



Insurers Perspective

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CLIMATE CHANGE – INSURERS’ PERSPECTIVE

**What role can the insurance industry
play in influencing Climate Change
policy?**

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Willis

Climate Change – Insurers’ Perspective

- Why is the insurance industry’s perspective and response relevant ?
- What is the impact of Climate Change on the industry and what are the relevant exposure trends ?
- How does the insurance industry assess the impact of climate change ?
- How has the industry responded so far?
- What impact will the industry have in:
 - Preparing for Climate Change
 - Mitigating the impact of Climate Change



Why is the Insurance Industry's Perspective Relevant?

- The insurance industry accounts for 7% of the global economy and is the world's largest industry
- The industry controls a portfolio of over \$25 trillion in assets
- Weather and climate-related insurance losses (paid claims) today average \$50 billion a year.
- These losses have more than doubled each decade since the 1980s (adjusted for inflation)
- The insurance industry has a unique ability to influence business practices - “DNA of Capitalism”

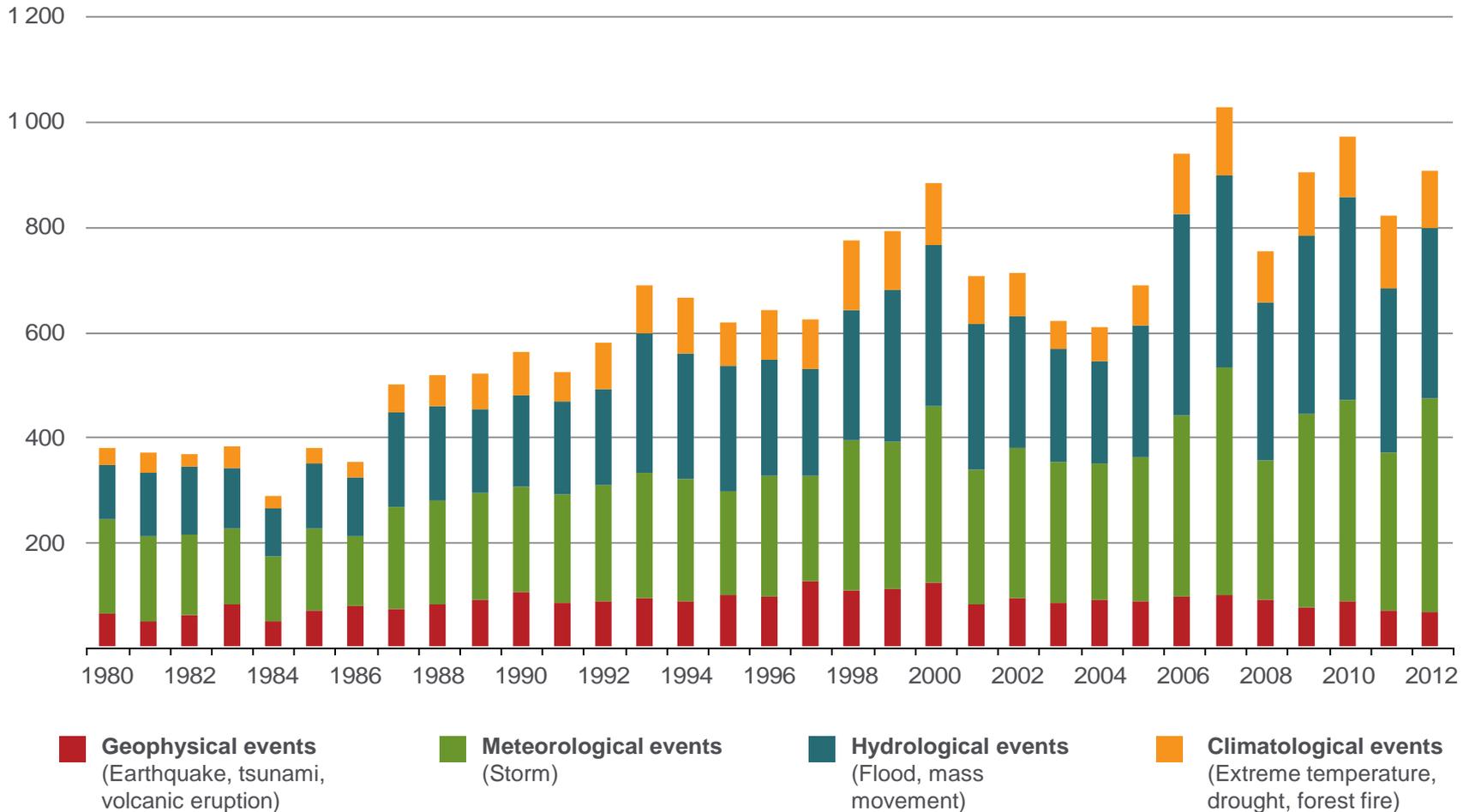
IMPACTS OF CLIMATE CHANGE

Exposure: growth factors?

- Population growth
- Growth in property values 😊
- Growth of urban concentrations
- Increased settlement and development in exposed regions
- General global rise in standard of living
- Increased international trade – e.g. marine cargo exposure, supply chain risk
- Increased insurance penetration

Natural Catastrophes Worldwide 1980 – 2012

Number of Events



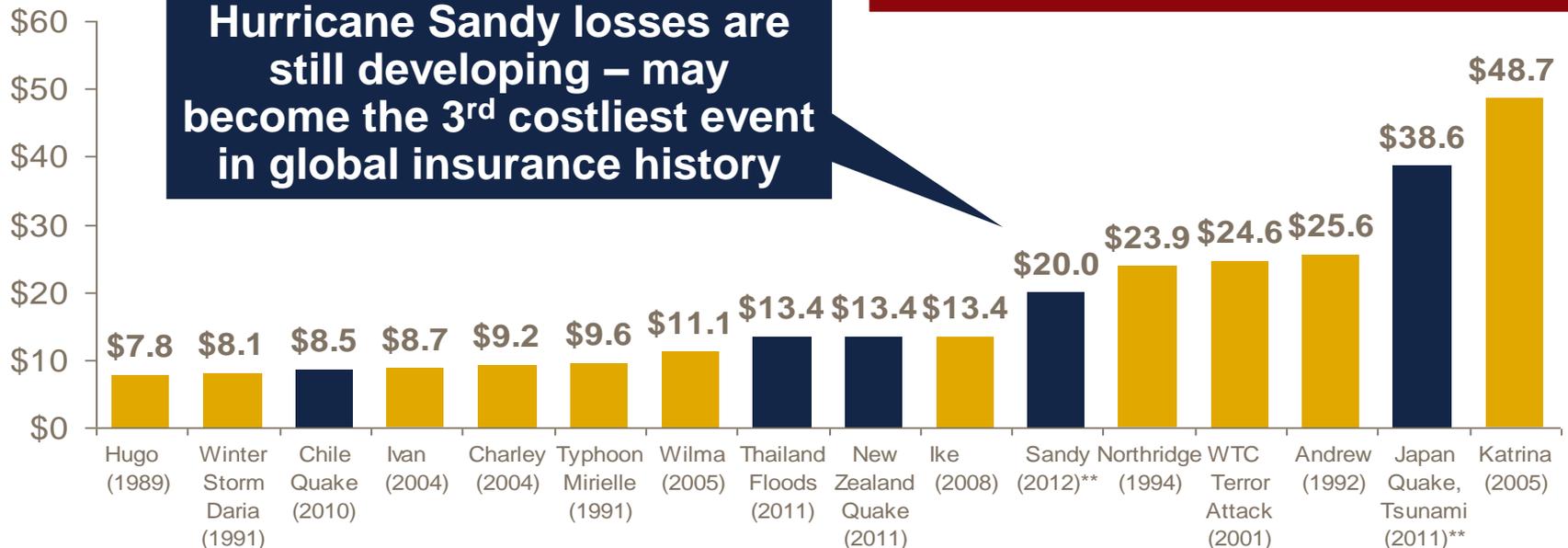
Source: Geo Risks Research, NatCatSERVICE – As of January 2013

