

# coping with climate change

## risks and opportunities for insurers

## Welcome to the Climate Change Launch

Monday 23<sup>rd</sup> February 2009

# coping with climate change

## risks and opportunities for insurers

### Chairman's Introduction

Dr Alexander Scott – Chief Executive,  
The Chartered Insurance Institute

# Agenda

- 14.30 – 14.40**      **Introduction**
- 14.40 – 14.55**      **Importance of Climate Change and the role of insurers**  
*Speaker: Truska Angel*
- 14.55 – 15.05**      **Overview of the Report**  
*Speaker: Dr Andrew Dlugolecki FCII*
- 15.05 – 15.15**      **Wider economy and a challenge to the insurance industry**  
*Speaker: Alice Chapple*
- 15.15– 15.25**      **Concluding Thoughts**  
*Speaker: Colin Challen*
- 15.25– 15.55**      **Forum discussion, chaired by Dr Alexander Scott**

# Climate Change: Insurers must lead the way

- Why is the CII involved?
  - Guiding the profession through public debate
- About the report
  - Background
- Current context – is climate change still relevant?
  - Or will it be credit crunched?
- The insurance industry – the way forward
  - Now is the time to act

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## risks and opportunities for insurers

The importance of climate change and the role of insurers

Truska Angel – Head of Climate Change / Corporate Social Responsibility  
AXA Insurance



***“We'd be out of our minds if we wrote weather insurance on the opinion global warming would have no effect at all.”***

**Warren Buffett**  
**2006 annual Shareholder meeting**

# Climate Change is not separate from “mainstream” issues

- **Balance sheet strength & solvency**
- **Competitiveness**
- **Customer care: availability & affordability**
- **Need for and adequacy of disclosure**
- **Emerging markets**
- **Corporate governance**
- **Reputation & trust**
- **Modelling weaknesses; Past vs. future**
- **Regulatory reform**

# For Insurers, Climate Change is an Emerging Risk to be Managed... Insurers are....

- Messengers
- Integrators
- Risk assessors
- Risk managers

but...

- » Vulnerable
- » Flying partly blind
- » Selective

***and...part of the solution***

# Anticipated Losses

## Property damage

- Flood
- Subsidence
- Mould / moisture
- Business interruption

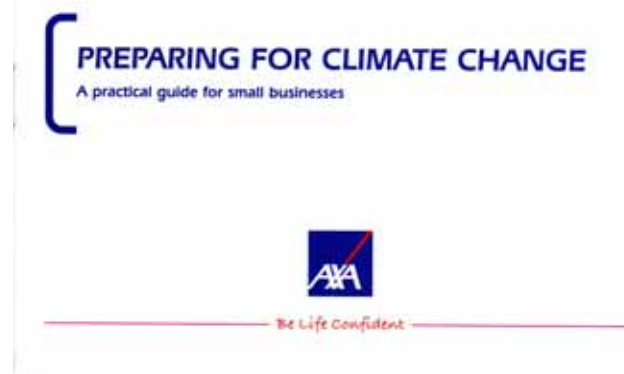
## Liability (Casualty)

- Products
- Environmental
- Heat extremes

# Why are AXA Insurance Interested

- **2nd largest small business insurer and broker**
- **Small and Medium Businesses contributes to c.50% of employment in UK economy**
- **There are around 4.5 million SME's in the UK**

# The Axa Insurance journey



# Axa Insurance journey



# Axa Insurance journey



## Reducing the Risk for Tomorrow

You are here > Home Page > Associate Companies





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## risks and opportunities for insurers

