



The Geneva Association Climate Change and Insurance (CC+I)

COP 15

Patrick M. Liedtke

Secretary General & Managing Director

9 December 2009



Insurance Leaders and Climate Change

“Climate Change is the largest risk shared in common by all human beings”

Kunio Ishihara, co-Chair of Geneva Association Climate Change and Insurance Working Group and Chairman of Tokio Marine & Nichido Fire

“Perhaps no industry is more aligned with the world’s self interest in preventing the destructive effects of climate change than the insurance industry.”

Mike McGavick, CEO of XL Capital, Bermuda

“The potential contribution of the insurance industry towards supporting adaptation to and mitigation of climate change is greatly underestimated.”

Nikolaus von Bomhard, President of The Geneva Association and Chairman of the Management Board of Munich Re

“Smart climate change management means smart risk management and that means the involvement of insurance, the risk industry.”

Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association



Moving Climate Change centre stage for insurance

- June 2008, Hamilton, Bermuda:
 - More than 40 CEOs of leading insurance and reinsurance companies decided to launch a high-level project on climate change and its economic impact on insurance (CC+I)
- Objective to identify and analyse:
 - issues of specific relevance to the insurance industry, i.e. likely range of future claims costs, new business opportunities, scenario testing
 - external challenges to be addressed at the political, educational and social levels, i.e. the role of government specific provisions concerning e.g. building codes, zoning restrictions, etc

⇒ creation of CC+I Working Group
- July 2009, Kyoto, Japan:
 - Geneva Report on Climate Change and Insurance
 - insurance CEO's Kyoto Statement



**Former Prime Minister
Shinzo Abe, July 2009**



Climate Change and Insurance (CC+I) Working Group

- Special high-level task force from the insurance sector, directly supported by the CEOs from the leading insurance firms
- Expert composition with strong insurance focus. Participation of :
 - leading risk management and insurance experts from insurance companies
 - external experts from academia and specialist institutions with climate change knowledge
 - risk modelling firms with international climate expertise
- Objectives:
 - Direct and substantiate the work on climate change and insurance issues for the global insurance industry
 - Harbour and activate specialist knowledge to create deeper understanding of the relations between climate change and insurance
 - Interact with partners and collaborating institutions globally
 - Reinforce the public-private (and NGO) dialogue on CC+I matters

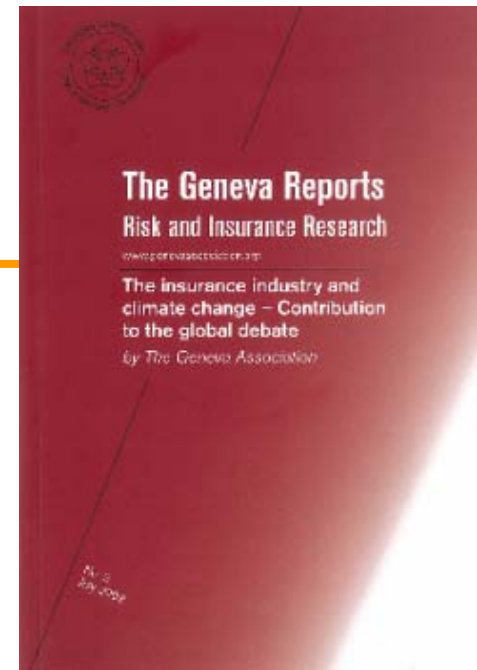


The CC+I Report

2 July 2009: Presentation of the Geneva Report on
***“The Insurance industry and climate change –
Contribution to the global debate”***

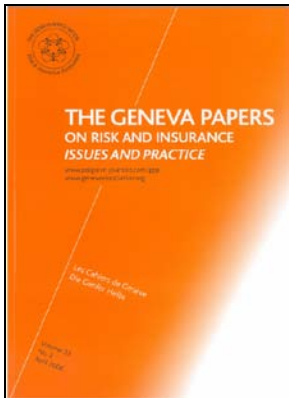
Some key findings:

- Climate change may have significant adverse effects on the world economy, especially in developing countries
- Insurers are willing and able to support the transition to a low-carbon economy and is uniquely positioned to provide specialised services for countries and businesses facing climate risks worldwide
- An upwards trend in losses is largely due to increasing value concentrations in coastal areas. This trend could accelerate as a result of climate change, primarily through changing weather patterns
- ***The insurance industry is keen to establish a stronger climate partnership with governments. Effective mitigation and adaptation strategies require appropriate incentives from policy-makers***





Flanking activities



The Geneva Papers on Risk and Insurance

Special Issue on Climate Change:

vol 34, no 3 of July 2009

- Peer reviewed contributions on climate change issues for insurance and risk management

Geneva Association Newsletter on Risk Management

- Regular contributions on climate related issues
- Advancement of risk management of climate change
- Discussion of adaptation and mitigation strategies for climate change

World Fire Statistics Centre

- Affiliated organisation to The Geneva Association
- Link between fire risks and climate change
- International cooperation, including data provision to the UN



The Kyoto Statement

Unprecedented insurance industry support from the world's leading insurance CEOs:

- 56 signatories from around the world

Addresses 3 key audiences.