Top 16 Most Costly World Insurance Losses 1970-2012*

(Insured Losses, 2012 Dollars, \$ Billions)

5 of the top 16 most expensive catastrophes in world history have occurred within the past 3 years

Hurricane Sandy losses are still developing – may become the 3rd costliest event in global insurance history



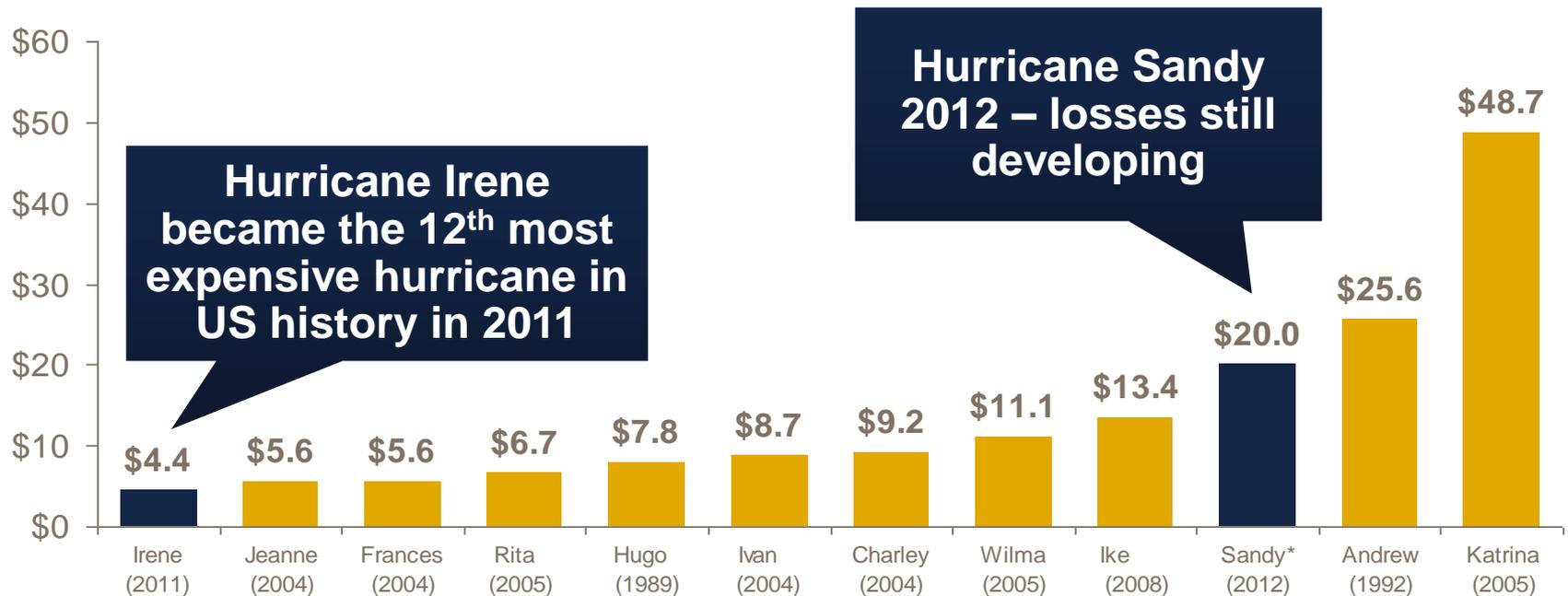
*Figures do not include federally insured flood losses

Source: Insurance Information Institute

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)