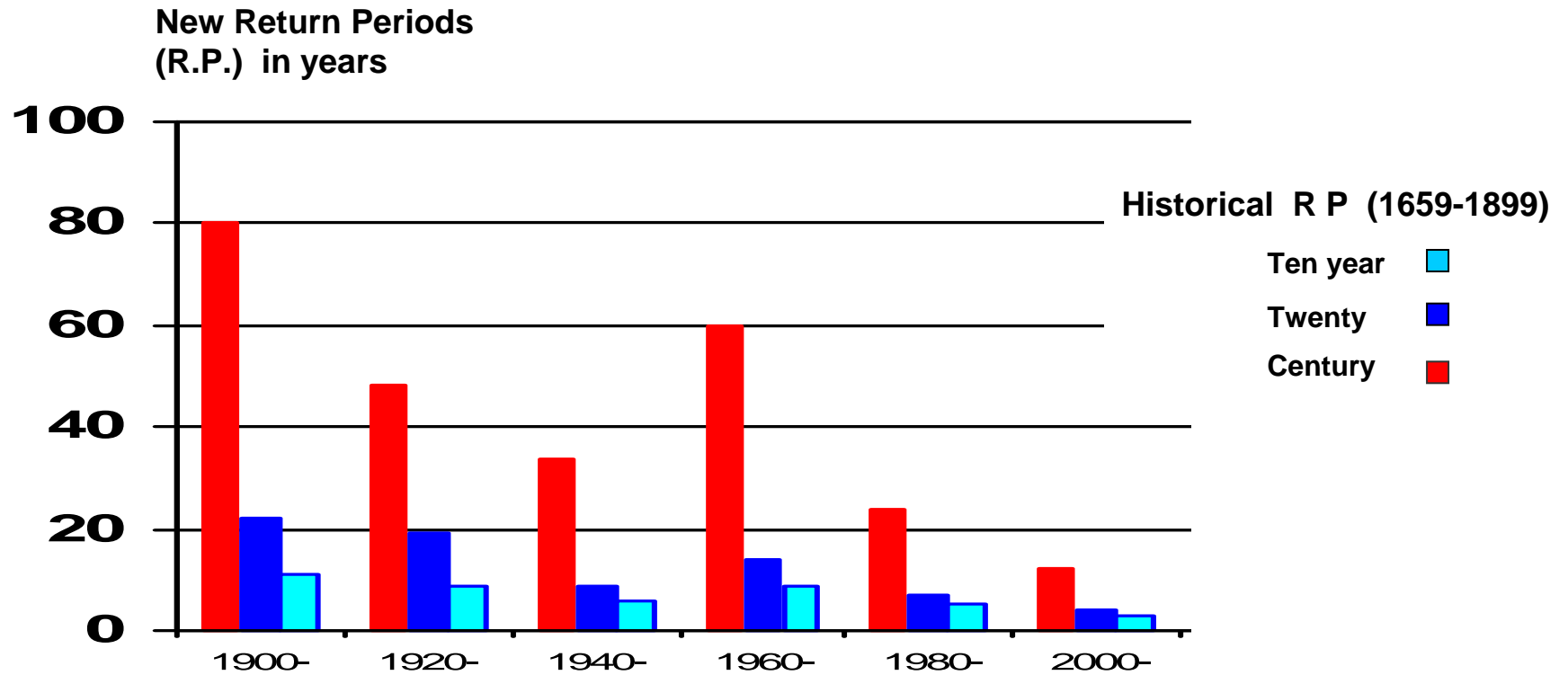
### Overview of the Report

Dr Andrew Dlugolecki FCII  
Andlug Consulting

# A real risk for insurers ...

- Return periods are shortening

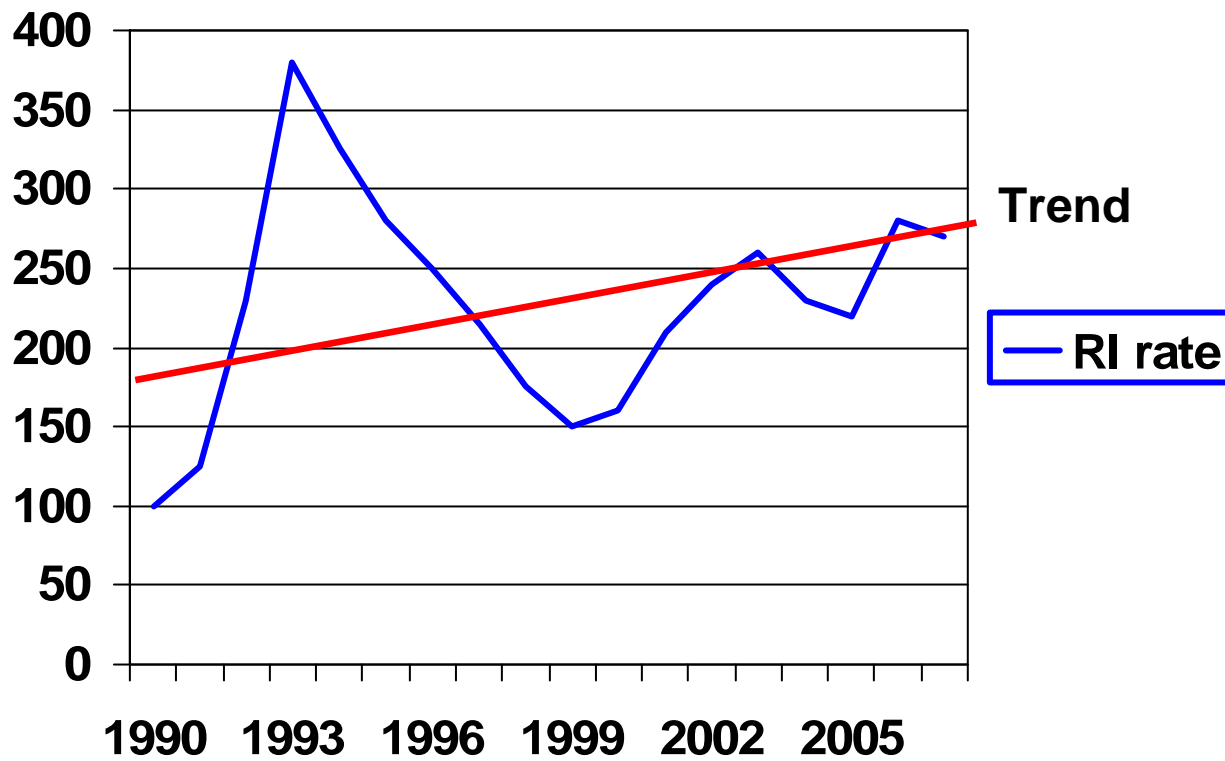