- **insurance industry:** inform widely about climate change and implications (not all insurance companies have scientific departments for climate-related issues);
- **governments / policy-makers / regulators:** inform about critical issues, show limitations and the need for official (flanking) action.
- **larger public and NGOs:** raise awareness about the role of insurance and insurance implications, and improve the understanding of insurance mechanisms;

The possibility of extreme climate change is of great concern to the insurance industry.



Calling on Governments

Governments/ COP 15:

- The insurance leaders call on G20 governments to harness the industry's expertise and experience in the management of environmental risks
- The insurance leaders call for legislative support for the development of private insurance products that cover climate risks
- The insurance industry signals its willingness to be part of and contribute to a wider framework of adaptation in order to tackle the problem (this includes cooperation with UN institutions and NGOs)

⇒ **Create efficient**

Climate and Insurance Partnerships (CIPs)

between the public sector and the insurance industry



Calling on Policy-makers

Policy makers:

- The insurance industry is prepared to counter climate risks through active cooperation in implementing building codes or similar means which encourage the use of sustainable practices.
- The insurance industry offers to work closely with policy-makers on communicating to its customers their climate risk levels and possible coping strategies.
- The insurance industry provides innovative solutions for climate risk issues. These include funding relevant research and providing tools to their customers to assess and counter climate risks.
- There are significant benefits of pooling climate risks.
- There needs to be an efficient framework for risk-based underwriting and pricing.



Calling on Policy-makers: Implementing efficient CIPs

⇒ **Implementing efficient Climate and Insurance Partnerships (CIPs) between the public sector and the insurance industry**

- Discuss the support and joint coordination for the communication of climate risks and possible coping strategies to the wider public (possibly involving NGOs).
- Policy-makers should collect robust data to allow proper risk assessment and to facilitate efficient solutions.
- Policy-makers need to introduce an efficient international legal and regulatory framework for risk-based underwriting and pricing.
- Policy-makers need to be aware about both, the unique expertise and coping mechanisms that insurance offers as well as the limitations of private market activities.



Implementing efficient CIPs: How insurers can help

- Provision of data on weather-related losses to science, political decision-makers and the public
- Creating transparency for risks via risk assessment and risk adequate premiums:
 - insurance (when properly priced) gives risks a price tag and thus incentivises prevention measures
 - this results in more efficient allocation of resources and a reduced loss load for society
- Cooperate with governments to determine limits of insurability and create mechanisms for extended risk bearing strategies that increase the coping potential for individuals, firms and governments
- Developing strategies and products promoting climate change mitigation and adaptation (esp. to any unavoidable effects)
- Provision of risk management services and consulting

Insurance is THE risk industry



CIPs and some key challenges

- Great complexity for converting knowledge of climate change effects into future loss estimates
- Customer-insurer-third party problem: Selected industries seen as potential “deep pockets” by some external parties in the hunt for possible litigation and high legal fees over climate change issues
 - ⇒ This could lead to significant increases in legal costs associated with the covering of climate risks and thus increase premiums
 - ⇒ More certainty about possible liability early on would increase the robustness of forecasts and thus reduce the uncertainty premium
- Define reporting requirements to channel information to investors and regulators about climate risk exposure at firms and their adaptation and mitigation strategies
 - ⇒ More information and better transparency on climate risks will help governments to appreciate the risks embedded in their economies and improve the resilience of companies



CIPs and some key challenges

- A substantial part of climate change exposure depends on the (future!) development of
 - i) the legal systems around the world
 - ⇒ Serious legal development risk on top of climate risk
 - ii) the quality of public risk management around the world
 - ⇒ Serious public action/negligence risk on top of climate risk
- ⇒ **Governments need to address these issues if they expect**
- stronger involvement from the insurance industry
 - efficient operation by insurance carriers
 - widespread availability of insurance coverage for climate risks
 - affordable insurance premiums, and
 - a limitation of their own risk exposure to climate change