

An Insurance Industry Perspective On Climate Change

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I am pleased to participate in this meeting regarding Global Warming, bringing to reality a needed dialogue about Climate Change and its effects on insurers. These discussions serve a number of worthwhile purposes. They prompt us to ponder and weigh issues we might otherwise choose to ignore. They confront us with points of view we might not otherwise investigate. This Conference provides an excellent stepping-off point, for the parties to build bridges of confidence and trust, upon which understandings can be formulated and future actions initiated.

Let me tell you where I'm coming from in all this. I am with the Institute for Business and Home Safety in Boston. We are an initiative of the insurance industry to reduce deaths, injuries, property damage, economic losses and human suffering caused by natural disasters. The "natural hazards" I am referring to are the windstorms, including hurricanes, earthquakes, floods, hailstorms and wildfires that cause untold damage, harm so many people and place economic burdens on all segments of society. In New England and northern New York, we face all of these perils.

We at the Institute are trying to take the losses—the claims—out of the insurance system in advance of a catastrophe. Why and how do we do that?

Because of the growing number of people living in harms way; that is, along the Atlantic, Gulf and Pacific Coasts; along the Nation's river; over fault lines; in the path of tornadoes, the potential for deaths and injuries is greatly increased. Further, the value of the commercial and residential structures needed to accommodate the people and businesses already in harm's way has grown in leaps and bounds.

Current estimates are that approximately one-half of the nation's population lives in coastal counties. Of particular concern are, according to a 1994 Report of the U.S. Bureau of the Census, the increasing population in those counties located in hurricane-prone areas. Projections indicate that by the year 2010, more than 73 million people will live in

these areas. In the 1970's and 1980's, almost half of all new construction in the country took place in coastal areas (includes coast of the Great Lakes). There have been more expensive properties put in the paths of perils.

The dollar value of residential and commercial structures in the first tier of coastal counties along the Atlantic and Gulf Coasts, a band of real estate approximately fifty miles wide, as of 1993 was \$3.15 trillion. And that represented an increase of 69% over 1988.

Adding to the woes of insurers is the storm surge exposure which places inhabitants and properties at greater risk. Consider that the highest point in Florida is only 53 feet above sea level and all of the Florida Keys are less than 10 feet above sea level. Further, New Orleans is below sea level and the barrier islands off the Texas and North Carolina Coasts are highly vulnerable to the ravages of the ocean and storm surge. In Rhode Island and southeastern Massachusetts, the shoreline erodes with severe storm surge.

It should be apparent that in a society which views insurance as an entitlement and virtually mandates coverage for all, that lacking rate adequacy, and in the presence of the extreme event, insurers teeter at the edge of financial collapse. By removing the losses from the system, the insurer's risk of insolvency is reduced, policyholders are indemnified and the government and taxpayers are spared the burdens that would accompany uncovered and uninsured losses. Simply stated, we have a win-win-win situation for all through mitigation!

How do we (IBHS) do that? We do it by vigorously working in the following five areas:

1. Public Outreach
2. Community Land Use
3. Construction of New Buildings
4. Retrofitting of Existing Structures
5. Collection, Analysis and Dissemination of Information

By working to reach out to the public, we ensure that all stakeholders are aware of natural hazards, understand the associated risks, know how to

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reduce these risks, and take action to mitigate the level of risk to which they are exposed. The major components of this program are public relations, education and articulation of response and recovery issues.

By working with community land use, we will encourage responsible decisions about the density, type, and location of structures and create incentives to reduce development in high risk areas subject to natural hazards.

By working for stronger building codes we assist in ensuring that all new structures will be designed, engineered and constructed using up-to-date techniques, and materials.

In its efforts to secure stronger structural building codes, IBHS will, where practical, lend its support to energy efficiency in the building codes as a part of its ongoing efforts to construct lower-risk buildings. We also believe that energy efficiency in building codes is cost-effective in its own right. That means that even if climate change does not prove to be as great a risk as some predict, homeowners and the economy will be better off with improved building codes.