# Trends in Hot UK months



# A real risk for insurers ...

- Return periods are shortening
- Reinsurance rates have risen

# Reinsurance rates are climbing



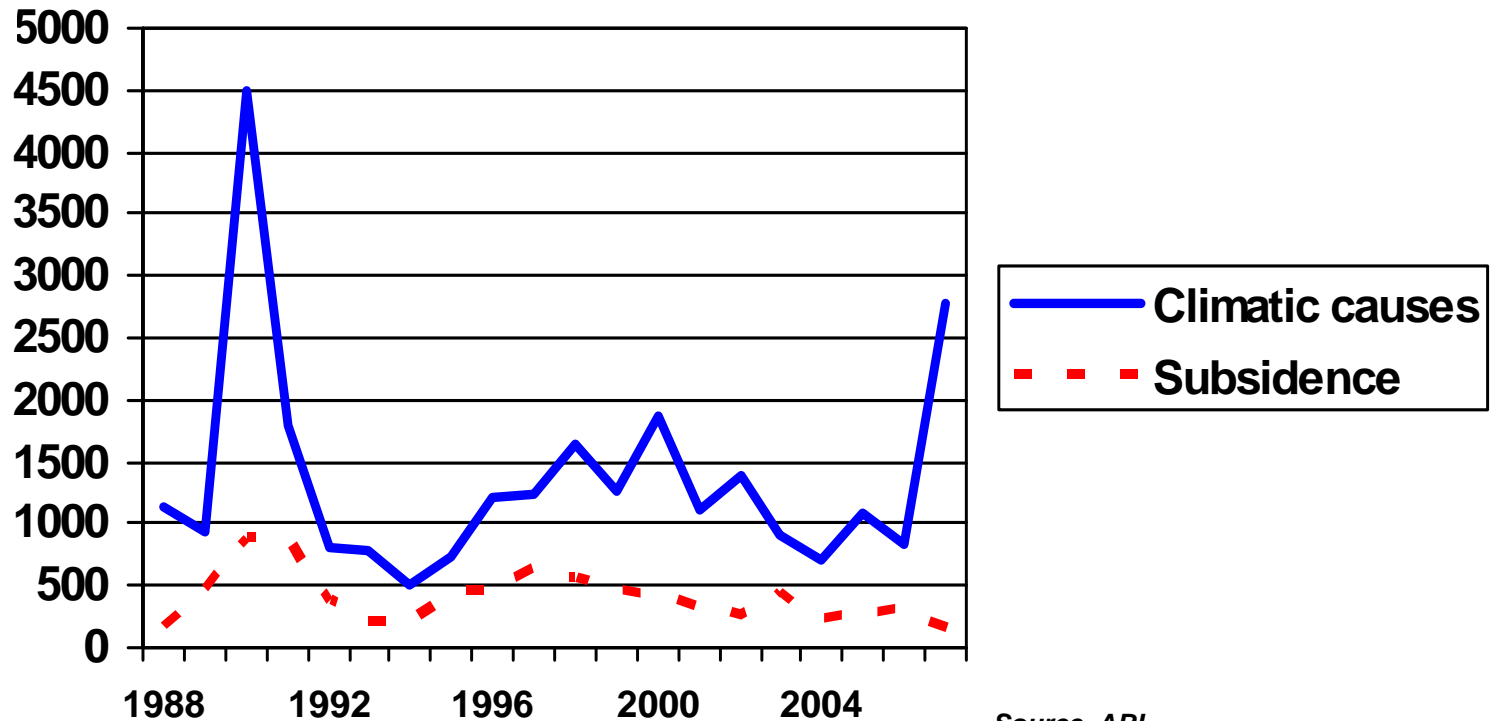
Source based on Guy Carpenter

