

**general
insurance
seminar**

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



Are you climate-proof?

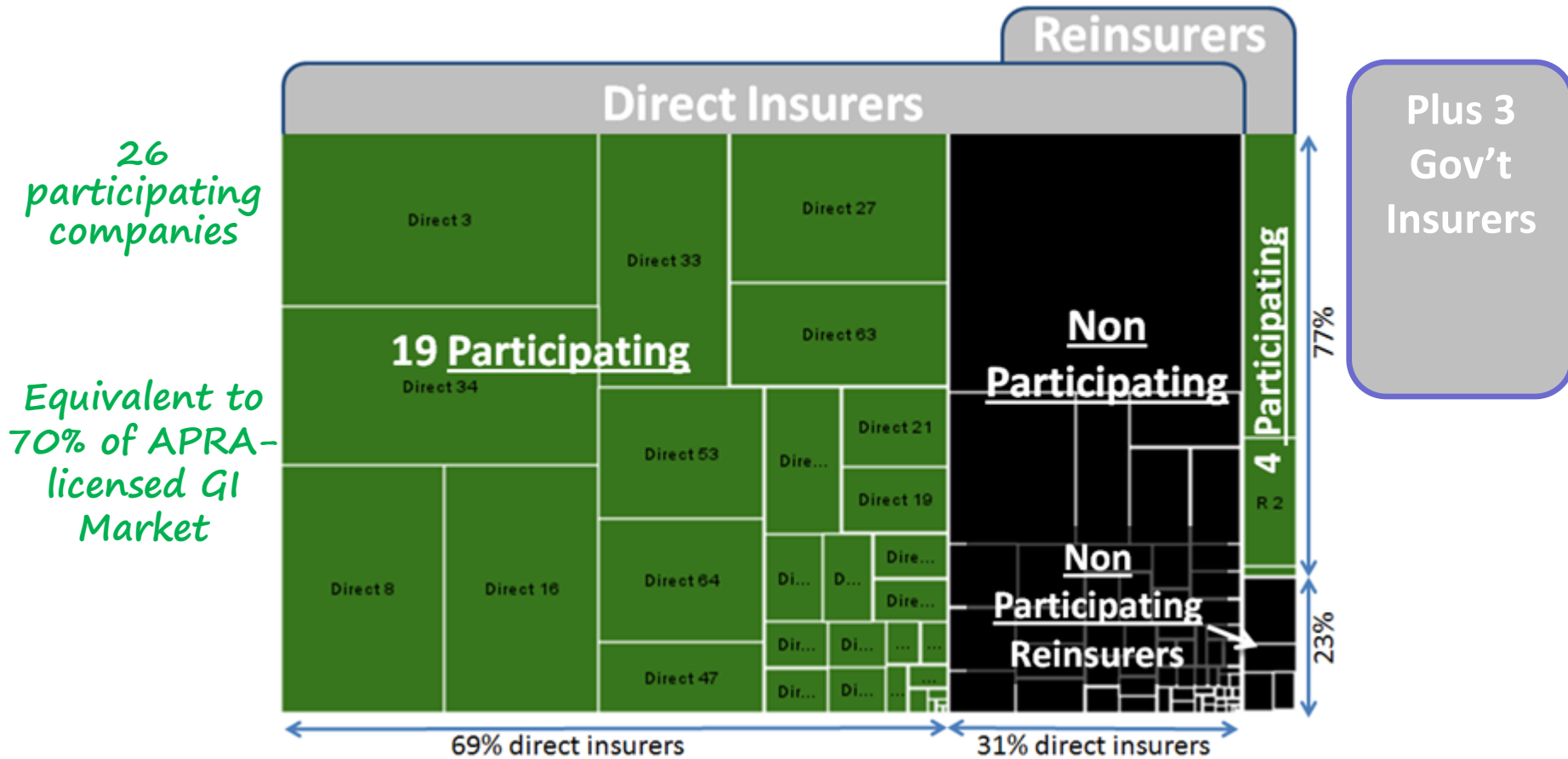
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*This presentation has been prepared for the Actuaries Institute 2012 General Insurance Seminar.
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More than 70% of APRA-licensed GI Market* (By NEP) Surveyed



