



Climate Change and Insurance

Why Bother

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The Geneva Association

- ~~International Association for the Study of Insurance Economics~~
- Founded in 1973 in Geneva, today formed by a maximum of 90 CEOs from the most important insurance companies in the world
- Think-tank for the global insurance industry, voice on insurance and risk management issues, and partner to international institutions
 - Research the growing importance of insurance activities world-wide in all sectors of the economy
 - Identify fundamental trends and strategic issues linked to insurance
 - Develop and encourage initiatives concerning the evolution - in economic and cultural terms - of insurance, risk management and the notion of uncertainty in the modern economy
 - Organisation, co-organisation and sponsoring of conferences, seminars and lectures
 - Publication of several newsletters, the Geneva Papers and special books/reports



Climate Change and Insurance: Why Bother?

The starting point of our thinking:

- Climate change is one of the greatest challenges that society faces today

Why?

- It is a slowly developing menace with great momentum and extreme consequences
 - It is difficult to comprehend and complex to track
 - Its onset is slow and thus it often triggers —“wait-and-see” reactions
 - Its consequences are difficult to maybe even impossible to reverse
 - The value of lives, livelihoods and assets at stake are enormous
 - It defies national boundaries and thrives on the —“tragedy of the commons” (and there are some —“climate change winners” as well who are blocking)



Climate Change and Insurance: Why Bother?

But some experts insist man-made climate change is bogus!

- This should not stop us from studying the issue and preparing for some extremely negative (and costly!) scenarios
 - Climate doubters are a minority among climate scientists
 - The Intergovernmental Panel on Climate Change (IPCC) has produced documents that reflect a global consensus about the most widely accepted research and its conclusions
 - But even if the IPCC might not get it completely right...
 - ...we need to be ready and engage pro-actively!
 - Proper risk management demands that we are not only ready for the most likely scenario (which actually is climate change) but also for other threatening scenarios

Consequently:

- We need to research, understand and learn
- We ought to adapt, prevent and mitigate



Climate Change and Insurance: The Global Industry Reaction

- For the insurance industry the challenges stemming from climate change create new risks as well as opportunities
- That is why The Geneva Association members at the 2008 General Assembly in Hamilton, Bermuda, decided to launch a new research project — Climate Change and its Economic Impact on Insurance (CC+I)
- A special international working group (CC+I WG) was established to study links between climate change and insurance as well as to coordinate the project development among leading insurers
 - The CC+I WG currently consists of 24 experts, from Geneva Association member companies and from internationally renowned academic and research institutions.
 - Co-chaired by Kunio Ishihara, Chairman, Tokio Marine & Nichido Fire Insurance Co. and Michael Butt, Chairman of Axis Capital Holdings.



Climate Change and Insurance Project: Main Objectives

The main objectives of the CC+I research project are to identify and analyse:

- issues that are of specific relevance to the insurance industry, such as the likely range of future claims costs, new business opportunities and scenario testing
- external challenges to be addressed at the political, educational and social levels, such as the role of government-specific provisions concerning, e.g. legislating and imposing building codes, zoning restrictions, etc.
- the frontier between risks and opportunities from extreme weather events, which are sudden and accidental and thus insurable, and those from climate change that are gradual and foreseeable and thus mostly uninsurable

For 2011 an additional workstream has been added:

- The interaction between climate change and environmental and other liability issues for insurance

But ultimately The Geneva Association wants to convince governments and insurers that climate change requires proper risk management and an adequate response that is in line with the size of the threat



The Kyoto Statement

In May 2009, more than 50 CEOs from the world's largest insurance companies signed the Kyoto Statement of The Geneva Association. They want:

- to help counter climate risks through active cooperation and the use of sustainable practices
- to work closely with policymakers on communicating to our customers their climate risk levels, possible strategies of mitigation and adaptation, and in quantifying the financial benefits of those strategies
- to provide innovative solutions for climate risk issues
- policymakers to collect robust data and make it freely available to allow risk assessment and to facilitate efficient solutions with risk based premiums.
- to encourage political processes to work towards a better understanding of the potential costs of climate change and the advantages of market based solutions

“The prospect of extreme climate change and its potentially devastating economic and social consequences are of great concern to the insurance industry.”