# A real risk for insurers ...

- **Return periods are shortening**
- **Reinsurance rates have risen**
- **Claims 'contagion' is a real possibility**

# Claims come in bursts

Million £  
2008 values



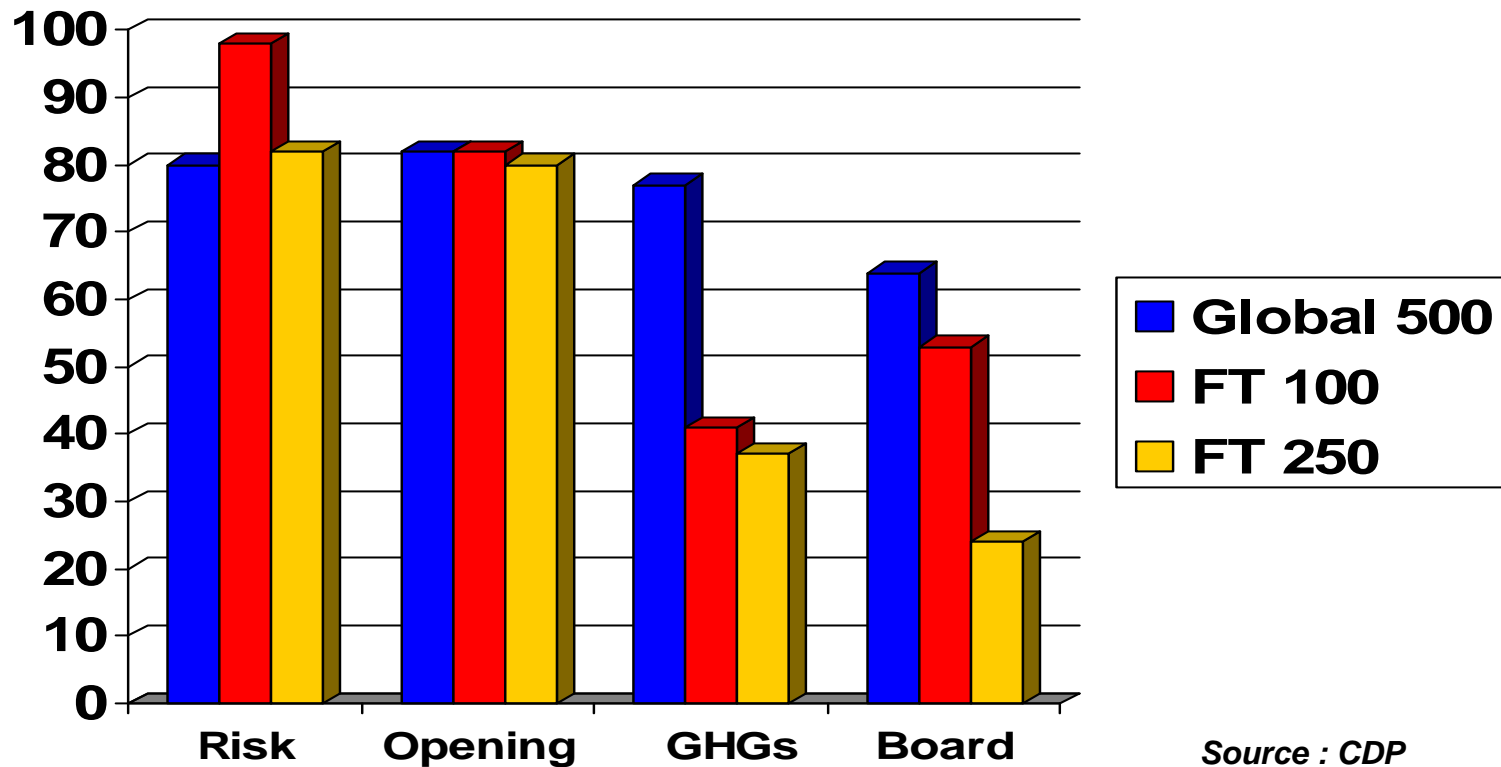
# A real risk for insurers !