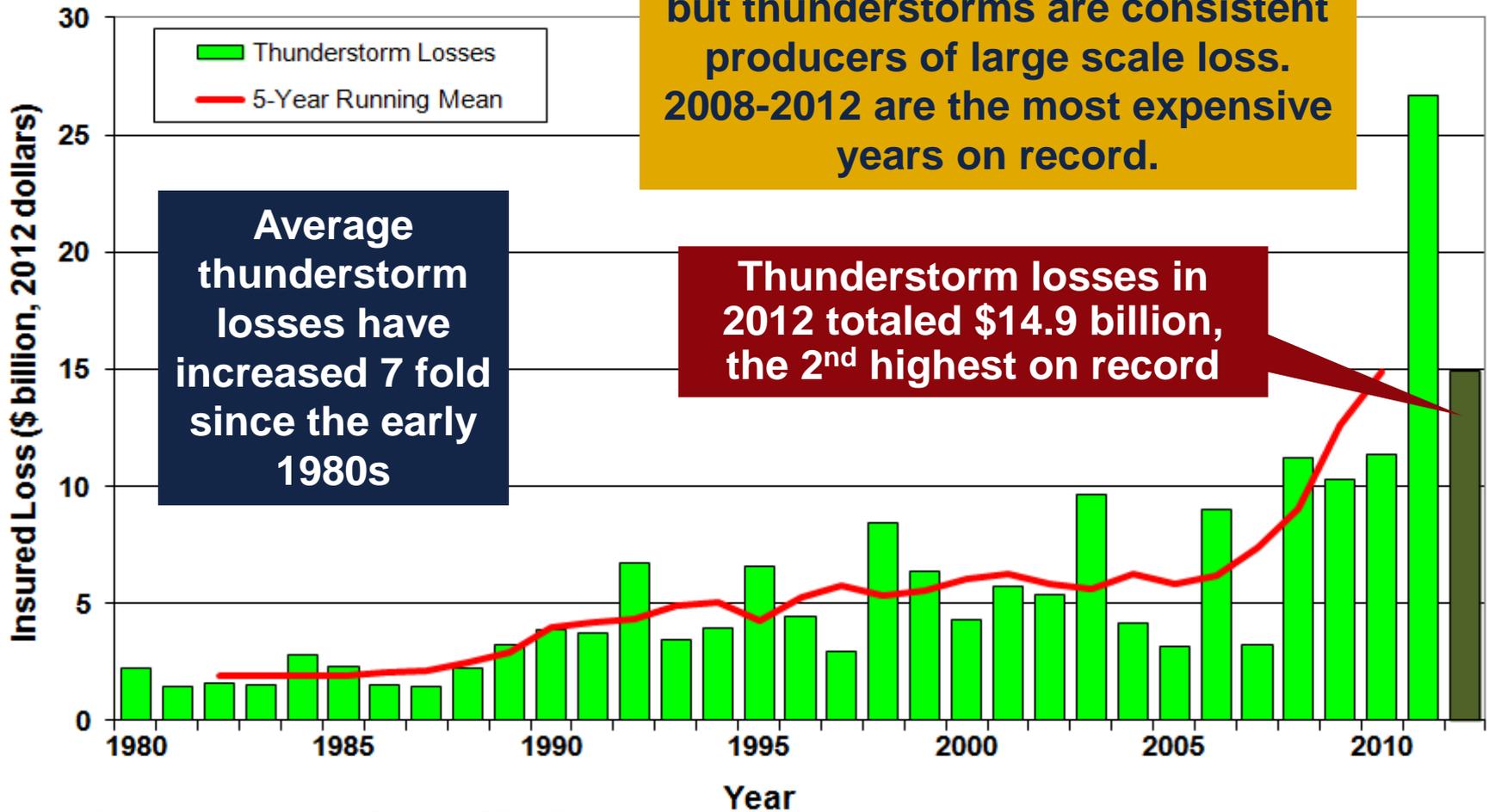


*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B.