Climate Change – the Dark Side

Pestilence, famine, war and death?

Will climate change let lose the four horsemen of the apocalypse?

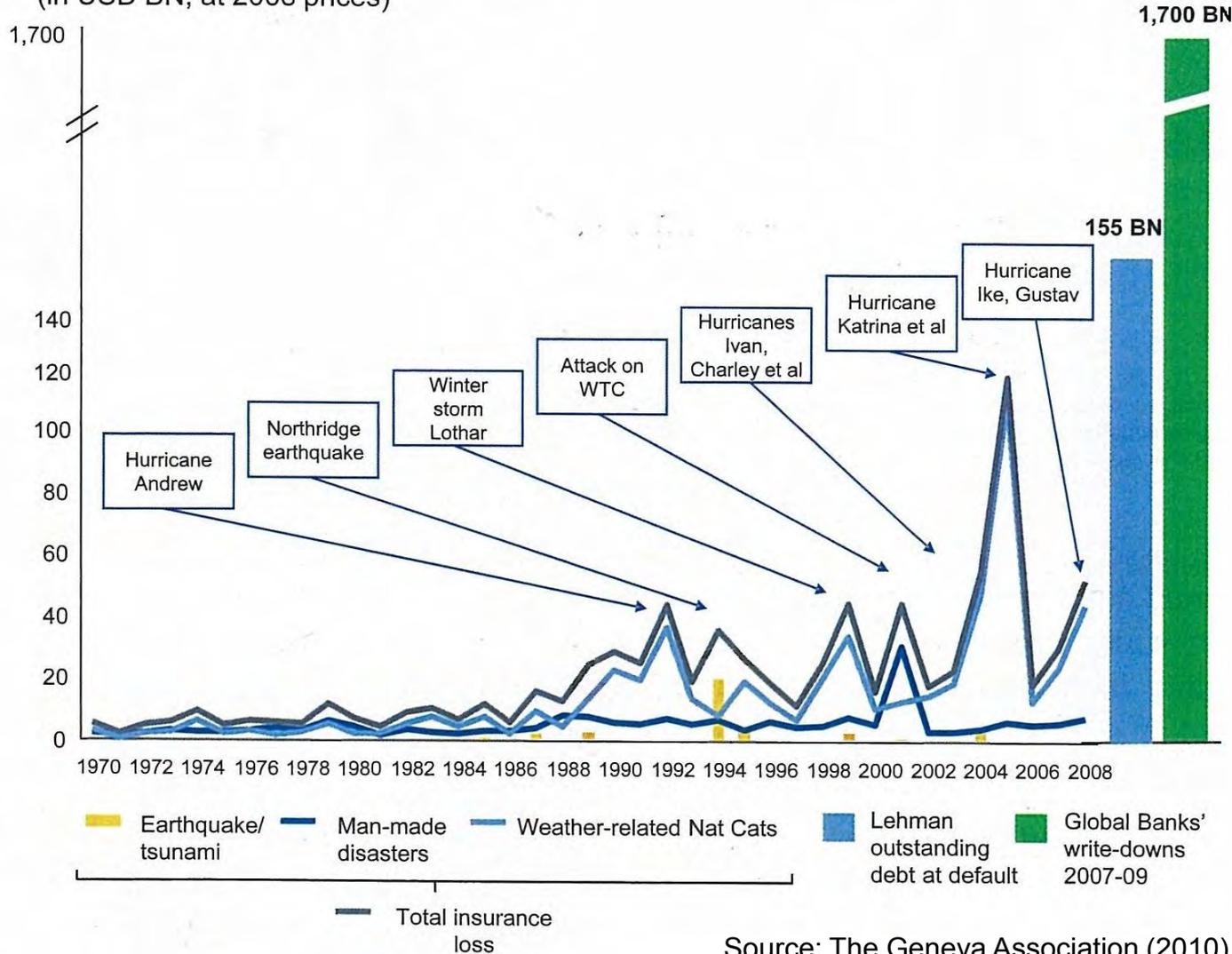


The UK's Stern Report estimates annual costs of achieving stabilisation between 500 and 550ppm CO₂e are around 1% of global GDP, i.e. **~600 bn US\$**, *–if we start to take strong action now”*.

This was in 2006...