- **Return periods are shortening**
- **Reinsurance rates have risen**
- **Claims contagion is a real possibility**
- **Longer term social breakdown**
- **Some activists argue for climate liability**
- **Assets affected by carbon regulation**

# Climate Change and our clients

- **Consumers are confused**
  - *media love sceptics*
  - *'best advice' = cheap*
- **Companies are not well prepared**
  - *small ones lack resources*
  - *big ones have supply chain & concentrated risk*
- **Not just weather but energy policy**

# Large Corporates & C.C.



# Changing what we do

- **Data - *but costly. Hard for dams & drains risk***
- **Modelling - *cross-check, multi-source, seasonal***
- **Reinsurance**
  - ***CC loading ( 50% for flood, 30% for storm)***
- **Flood risk - *consumer backlash?***
- **Product range - *WD, cat bonds, microinsurance***
- **Product design**
  - ***risk management, ghg reduction***

# China: climate risks



# Opportunities ...

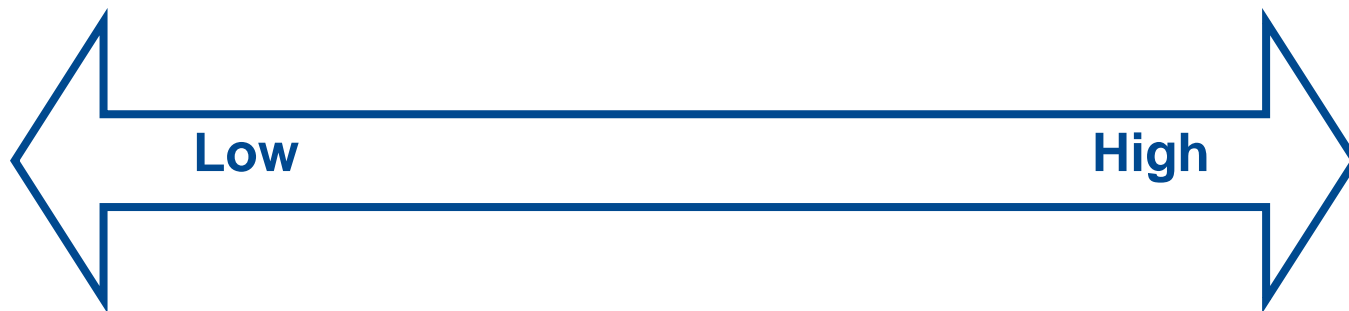
- **Vulnerable sectors**  
*eg weather derivatives for tourism*

# Adaptability in tourism industry

**Communities/ resorts**  
**Fixed capital ( eg hotels)**  
**Local services**

**Transport operators**  
**Travel agents**  
**Tour operators**

**Tourists**



# Opportunities !

- **Vulnerable sectors**  
*eg weather derivatives for tourism*
- **New energy technologies**  
*- insurance products ( breakdown, WD, CAR)*
- **Investment (clean tech)**
- **Uninsured segments**  
*- SME, social housing, developing countries*
- **Green procurement**  
*- claims, internal supplies*

