

# WENTWORTH GROUP

OF CONCERNED SCIENTISTS

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Committee Secretary  
Senate Standing Committees on Environment and Communications  
PO Box 6100  
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Dear Secretary

At the Senate Standing Committee on Environment and Communications hearing on 11 April 2013 into Recent Trends in and Preparedness for Extreme Weather Events, the Chair, Senator Cameron, asked the Wentworth Group the following question:

*"That is what the Insurance Council says. The IAG are running a similar argument—that the issue is not climate change, you cannot measure this, and there is nothing to tell you there is a problem. Yet every scientist who comes before us says this is a matter of basic physics. If the insurance industry, with the massive wealth that they are involved in, cannot get the basic physics right, what hope is there for us? Why would they be running these arguments?"*

In our response to this question we pointed to the variation between the general insurance industry and the re-insurance industry:

*"Other insurance companies, particularly reinsurance companies globally, such as Munich reinsurance and Swiss reinsurance, have their own assessors of increased exposure to extreme weather and climate events, and they have clearly concluded, in a number of reports, that there is increased exposure to extreme weather events and insurance related risk happening around the world already. So there are differences in opinions amongst different insurance companies."*

We are writing to you to further elaborate on our answer. This letter presents further information on the differing positions of the general insurance industry and that of the re-insurance industry with regard to climate change, as well as additional information to support the answer we provided to the Inquiry.

In its January 2013 submission to the Inquiry the Insurance Council of Australia stated:

*"The committee should consider that whilst community losses due to extreme weather are increasing with time, the trend is not being determined by extreme weather becoming more frequent or intense.<sup>1</sup>"*

Its submission goes on to further clarify this position and its relationship to anthropogenic climate change.

*"This does not suggest that there is no increase in the intensity and frequency of the hazard due to anthropogenic climate change, simply that there is currently no observable signal in extreme weather loss data to support the focus given to it. Losses are changing predominantly due to increasing exposure and vulnerability."*

Another insurance body, the Insurance Australia Group also identified similar issues in its submission:

*"Natural variability of climate is a significant source of uncertainty in understanding the true frequency of extreme events. Additionally the climate science is still developing and how climate change manifest itself is not yet known."*<sup>2</sup>

On face value, these statements appear to be in direct conflict with a recent report from the Australian Climate Commission which stated:

*"Climate change is already increasing the intensity and frequency of many extreme weather events, adversely affecting Australians. Extreme events occur naturally and weather records are broken from time to time. However, climate change is influencing these events and record-breaking weather is becoming more common around the world."*<sup>3</sup>

The inference of these apparently contradictory statements is that the insurance industry does not accept the scientific assessment of the Commission. This is not the case.

Zurich Financial Services Australia Ltd (Zurich) is a global financial services company operating in Australia and provides general insurance, life risk, investment and superannuation products. Zurich's 2008 report *Climate Change and the Insurance Industry – no silver bullet solution* has the opening finding:

*"Climate change is one of the most serious threats facing the insurance industry today. Whatever the debate about climate change, there is little doubt the world is already seeing an increase in the frequency and severity of extreme weather related events."*<sup>4</sup>

The world's largest re-insurer, Munich RE, advocates a different position to the local general insurance industry with regard to the impact of climate change on extreme events:

*"Whereas the increasing losses are primarily due to socio-economic developments (population growth, rising values, settlement patterns), the strong rise in the number of weather-related catastrophes can probably not be fully explained without climate change, especially as the number of earthquakes, volcanic eruptions and other geophysical events has only increased slightly."*<sup>5</sup>

Swiss RE, the world's second largest re-insurer, takes a similar position:

*"Today, global warming is a fact. Since the beginning of industrialisation and the rapid growth of world population, man's activities – along with natural variability – have contributed to a change of climate manifesting itself as a considerable increase in global temperature. Climate change has the potential to develop into our planet's greatest environmental challenge of the 21st century."*

*"As a major global reinsurer, Swiss Re is committed to taking a leading role in the climate debate. We identified climate change as an emerging risk some 20 years ago, and the concern has since evolved into an important component of the company's long-term risk management strategy. Our actions are based on the premise that it is in the interest of our shareholders, clients and employees, the wider stakeholder community and society in general to tackle this issue."*<sup>6</sup>



The statements from the Inquiry submissions, Zurich, Munich RE and Swiss RE highlight a key difference between how the Australian general insurance industry and an international insurance company and the re-insurance industry view climate change.

The apparent inconsistency is explained, not as the result of different interpretations of the same data, but more as the result of the different time horizons used by different parts of the insurance industry to assess risks.

A recent article in *InsuranceNEWS.com.au*, a national online news bulletin for Australasia's general insurance industry provides the following observation:

*"This is the catch-22 of the debate for insurers. They focus only a couple of years out in their planning for loss events, and tend to rely more on actual experience of such events to establish trends. In other words, there has to be more data, and the only way to establish the link with full certainty is going to take time."*<sup>7</sup>

The article then goes on to state that the Insurance Council of Australia says *"that while many climate change forecasts consider possible risks 50 to 100 years from now, insurers look just one or two years ahead."*

In other words, the general insurance industry is focused on short time frames (one to two years), based on historical experience data, and as a consequence climate change has not been a key matter for their business in setting short term insurance premiums.

**The Wentworth Group believes the Senate Inquiry should highlight the different position of the local general insurance industry which is based on the assessment of short term risk in setting annual premiums and the position of the re-insurance industry which takes a longer term view that recognises the potential economic impact of climate change on its industry.**

Yours sincerely

Peter Cosier

on behalf of the Wentworth Group of Concerned Scientists

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<sup>1</sup> Insurance Council of Australia, 2013 *Insurance Council of Australia Submission: recent trends in and preparedness for extreme weather events*. Sydney 2013.

<sup>2</sup> Insurance Australia Group, 2013 *Submission to the Senate Standing Committee on Environment and Communications Inquiry into Recent Trends in and Preparedness for Extreme Weather Events*. Sydney 2013

<sup>3</sup> Steffen W., Hughes L., Karoly D., 2013. *The Critical Decade: Extreme Weather*. Climate Commission, Canberra, 2013

<sup>4</sup> White R. and Cahill A. 2008 *The Zurich Report Climate Change and the Insurance Industry – no silver-bullet solution*. Zurich Financial Services Australia, North Sydney 2008.

<sup>5</sup> [http://www.munichre.com/en/media\\_relations/press\\_releases/2011/2011\\_11\\_25\\_press\\_release\\_en.pdf](http://www.munichre.com/en/media_relations/press_releases/2011/2011_11_25_press_release_en.pdf) (2011)

<sup>6</sup> [http://www.swissre.com/rethinking/sustainable\\_energy/our\\_position\\_and\\_objectives.html](http://www.swissre.com/rethinking/sustainable_energy/our_position_and_objectives.html) (2013)

<sup>7</sup> <http://insurancenews.com.au/analysis/climate-change-a-catalyst-for-extreme-weather> (2013)