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Insurance Insecurities

XM Satellite Radio: 1/21/06

The Osgood File (CBS Radio Network): 2/27/03, 5/20/04, 7/14/05

Heart of America Radio reports on how the insurance industry is being affected by global warming.

The insurance industry says they are being hit first and hardest by global climate change. As climate change continues to disrupt the environment, natural disasters are on the rise. The UN Environment Program reports that natural disasters are doubling every decade and over the last 15 years, the damage adds up to more than \$1 trillion. The insurance industry is bearing the brunt – paying out more than they ever have in history – and is now looking for ways to lessen the burden. Some European companies are even trying to encourage their clients to change their ways and be more environmentally conscious to help mitigate the effects of climate change.

Forest fires raged across the west this summer, torching hundreds of thousands of acres of rangeland. Last summer, Europe was ravaged by floods that caused \$5 billion in damages. And in just the past month, Hurricane Isabel swept through North Carolina, leaving homes and businesses destroyed. If it weren't for insurance, many homeowners and entrepreneurs would be bankrupt.

But who will insure the insurance industry? Insurance experts like Gerry Lemcke at Swiss Re say that natural disasters are on the rise due to global warming, and that catastrophic events could bankrupt the industry in the coming years. Scientists from the UN Environment Programme (UNEP) estimate that weather-related claims may soon top \$150 billion a year, the vast majority of which they attribute to global climate change. If the industry is to survive, they say, change needs to be made.

While the Bush administration only last year confirmed that global warming is a reality, insurance companies have been dealing with the effects of climate change for years. "Our company believes global warming is a fact. We have to take it very seriously," says Gerry Lemcke, deputy head of catastrophe perils for the European-based Swiss Re, one of the world's largest insurance companies. "Typically, when you talk about global warming, people tend to think in terms of big global catastrophes. If you heat up the earth, you can expect to see more of those events." That means more and frequent floods, hurricanes, and forest fires. Lemcke says that since 1987, annual losses from natural disasters have averaged about \$15 billion each year. But last year, losses shot up to \$70 billion, due to flooding and other severe weather.

So what are insurance companies doing to protect themselves from bankruptcy? The answer depends in large part on whether the company is American or European. In America, companies are likely to raise premiums for customers in areas vulnerable to harsh weather, says Evan Mills, a scientist and insurance expert with Lawrence Berkeley National Labs. That's why many insurance companies dropped policies and raised premiums for homes and businesses on the Florida coast right after Hurricane Andrew blew through in 1992, according to the *New York Times*.

But European companies take a different approach, says Mills. Instead of just responding to

climate change, they are more likely to try to prevent it. "It's one thing to say if losses go up we'll raise the premiums – that's an old school response," Mills says. A better approach, he says, is for the industry – one of the largest in the world – to use its clout to try to stop global warming in the first place.

One way to do that, say a growing number of experts, is for insurance agencies to invest the money they collect from their customers to help the environment. According to Mills, a Norwegian company called Storebrand recently created an environmental mutual fund that invests only in companies that pass strict tests for pollution, resources use, and environmental management. "Insurers could also be involved with better forest management," says Mills, since insurance companies hold thousands of acres of real estate. "A lot of the terrible floods in Honduras from hurricane Mitch were due to deforestation. Doing the right thing in the forest would reduce their vulnerability" by slowing down global warming.

That's the hope of Lemcke and his colleagues at Swiss Re. The company recently pledged to reduce energy use by 10-30% in its buildings and has adopted environmental criteria for purchasing environmentally friendly office products and equipment. It's small steps like these, they say, that will eventually help stop global warming.

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[Swiss Re](#)

[The Lawrence Berkeley National Laboratory](#) has an insurance loss prevention program.

[The US Department of Energy](#) has an article describing the insurance industry's interest in alternative energy sources.

[The United Nations Environment Programme](#) is an international organization that provides leadership on environmental issues.

[The Intergovernmental Panel on Climate Change](#) reviews scientific and economic information on climate change.

[US Global Change Research Program](#) studies greenhouse gases, monitors and models climate change, and researches solutions to global warming.

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