

Climate Change: No silver-bullet solution.

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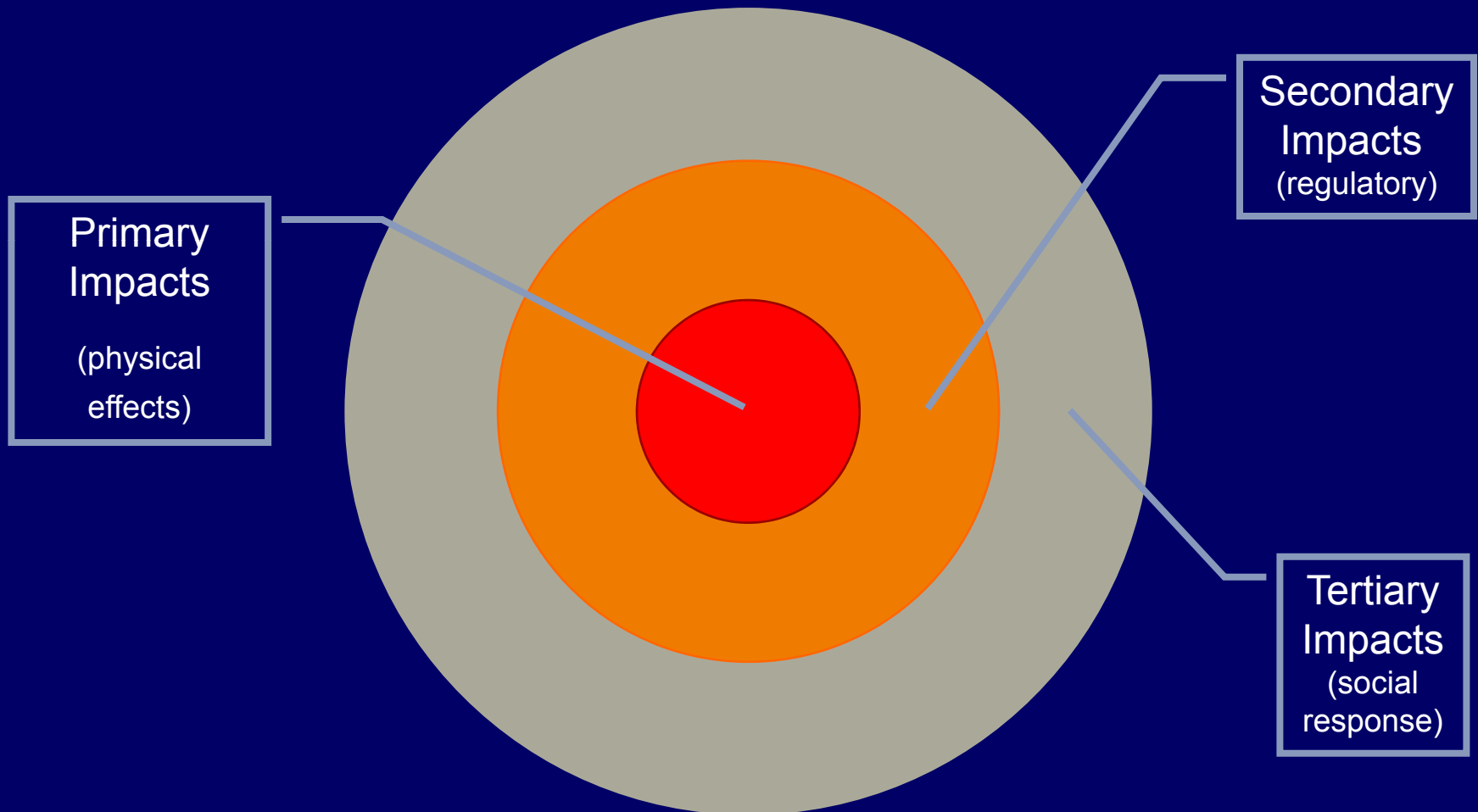
Why Climate Change is important to Insurers

“The top insurance risk in 2008 is climate change. The threat is typically viewed as a long-term issue with broad-reaching implications that will significantly impact the industry.”