Source: Insurance Information Institute

U.S. Thunderstorm Loss Trends 1980 – 2012

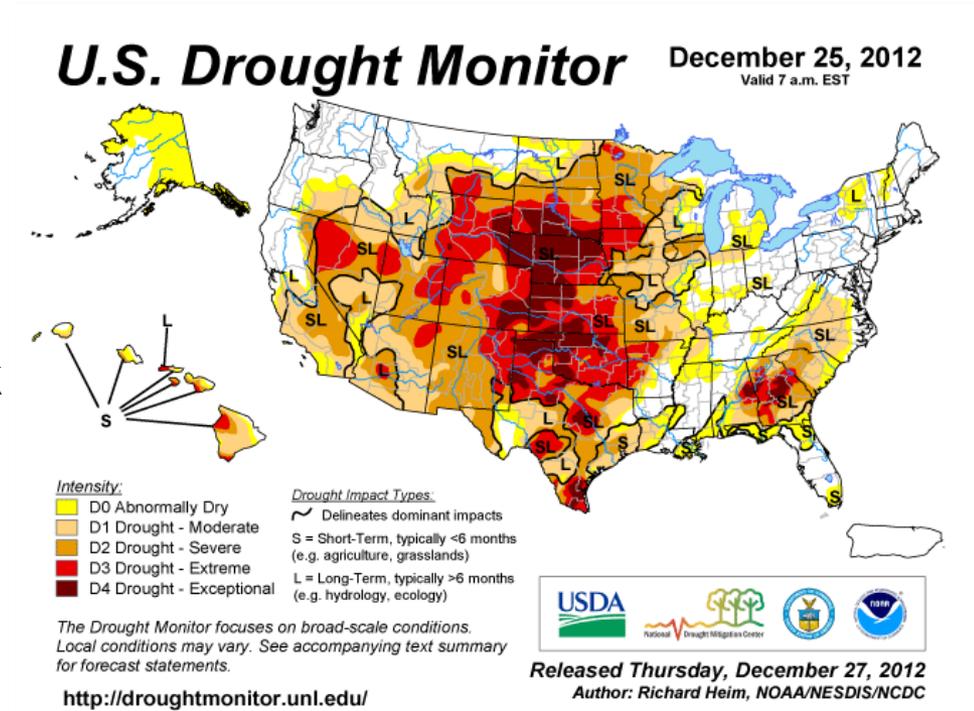
Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2012 are the most expensive years on record.



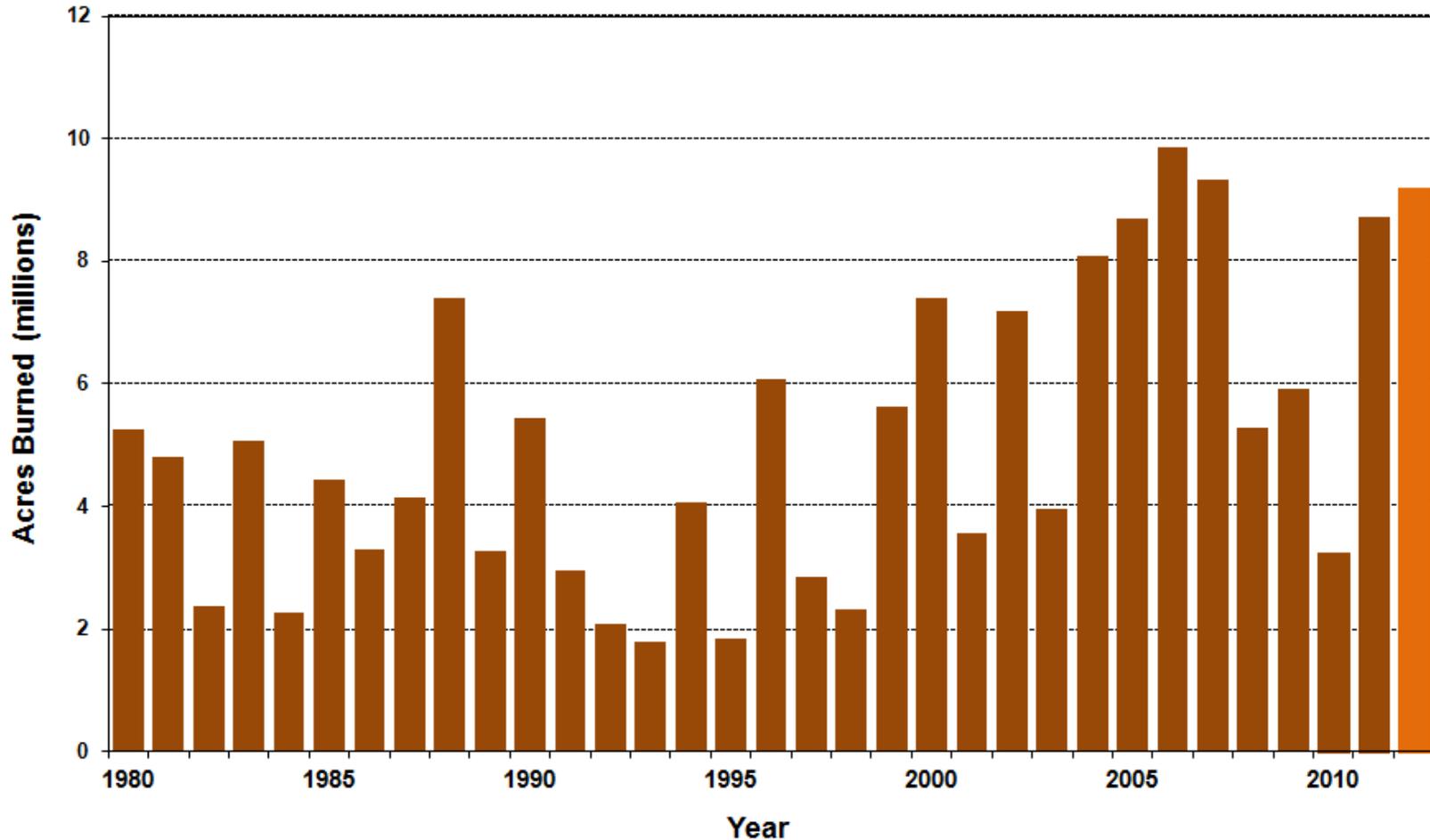
Source: Property Claims Service, MR NatCatSERVICE