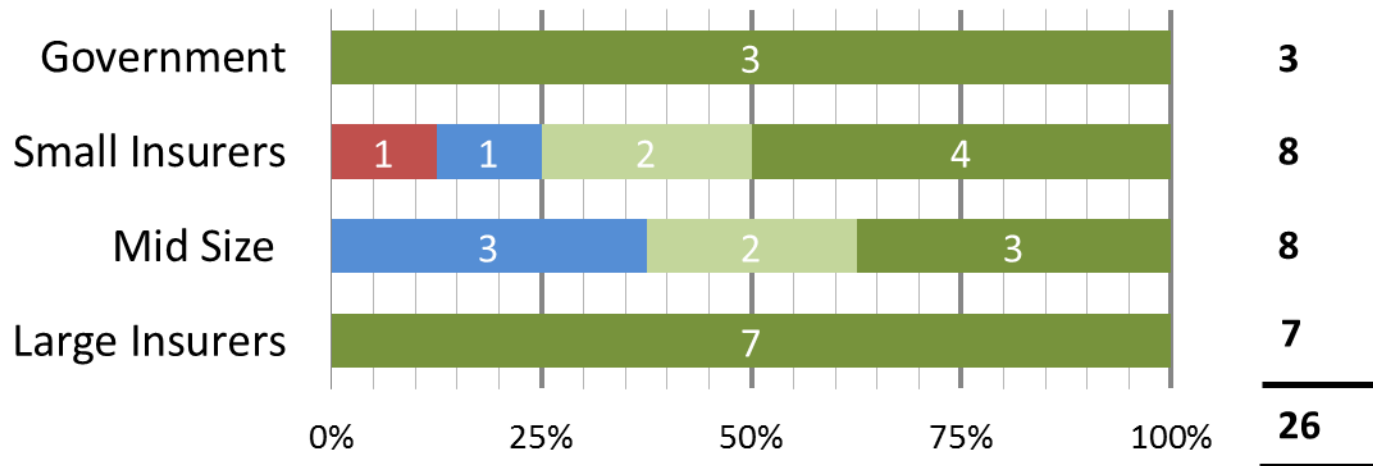
* Based on APRA general insurance company level statistics, December 2011, issued on 13 June 2012 excluding run-off licences.



65% of insurers are taking a formal affirmative stance on climate change and 77% are taking some form of action.

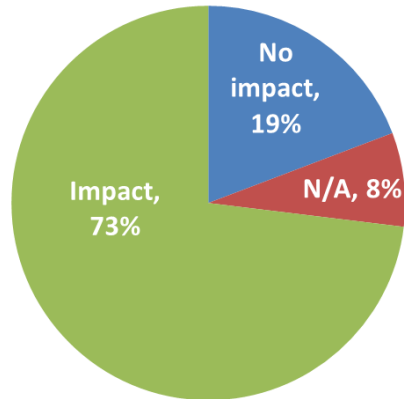
Insurer's stance on Climate Change

- Climate change is not happening
- No Formal Stance - No action
- No Formal Stance but taking action
- Climate Change is happening