Our man-made losses are dwarfing nature... as far as insured events are concerned

Insured catastrophe losses 1970-2008
(in USD BN, at 2008 prices)



Global banks' write-downs 2007-09 were **17 times** higher than the most expensive year for insurance (2005)

...but we only capture the tip of the iceberg

Insured losses
(easily identified)



**current
business**

Total losses
(difficult to measure)

**(Lost)
Opportunity**

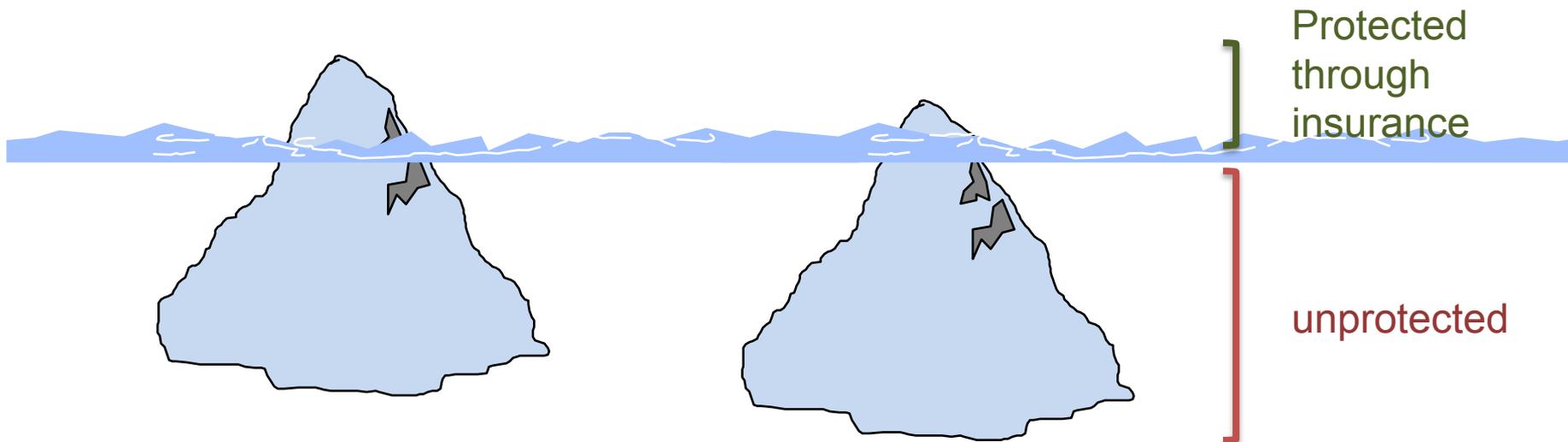
The insurance industry needs to become :

- a central expertise and reference point for tackling climate risks
- a pro-active partner for governments and global bodies

...and especially emerging countries need better solutions to protect their citizens

Developed countries

Emerging countries



- If individuals do not (cannot) protect themselves, it will fall to the state to help them out
- functioning insurance markets can play an important role

Monitoring the Change

Ten steps to climate change excellence:

1. Develop and publish an —economic impact of climate change” policy
2. Prepare an action programme
3. Organise and educate staff
4. Allocate adequate resources
5. Invest in science and technology to reduce the —economic impact of climate change”
6. Educate and train stakeholders
7. Monitor, audit and report insurance industry greenhouse gas emissions
8. Monitor the evolution of the climate change agenda
9. Contribute to climate change programmes
10. Help build bridges between the various interests

In the public arena:

- having national CROs is a significant step in the right direction
- regular close consultations with insurers & other experts are needed



Climate Change as a Business Driver

Fully understanding the economic impact of climate change will enable the insurance industry to better:

- manage its own risk exposure through mitigation and adaptation measures
- exploit new opportunities in underwriting and sustainable investments
- help its clients to mitigate risks and reduce losses through providing its knowledge
- help governments introduce the right framework for private markets to function efficiently, allowing clients to transfer risk to those parties that can bear them
- reduce its own contributions to climate change, particularly CO2 emissions, in daily operations
- create a line of defence against unwarranted future claims where clients or governments should have known better

There is new business out there that can:

- help economies become more resilient and
- help the industry grow



Congratulations Asia Insurance Review!!!!

***20 years of successful
operations***





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