Current US Drought Conditions

- 2012 – worst drought in at least 25 years
- At its peak – dry to severe drought conditions affected over 60% of the US
- Severe damage to crops (soybeans, corn) and livestock
- Low water levels along Mississippi River disrupted shipping
- Economic Losses are estimated at \$20 billion



Number of Acres Burned in Wildfires 1980 – 2012



Source: National Interagency Fire Center

What Are the Principle Threats to the Insurance Industry ?

The sustainability-focused investors coalition Ceres released From Risk to Opportunity: How Insurers Can Proactively and Profitably Manage Climate Change.

The report concluded that climate change will lead to losses for every sector of the industry:

- Impacts of rising sea levels and increased incidence of weather and catastrophe losses
- Increased claims due to climate change-caused famine, drought, or disease.
- Liability claims for insurers if companies are held liable for their greenhouse gas emissions.
- Lower investment returns and negative impacts for the global economy



How Has the Industry Responded?

The industry has reacted in response to a combination of shareholder pressure, regulatory scrutiny and market forces

- **Active participation in global climate change initiatives – e.g. disclosure obligations, purchase of carbon offsets**
- **Sponsorship of climate change research and thought leadership**
 - ClimateWise - www.climatewise.org.uk
 - Willis Research Network www.willisresearchnetwork.com
- **Vulnerability assessments – specifically, new and improved analytical tools - Natural Catastrophe models and loss quantification systems**
 - Impact of RMS 11
 - Flood zone mapping
- **Policy and Governance - proactive exposure reduction**
 - Appetite and Availability
 - Coverage
 - Price



How Has the Industry Responded? (continued)

- Awareness initiatives more comprehensive and prescriptive loss prevention requirements e.g.
 - Flood control measures
 - Building codes and Insurer Engineering Standards
 - Customized training
- Incentive schemes – e.g. preferential rates for Insureds that purchase energy efficient appliances or implement loss control procedures
- New opportunities – e.g. product development initiatives
 - Green building and energy conservation products
 - Carbon risk management consulting services
 - Carbon off-set insurance products



Concluding Remarks

- Insurance industry will find ways to remain profitable and manage its exposure to Climate Change
- Insurance will play an invaluable role in financing individual loss events and thereby dampening and moderating the cost volatility of Climate Change
- However, in the long term, the costs will be passed on to policyholders through increased premiums, new risk control requirements, etc.
- Insurance companies will continue to improve their sustainability performance but their ability to directly reduce the causes of Climate Change is limited
- Insurance industry will however play a strong supporting role in the development of Climate Change preparedness and adaptation plans