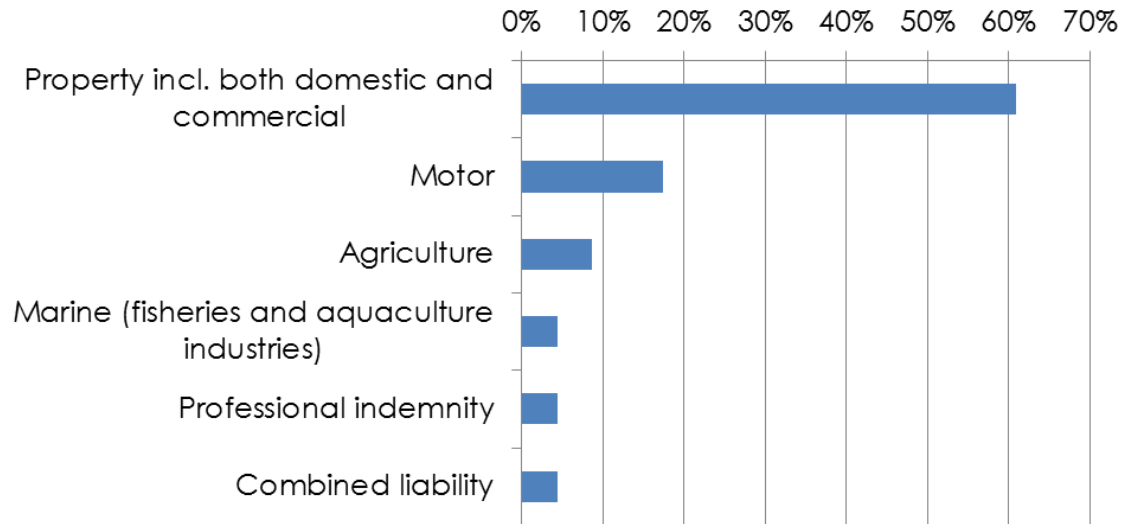




3 in 4 companies affirm that climate change is affecting weather events with Property and Motor classes ranking highest on insurers' minds.



% of companies experiencing or expecting losses in each portfolio

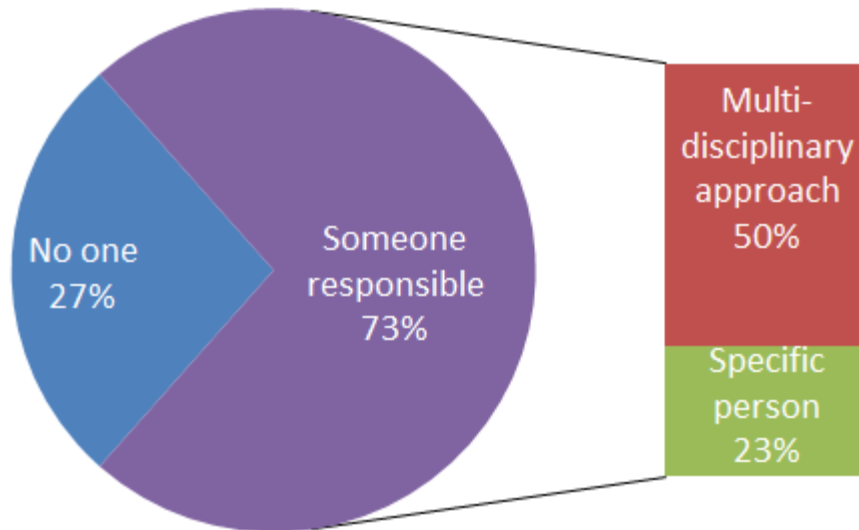


Most cited perils:

- Windstorms
- Hail
- Storm surges
- Floods
- Cyclones
- Bushfires

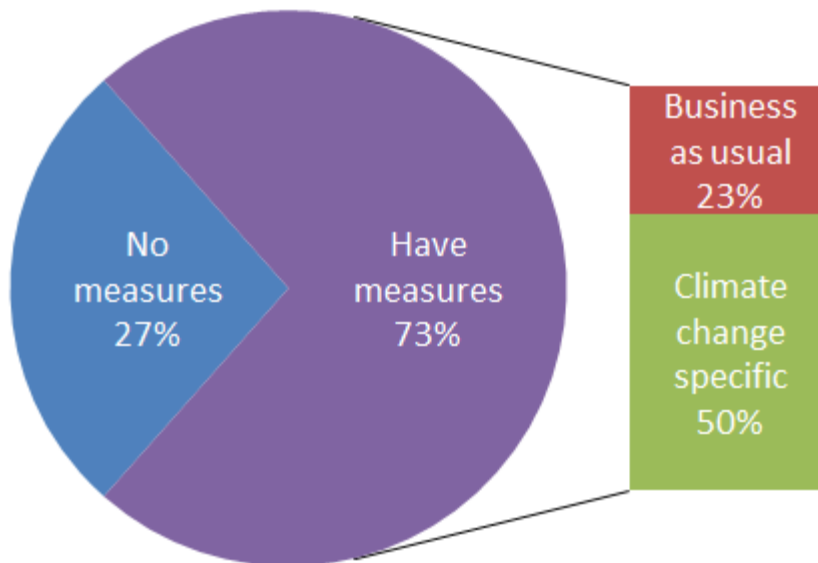


73% of companies have someone responsible to oversee climate change related issues.....



