



International Association for the  
Study of Insurance Economics

# Geneva Association Information Newsletter

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## Press Release

Information on Geneva Association activities and publications

Geneva, 2 July 2009

### **The Geneva Association launches a major research report on the insurance industry and climate change and publishes the “Kyoto Statement” signed by over 50 industry CEOs**

**Geneva/Switzerland, London/United Kingdom, 2 July 2009:** Today, The Geneva Association launches a major new research report, *The insurance industry and climate change—Contribution to the global debate*. The report was drafted by senior insurance executives and international climate change experts.

#### **Main findings and conclusions of the report**

- Unmitigated climate change may have significant adverse effects on the long-term development of the world economy, especially in developing countries.
- The insurance industry is uniquely positioned to provide specialised services for countries and businesses facing climate risks worldwide.
- The insurance industry is willing and able to effectively support the transition to a low-carbon economy.
- The climate challenge goes beyond mitigation action to reduce GHG emissions. In addition, effective adaptation strategies are needed as climate change will evolve over decades given the inertia of the climate system.
- The upwards trend in insured losses is largely due to socio-economic factors such as value concentrations in coastal areas. This trend could accelerate as a result of climate change, primarily through changing weather patterns. It also depends on the willingness and success of insurance companies in providing coverage for their clients.
- According to the United Nations, global adaptation costs per year by 2030 will amount to US\$50-170bn, from which US\$30-70bn will be required in developing countries.
- The insurance industry is keen to establish a stronger climate partnership with governments. Effective mitigation and adaptation strategies require appropriate incentives from policy-makers.

## **The Kyoto Statement, signed by over 50 insurance and reinsurance CEOs**

Against the backdrop of the research report, the CEO members of The Geneva Association have issued an unprecedented industry statement which outlines their assessment of climate change and its implications. The Statement was agreed upon during The Geneva Association's last General Assembly in Kyoto (27-30 May 2009).

The Statement, signed by more than 50 industry leaders, reaffirms the industry's commitment to support its customers in mitigating and adapting to climate change through enhanced research, innovative products and focused investments in low-carbon energy projects.

In addition, industry CEOs offer their support to policy-makers, e.g. through active cooperation in implementing building codes, sensitizing customers to climate change risk and funding relevant research.

In view of the forthcoming United Nations' Climate Change Conference (COP15), the CEOs emphasise that insurance is uniquely positioned to provide specialised services for countries and businesses facing climate risks and, therefore, should be a strong complementary mechanism in any comprehensive framework of adaptation.

*Michael Butt, Co-Chair of the research working group and Chairman, AXIS Capital, commented: "Climate change is happening and calls for concerted and meaningful mitigation and adaptation measures. Against this backdrop, the leaders of the global insurance industry have put forward this powerful research report, specifically outlining how their companies can support the transition to a more sustainable, low-carbon economy."*

*Kunio Ishihara, Co-Chair of the working group and Chairman, Tokio Marine & Nichido Fire, said: "The Kyoto statement has drawn an unprecedented level of support from the CEOs of the world's largest insurance and reinsurance companies. As such, it makes it very clear to all our stakeholders that the industry is a vital force to reckon with when tackling the challenge of climate change. I am also very pleased that the Kyoto Statement is backed up by CEOs of large companies from the emerging insurance markets, as these countries will bear the brunt of climate change."*

*Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association, added: "The Geneva Association offers unique platforms to pool the knowledge and expertise of the insurance sector. On that basis, we created an opportunity for insurers and reinsurers to join their forces to deal with arguably the most threatening and expensive set of long-term risks to our economies: climate change. The Geneva Association helps to prioritise this issue for the industry, stimulates research and special projects, and works towards advancing insurance solutions and risk discovery mechanisms for the benefit of the industry and society at large."*

### **The findings of the research report in more detail**

#### *Potential threats to the long-term development of the world economy*

Unmitigated climate change may have significant adverse effects on the long-term development of the world economy, ranging from water shortages for food production to an increased severity of tropical windstorms. Developing countries are particularly vulnerable, facing the risk of social disorder and mass migration.

The cost of climate change mitigation is estimated at up to 4 per cent of global GDP. Mitigation options can be shared globally, and some actually save money in net present value terms, led by higher energy efficiency and low-carbon technologies. Incentives for mitigation can be provided through taxation and regulated emission cap and trade.