Ernst & Young 2008

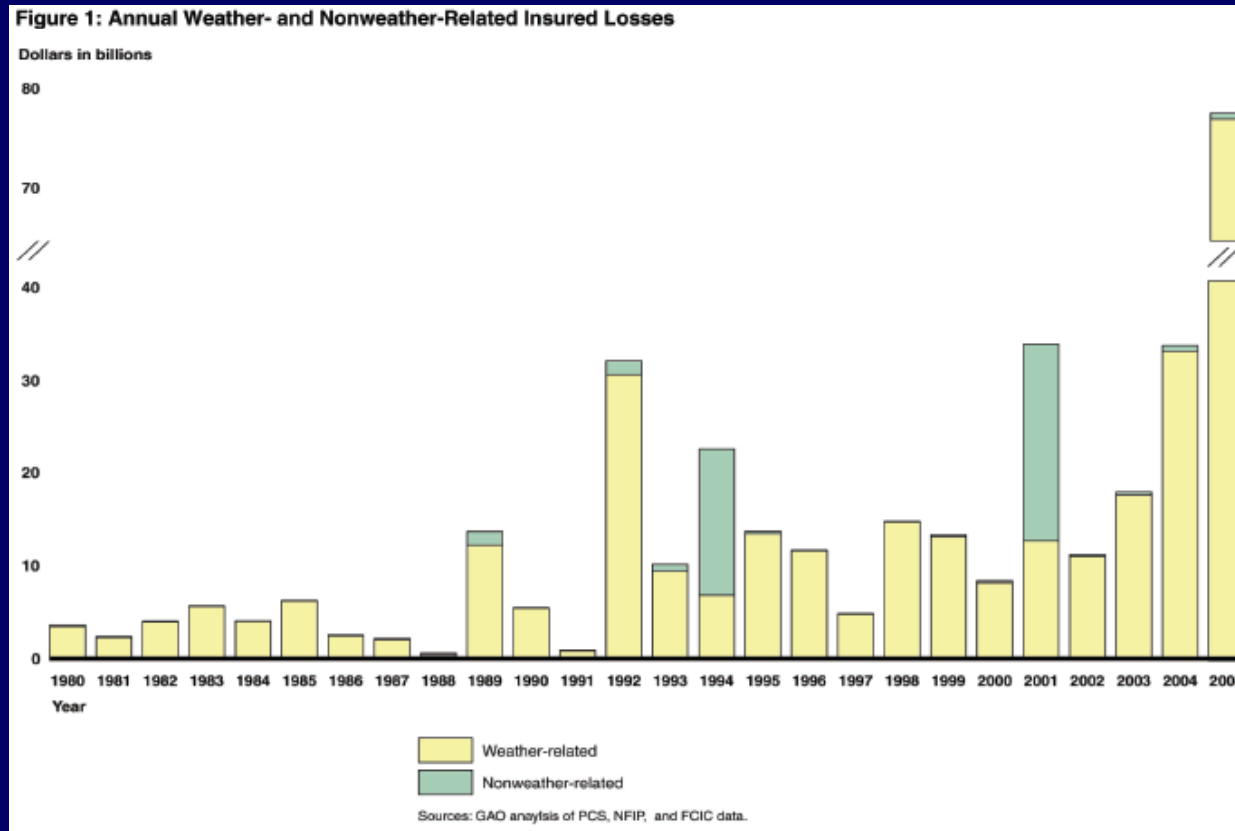
While there is no simple or immediate solution to the problems presented by Climate Change, insurers have a matchless, largely untapped opportunity to help society adapt.

Climate Change Hazards



Primary Exposures (Physical effects)

Weather catastrophes insured losses from 1980 to 2005



400 events already in the first half of 2008, exceeding US\$50bn in losses.