- Multi-disciplinary – C-level, underwriting, reinsurance, actuarial
- A specific person – small insurers
- Companies with dedicated person or unit have more sophisticated reporting structure – larger operations
- Some companies with no formal stance on climate change still have someone overseeing issues

.....However, only 50% of companies are reacting to or preparing their business for climate change.....

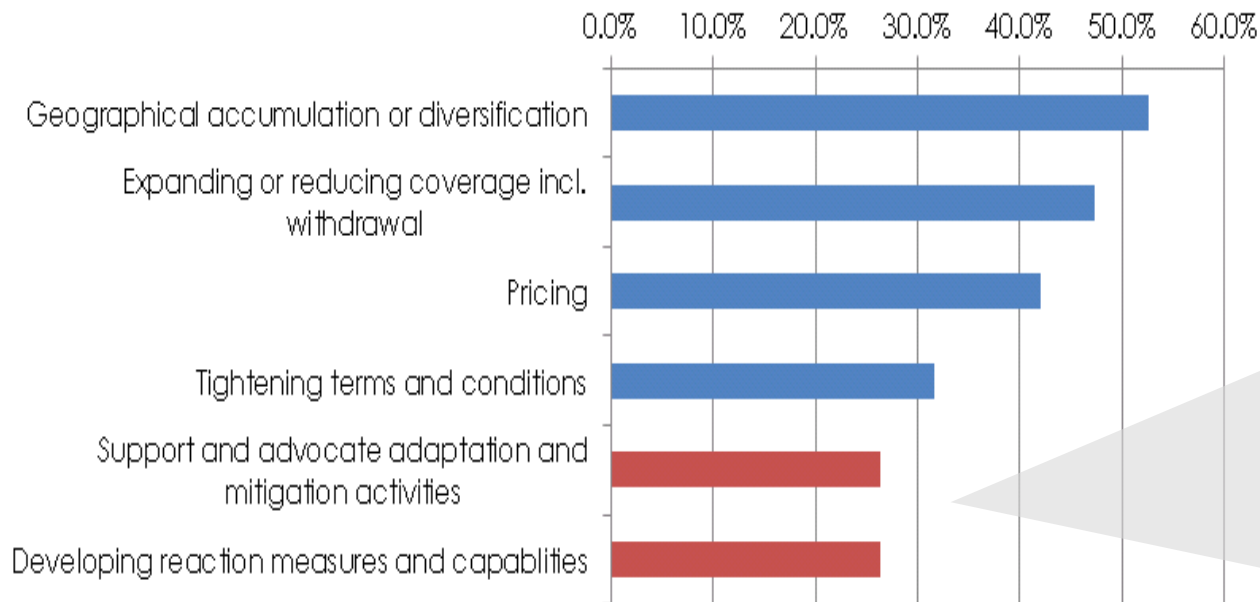


- “Business as usual” – operations are mostly unchanged but companies are continually monitoring experience and are prepared to use a number of measures.
- “Climate change specific” – companies have been using different measures to manage their risks.
- “No measures” - companies tend to be niche companies with views that there is little or no impact.



