

Climate change — the debate matters, the results do not

Reinsurers should stand back from the distractions of the climate change debate and stick to what they know best, says **Chris Klein**.



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In the climate change debate, both sides claim fact and assume faith. The debate has offered few tangible answers but the discussion itself has had profound implications for insurers. While it remains the domain of politics in most countries, insurers have had to respond to the possibility of climate change by including its effects in catastrophe models. Even if the pundits remain unsure, we have no choice but to consider the likelihood that weather patterns will change and catastrophe events will increase in number and severity.

Three major views

There are three major views on climate change. One is that it is a scientific fiction, intended to change human behavior to support political or governmental agendas. Others believe that it is a man-made phenomenon that can be counteracted — or at least controlled. The third acknowledges that climate change does exist but as a result of natural causes that people can do little to control. Almost universally, though,

each camp relies on countless authorities to assert their claims as truth. The ongoing disagreement itself has reshaped attitudes in the insurance industry, where probability is at the heart of daily operations. While the answers have not been determined, the insurance community has begun to address the likelihood of climate change.

Of necessity, insurers deal in likelihoods. We cannot predict exactly the frequency or severity of natural catastrophes that will occur in a particular year. Instead, we model a variety of scenarios and use available data to anticipate a series of outcomes. In doing so, we try to determine which are most probable in order to determine risk profiles and provide or obtain the appropriate coverage. Accounting for climate change is no different.

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A decade ago, this phenomenon did not factor into modeling assumptions but modeling changes became more common after the active storm years of 2004 and 2005. Four storms (Charley, Ivan, Frances and Jeanne) hit

Florida in 2004, and a trio of storms (Katrina, Rita and Wilma) caused substantial damage to the US Gulf coast in 2005.

Largely as a result of increased storm activity, Risk Management Solutions (RMS) released a version of its model in 2006 that could take into account the possibility of above average North Atlantic storm activity.

The impact of change

The causes of climate change, for the time being, are immaterial. That discussion is better suited to the scientists and politicians driving the debate. For insurers, though, the impacts of possible climate change are both relevant and present. The likelihood of climate change is the insurance issue to be addressed today, even though we may not know which group's position is correct for some time.

Of course, we need to remain ready to change. As the study of this issue continues, new information will become available, and 'fact' probably will change a number of times in the process. The development of the argument will provide new fodder for models, and the accuracy of predictions should improve. Over time, we can use the conclusions drawn from scientific argument to recalibrate models and provide more precise cover to cedents.

The politics of climate change will rage on but insurers should remain focused on the specific ways in which the debate itself will impact the business. As information becomes available, it should be synthesised. The decline of old truths will give life to a new generation of assumptions. This, in fact, is the essence of risk management. We cope with a dynamic landscape to refine forecasts. Time passes, and predictions improve. Instead of engaging in the climate change debate, insurers should stick to what they do best: namely the transfer and management of risk.

