenues from premiums of more than $US3.5 trillion and another trillion in investment income. Conversely, it is the industry which has the most to lose if it has to start paying out large claims, or if people drop insurance once premiums start to rise to cover the higher level of payouts.