...and fewer companies are introducing new climate change specific capabilities

% of companies supporting each climate change measure



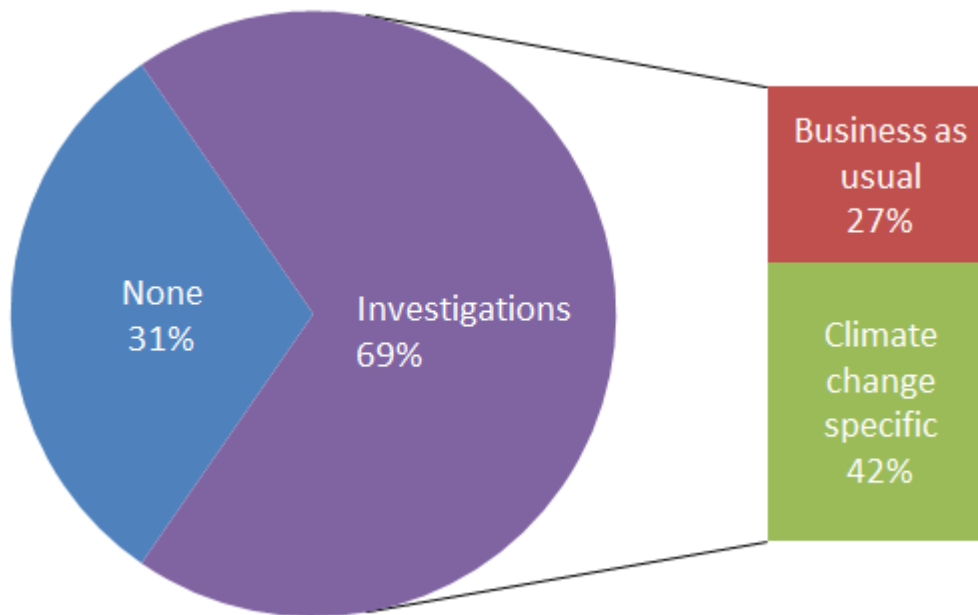
Few companies are introducing new fundamental capabilities

e.g

- Setting up event response plans
- Mobilisation of claims staff when disaster happens
- Setting up repairer and supplier panels
- Increasing risk management capabilities and inspection services
- Building capabilities in specialised areas like engineering and loss control

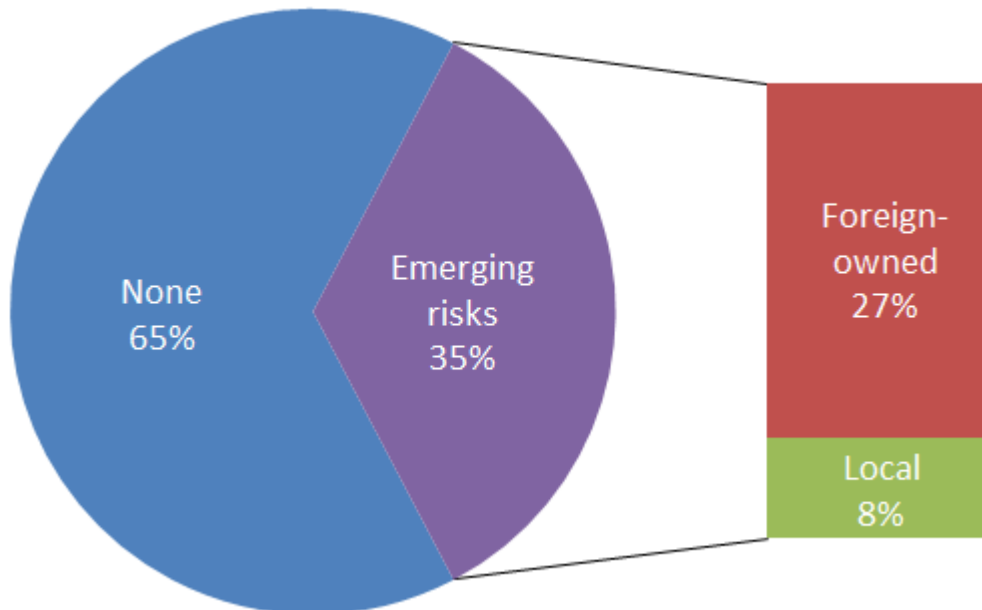


Most companies carry out investigations into the potential impact of climate change on their portfolio through modelling of risk exposures....