Developing countries may have a higher vulnerability to climate change, arising mostly from geographical exposure, such as large populations living in coastal areas, or from lower economic diversification. And developing economies tend to have a greater proportion of output which is sensitive to weather or climate.

#### *How the insurance industry can help mitigate and adapt to climate change*

The insurance industry is willing and able to effectively support the transition to a low-carbon economy, for example, through supporting the development and operation of energy-efficient technologies and discouraging carbon-intensive practices. The industry offers significant relevant expertise in the areas of risk assessment, claims-handling and asset management—to the benefit of its customers, shareholders and society at large.

Today, for the insurance industry, there are several specific approaches for responding to climate change risk. Risk-adequate pricing on the basis of science-based loss models and methodologies is fundamental. Additional measures include restricting coverage, applying deductibles, improving claims handling, reinsurance, insurance-linked securities which transfer risks to the capital markets, public-private action on improving building codes and flood defences. New insurance products in the context of mitigating GHG emissions and adapting to climate change impacts are going to be developed, such as micro-insurance schemes in developing countries. On the assets side, risks and opportunities for specific sectors which might arise from changes in the physical environment, as well as through regulatory policy, are increasingly being considered in investment decisions.

#### *Mitigation and adaptation strategies must go hand in hand*

The economic and social impacts of climate change could be immense; there is therefore a need for urgent and concerted mitigation action to reduce GHG emissions, supported by strong incentives from policy-makers. But regardless of the action taken to mitigate climate change, many decades of changing climate risks due to inertia within the climate system must be expected. Therefore, mitigation efforts need to be complemented by concerted adaptation to minimise the predicted impacts of climate change and especially to protect the most vulnerable populations.

#### *Facing the dual challenge of mitigation and adaptation*

The insurance sector and society as a whole face a dual challenge. The upwards trend in insured losses is largely due to socio-economic factors such as economic growth, increasing population densities and value concentrations in coastal areas. This trend could accelerate due to the impact of climate change, primarily through changing weather patterns.

The insurance sector and society as a whole thus face a dual challenge and opportunity. First, most of the factors giving rise to increasing losses are not climate-related, but societal in origin, thus increasing the need for effective and integrated risk management and risk reduction. Risk reduction efforts, if effective, can help maintain insurability. Second, there is a need and a market niche to develop insurance solutions for areas facing increasingly frequent and intense weather-related hazards.

*An increasing need for a stronger partnership with governments*

The insurance industry is keen to establish a stronger climate partnership with governments. Effective mitigation and adaptation strategies require appropriate incentives from policy-makers. If the mitigation and adaptation challenges are not met, insurance cover will become more expensive or even unavailable. The insurance industry is willing and able to support governments through innovative instruments such as catastrophe bonds, micro-insurance products and more climate-conscious claims-handling process activities which should be encouraged by appropriate regulatory frameworks.

The full research report ***The insurance industry and climate change—Contribution to the global debate*** is available at

[http://www.genevaassociation.org/PDF/Geneva\\_Reports/Geneva\\_report\[2\].pdf](http://www.genevaassociation.org/PDF/Geneva_Reports/Geneva_report[2].pdf)

**The Kyoto Statement** of global insurance industry leaders is available at

[http://www.genevaassociation.org/PDF/Risk\\_Management/Kyoto\\_Statement\\_signed\\_2July09.pdf](http://www.genevaassociation.org/PDF/Risk_Management/Kyoto_Statement_signed_2July09.pdf)

**For enquiries please contact:**

Anthony Kennaway, Head of Communications, The Geneva Association

Phone +41 22 707 66 06

[anthony\\_kennaway@genevaassociation.org](mailto:anthony_kennaway@genevaassociation.org)

Dr Kai-Uwe Schanz, Advisor to The Geneva Association

Phone +41 22 707 66 80

[kaiuwe\\_schanz@genevaassociation.org](mailto:kaiuwe_schanz@genevaassociation.org)

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**About The Geneva Association**

The International Association for the Study of Insurance Economics (“The Geneva Association”) is a unique global organisation formed by a maximum of 80 chief executive officers (CEOs) from the world’s most important insurance companies. The Geneva Association’s main goal is to research the growing importance of worldwide insurance activities for economic growth and societal progress.

The Geneva Association also acts as a forum for its members, providing a worldwide unique platform for the top insurance CEOs to exchange ideas and discuss key strategic issues. It also organises platforms for member companies’ chief financial officers, chief risk officers, chief economists and chief communication officers. It is a non-profit organisation based in Geneva, Switzerland.