Additional Exposures

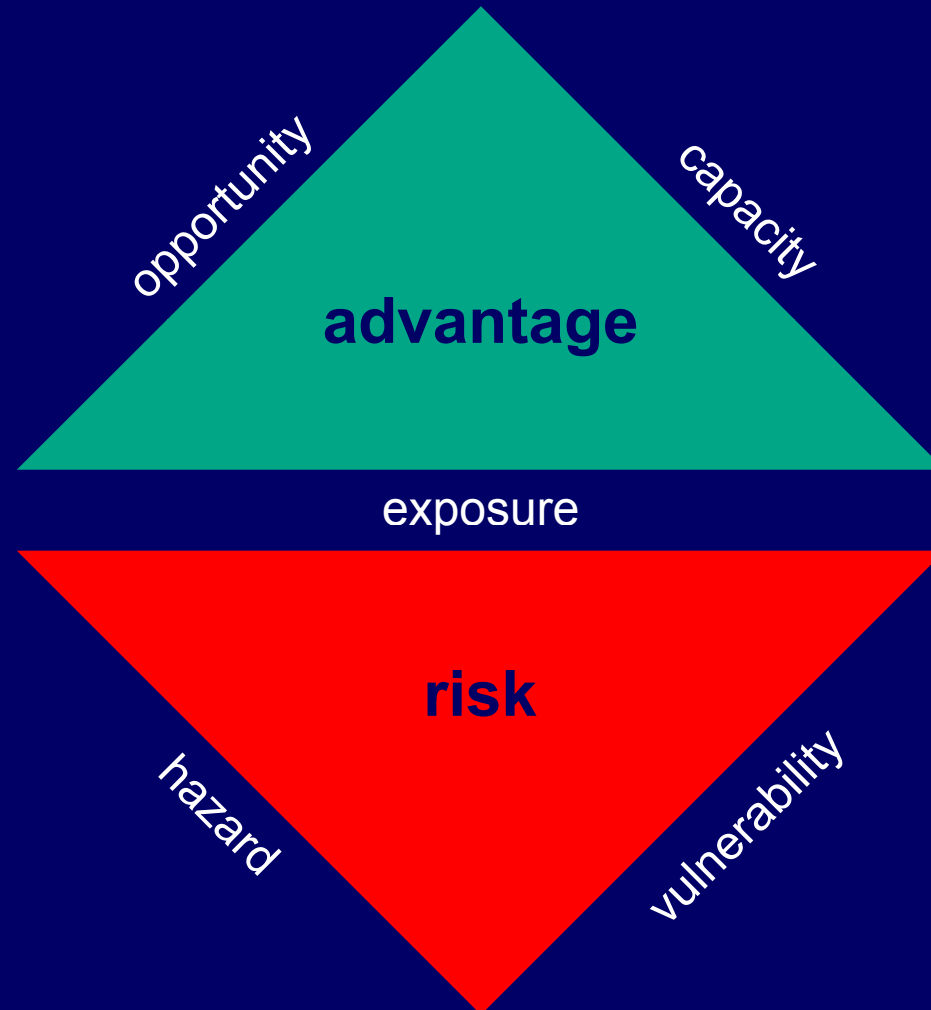
Secondary Hazards (Regulatory response)

- Emissions Regulation & Carbon Trading Schemes
- Efficiency standards
- Mandatory Renewable Energy Targets

Tertiary Hazards (Social response)

- Changes in property values
- Demographic changes
- Changing consumer spending patterns

Climate Risk Diamond



Traditional Response from Insurers

- Reduce the vulnerability

- Raise premiums and deductibles
- Lower policy limits
- Implement broader coverage restrictions
- Don't offer cover in highly exposed sectors

Is there an alternative?

– Develop new products, help customers to adapt.

- Provide insurance products that respond to community and industry needs, e.g.
 - Customised coverage for carbon sequestration projects and renewable energy producers
 - Political risk insurance for carbon credit projects
- Use traditional risk management expertise to help 'climate-proof' current markets
- Encourage policy holders to re-build with more robust structures

Can the risks be managed ?

Insurers have the capacity, in both financial resources and technical capability, to make a difference.

Insurance is the world's largest industry, receiving premiums to transfer risk that represent 7.7% of global GDP. It acts as society's "shock absorber" when disaster or catastrophe occurs.

However, Climate Change is uncharted territory which means that a new approach is needed.