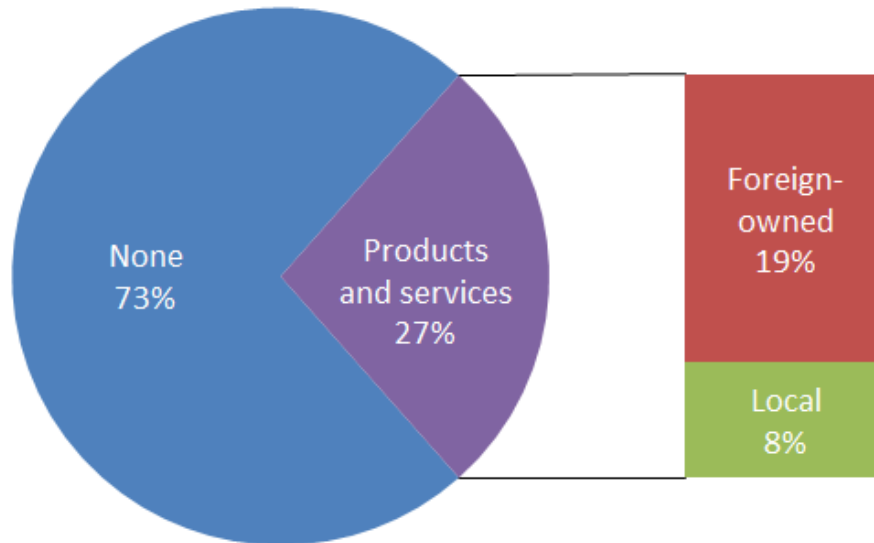
- “Business as usual” – risk analysis is part of normal operations, climate change risks are not singled out for analysis
- “Climate change specific” – specific analysis has been carried out in-house or by external parties
- “None” are mostly niche companies and don’t see relevance

Some companies are considering emerging risks related to climate change in non-property lines of business.



- Top two emerging risks are Environmental liabilities and D&O liabilities.
- Other emerging risks identified:
 - Increase to cost base and reinsurance costs
 - Future superimposed inflation
 - Effective business continuity plans of own operations after disaster
 - More compliance and/or prudential requirements

Some companies have introduced climate change related products and services.



- Services:

- Innovative use of technology
- Publications/Workshops/Training
- Risk management services
- Tools and tips for consumers

- Existing products – policy features

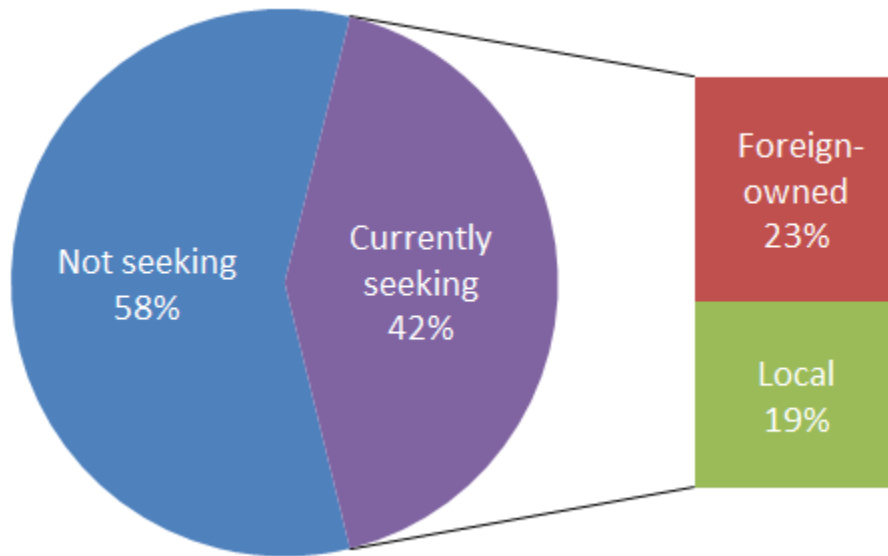
- “Green” product replacement
- Incentive/subsidy for low-emissions appliances
- Catastrophe bonds
- PAYG motor policy

- New products

- Carbon sink insurance
- Innovative risk transfer solutions



Further opportunities exist for climate change related products and services.



- New policy features considered:
 - Incentives to reward desired behaviours
 - Differential pricing
- Other opportunities identified:
 - New products for renewable energies, agricultural products, performance warranty covers
 - Increased demand for insurance products
 - Influence policy and actions around adaptation and mitigation strategies
 - New investment opportunities



Are you climate-proof?

- Most companies take an affirmative formal stance on climate change and that it is affecting weather events.
- Most companies have some (if limited) measures in place to deal with climate risks. Few are building specific capabilities.
- Most companies are analysing the impact of climate change on their risk exposures to some extent and some are also considering emerging risks which may impact their business.
- Some companies have introduced a number of climate change related products and services and more are considering opportunities.