By promoting the retrofitting of existing structures we will participate in the reduction of potential deaths, injuries and property damage.

We work at mitigating losses because, as previously stated, it is the only way the private insurance system can remain viable and sound over the long term. Insurers do not have bottomless pockets to pay unlimited claims caused by natural hazards year after year. growing world population and expanding economies.

Data compiled for 1996 by Munich Reinsurance discloses that the drum beat of natural catastrophes and the accompanying financial drain continues. According to Munich Re, in America, there were: 195 (earthquake, windstorm, flooding and other type) events. Or 32% of the events worldwide \$21.3 billion in economic loss, 35% of the economic loss worldwide; and \$7.5 billion in insured loss, or 81% of the worldwide insured loss. This data clearly reveals why U.S. insurers have a "stake" in the solution to the problems under discussion. We cannot get the job done by acting alone. We have to work with all the other stakeholders. That is essential.

The issues being discussed are of importance to all of us. Climate and climate change are issues that touch all of us. Insurers do not have the scientific knowledge and/or resources to address them and must leave this study and research to meteorolo-

gists and climatologists. Further, since insurers deal with the effects of weather events, they are of the opinion that the activities initiated by IBHS and described earlier in this presentation are, at this juncture, adequate to reduce potential deaths, injuries, economic loss and property damage.

In the remainder of this paper, I will offer, for your consideration, some specific thoughts regarding insurers and climate change.

Some would ask: "Why aren't property-casualty insurers more interested in climate changes?" **They are interested!** Insurers recognize that they cannot eliminate the adverse weather. The real question therefore becomes "**What can be done to lessen the number of deaths, injuries, property damage and economic loss which these natural hazard events may cause?**"

As a matter of course, insurers must respond to these factors regardless of the magnitude of the uncertainty. Why? Because of **vulnerability**. Further, insurers must make prudent judgments regarding the probability of future events and their financial consequences such that the system can compensate policy-holders, adapt, and endure.

Insurers recognize another impact factor—climate change. To be sure, there is a degree of uncertainty associated with climate change. Yet, they are concerned by the mounting evidence which suggests that a change in the world climate is occurring and that perhaps this change may be affected by human behavior and they take note of research which suggests an increase in the frequency and intensity of severe weather. They also are attentive to the accompanying predictions of sea level rise and the impact this would have on business written in and for properties in coastal counties.

We in the insurance sector must become more knowledgeable about, and inquisitive of, climate issues. Insurance practitioners must become more knowledgeable about atmospheric science so that they effectively discharge their responsibilities; so that they raise pertinent questions; so that they know when loss attributable to climate is a certainty.

At the same time, insurers also acknowledge the pervasiveness of the scientific uncertainty surrounding climate change. This uncertainty, however, does not relieve them of their responsibility to continue to protect people and their possessions. Nor does it preclude this complex system from positioning itself better to cope with the broad range of possible changes and mitigate potentially devastating outcomes. They must continue to make prudent judgments in order to miti-

gate future potential loss and to do so, they must incorporate climate change as an impact factor.

Insurers' responsibilities do not oblige them to engage in the scientific debates, as they are ill-equipped to do so. The decision not to engage in the debate over scientific issues is based on the fact that insurers are not technically equipped to enter into those types of discussions or the controversial causation issues swirling about those subjects. They view the pursuit of good science and the advancement of their understanding of climate change as a critical ingredient to their success in coping with this important issue as a society.

To quote the President of the Reinsurance Association of America,

"If the scientific community becomes increasingly confident in its assessment of global warming and the consequences for that with respect to insured natural events like hurricanes, then I think the industry will accept the science."

As a whole, insurers are an important stakeholder in ensuring society's well-being. Thus, they must be aware of vexing issues such as climate change and must actively engage in the problem solving process.

THANK YOU!