

***Eight questions for insurers  
about climate change***

Speaking notes for  
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(check against delivery)

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Climate change is transforming parts of the insurance industry. Consumers, investors and other stakeholders want to know how insurers are managing this important and complex issue. Regulators in the United States require insurance companies to report annually about actions they are taking to address climate change. The eight questions from US regulators are useful for all insurers:

- What actions have you taken to assess and reduce emissions?
- How does your risk management strategy address climate change?
- What actions have you taken to identify and assess climate risks?
- Summarize the climate change risks for your company?
  
- How will climate change affect your investments?
- What actions have you taken to encourage policyholders?
- What actions have you taken to engage other stakeholders?
- How do tools like models help you manage climate risks?

Why focus on the insurance industry when climate change affects all industries? Insurance is the world's largest industry, with more than US\$4 trillion a year in revenue. Moreover, almost every property owner buys coverage in Canada and most other industrial countries. The financial health of some insurance companies is highly sensitive to the weather. In brief, insurance is the business of risk management and climate change is one of the most important risks facing society so I believe that it is natural for some stakeholders to want to know how insurers are managing climate risks.

The insurance sector includes a number of different industries. Some industries, like life insurance, have been affected by the global financial crisis, AIDS, and a number of other issues, while climate change has had little impact. In contrast, the growing frequency and severity of extreme weather events is transforming the property insurance business. For example, severe weather disaster claims paid by property insurers increased twenty fold since the 1970s, an alarming and unsustainable trend. Accordingly, it is important to understand that the behaviour of insurance companies should be assessed relative to their specific business circumstances.

The increase in global disaster damage includes a number of large loss events in Canada. This slide shows images from the wildfire in Kelowna, flooding in Calgary, a summer storm in Toronto, Hurricane Juan preparing to strike Halifax, and the Great Ice Storm. Severe weather property damage claims paid by Canada's insurers have been rising for the past four decades. Indeed, severe weather claims now exceed fire damage claims.

Let me briefly review eight questions for insurers about climate change. First...

- What actions have you taken to assess and reduce emissions?

This is a question that should be addressed by all companies and individuals. Measure your carbon footprint and develop a plan to reduce your impact on the environment. Options exist for insurers to invest in high efficiency heating, lighting, and cooling systems. Fuel-efficient vehicles will reduce the cost and impact of resolving claims. Also there is significant potential to reduce paper use for many insurers. Stakeholders are likely to increasingly seek public information describing actions taken. The leading insurance companies in Canada have begun publishing reports on corporate social responsibility and sustainability, and these often include information of climate change.

- How does your risk management strategy address climate change?

Insurance companies should have a comprehensive risk management strategy. For many companies climate risks will be identified as a peril that needs to be monitored and managed. Climate risks should be addressed within a framework that also is concerned with many other perils that may include this risk of urban fires, vehicle collisions, volatile financial markets, and uncertain legal and regulatory regimes. The concept of “mainstreaming” means that insurance companies may find it difficult to identify actions to address climate change that are distinct from action to address related perils like volatility in the weather, but this complexity should not be viewed as a problem if climate risks are addressed.

- What actions have you taken to identify and assess climate risks?

Our Institute is working with a number of insurance companies seeking to better measure current climate risks and anticipate future exposure. The greatest concern at this time for most companies has been the alarming increase in water damage claims. Our work has also identified growing exposure to severe wind, winter storm and wildfire. We are working directly with the companies to support better management of these perils that are present or expected in the Canadian market.

- Summarize the climate change risks for your company?

The growing frequency and severity of extreme events have contributed to a steady and persistent increase in claims costs. Research by PACICC shows that a history of sound financial management, healthy capitalization and the use of reinsurance all serve to reduce the risk that an extreme weather event could cause a healthy insurance company to fail in Canada. In my opinion it is appropriate that insurance companies currently focus more on price adequacy and reputational risks. There is evidence, for example, that consumers are not aware of the severe weather risks that are and are not covered. Moreover they are seeking information and incentives that will encourage them to take action to reduce the risk of loss. Also there are covered perils where current rates appear inadequate. Price adequacy and engaged policyholders are likely the major risks for most property insurers.

- How will climate change affect your investments?

Many investors and investment funds are assessing environmental concerns, like climate change, when they decide where to place their funds. Indeed, corporate social responsibility and sustainability reports appear to have an increasing impact on investment decisions. The investment policies of insurance companies should reflect an awareness of environmental concerns.

- What actions have you taken to encourage policyholders?

An exciting opportunity for insurance companies is to influence the behaviour of policyholders. This is central to the work of our Institute. For example, our research team at the Insurance Lab for Better Homes provides the science foundation for the Institute’s Designed for safer living Builders’ Guide. The Guide sets out specific actions that will make a home more resilient to severe weather risks. The Cooperators has partnered with us to build several homes across Canada to this higher standard. This home built in Prince Edward Island was subsequently struck by Hurricane Noel and experienced no damage because it was designed to be resilient to severe wind. We are working with

insurance companies to champion actions to reduce the risk that their policyholders will experience property damage from basement flooding, severe wind or wildfire.

- What actions have you taken to engage other stakeholders?

Most insurance companies in Canada are members of the Insurance Bureau of Canada. The Bureau is speaking on behalf of the Canadian insurance industry about climate change, including an active government relations and public relations program. In particular, this has included a strong voice to champion the need to invest in public infrastructure to help society better cope with change in the climate. Most insurance companies also support the research program at our Institute.

- How do tools like models help you manage climate risks?

Over the past decade insurance companies in Quebec, Ontario and British Columbia have used models to support better management of earthquake risks, and models are emerging to provide support in the management of climate risks. The early climate models for insurance companies were developed in foreign markets, like the United States, where there have been a number of large loss events. Lessons learned in these markets have been applied to the Canadian data and models are now emerging for insurers in this country. It will take time to determine the role of climate models for Canadian insurers.

In conclusion, these eight questions provide information about how insurance companies are addressing climate change. Over the past four decades insurance companies report rising severe weather claims. Indeed, weather damage claims now exceed fire damage claims as the largest cost for Canada's property insurers. Insurance consumers are aware that the risk of damage to their homes and businesses is rising and they seek coverage for the risk of weather damage. Insurance companies need to ensure that the rates they charge are fair and adequate. Insurance consumers also seek information about actions they can take to reduce the risk of weather damage to their property and they look to their insurer to help provide this information. The eight questions for insurance companies about climate change show that insurance companies are leading the effort to help property owners better manage this important risk. Thank you.

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