# Insurance industry action

## Industry

*engage in the policy debate*

*step up professional education*

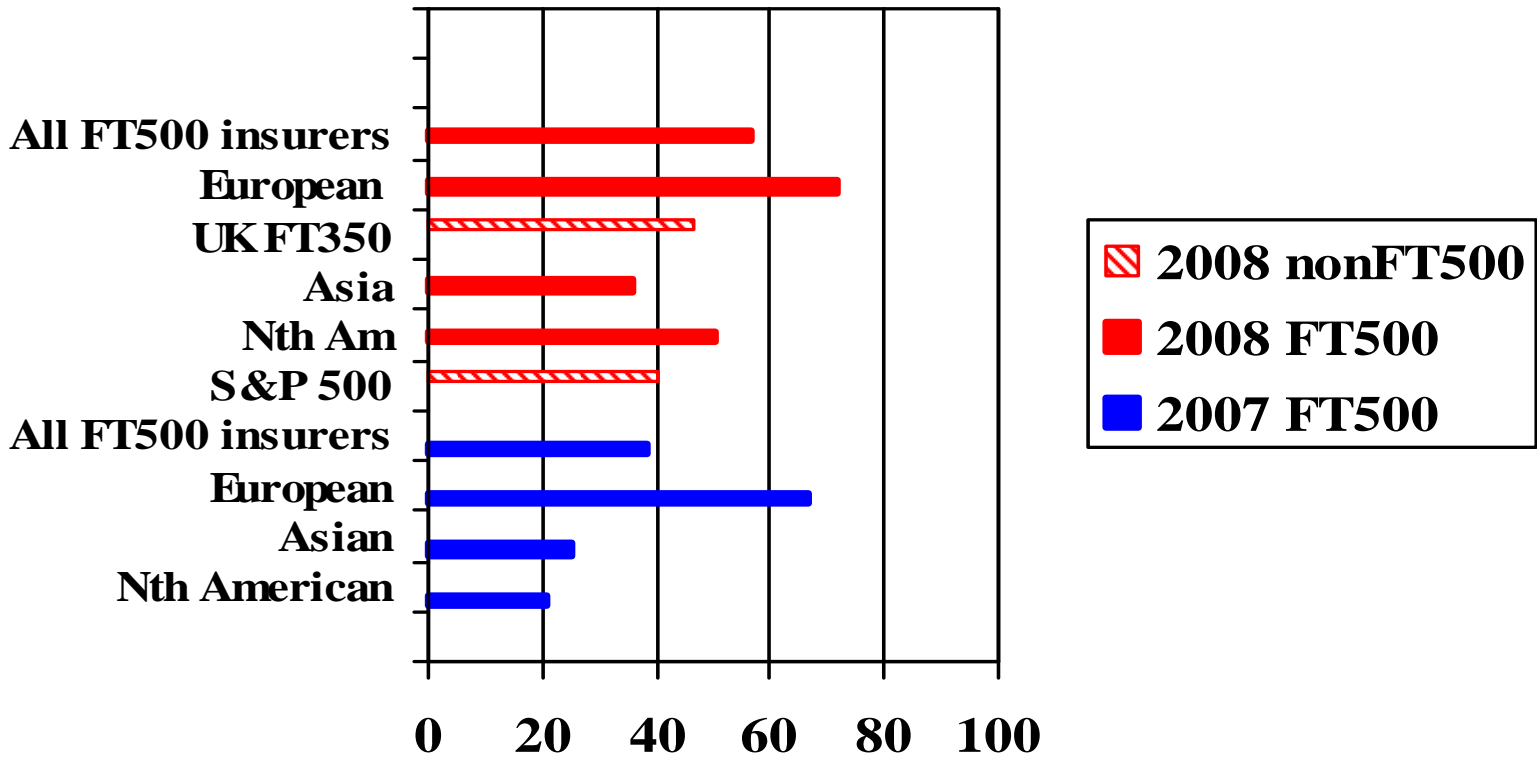
## Companies

*review extreme risks urgently*

*- pricing, solvency, claims-handling*

*mainstream climate change in all processes*

# Climate disclosure by insurance companies



Source Carbon Disclosure Project

# Public sector actions

- ***Global ghg reduction (Contraction & Convergence)***
- ***Overseas aid to initialise insurance systems***
- ***Supportive regulation of insurance products***
- ***Good, free risk data***
- ***Risk-aware development strategies***

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### The Wider Economy and a Challenge to the Industry

Alice Chapple – Director of Sustainable Financial Markets,  
Forum for the Future

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### Concluding Thoughts

Colin Challen – MP

Member of the House of Commons Energy & Climate Change Committee

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### Forum Discussion

Dr Alexander Scott – Chief Executive,  
The Chartered Insurance Institute