

Climate Change and the Property Insurance Market



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Objectives

- Better understand Global Warming and insurance???
- Understand why the property insurance market in CAT exposed areas has deteriorated so rapidly
- Develop strategies to help our perform the market



DO INSURANCE COMPANIES HAVE TO SAVE THE CLIMATE TO SAVE THEIR BOTTOM LINES?

- Growing body of expert opinion that our climate is changing
- Lloyd's of London – 360 Risk Project (Darragh Grey, Senior Manager)
- Grey's Report, "*Adapt or Bust*" - Underwriters will suffer or gain on the basis of their environmental risk projections.
 - If they are wrong, it will be revisited in terms of financial results or worse
- So far the insurance industry has not taken changing catastrophe changes seriously enough



DO INSURANCE COMPANIES HAVE TO SAVE THE CLIMATE TO SAVE THEIR BOTTOM LINES?

- Will insurers take the lead?
 - US Insurers pushed for establishment of official fire departments in 19th century
 - British insurers lobbied hard in 2005 elections for better flood-defense funding
- BUT
 - Most big insurers are heavy investors in businesses that contribute to global warming
 - Have not managed the risk between between underwriting and investment strategies



DO INSURANCE COMPANIES HAVE TO SAVE THE CLIMATE TO SAVE THEIR BOTTOM LINES?

- Is Change In The Winds?
- Some Insurers are beginning to invest in environmentally friendly projects
 - Allianz Capital Partners – for the past year, assembled a team led by David Jones, Shell’s former head of wind energy.
 - Estimates it will invest \$600 million in renewable energy infrastructure in next 5 years – notably in wind turbine hardware
 - Swiss Re (acquired GE’s reinsurance business) – breaking down the wall between investing and underwriting



DO INSURANCE COMPANIES HAVE TO SAVE THE CLIMATE TO SAVE THEIR BOTTOM LINES?

- Is there enough momentum to keep this industry movement going?
 - A qualified YES
 - Insurers now believe that the climate change is so serious a threat to their business, they cannot wait for government to take the initiative
 - “The insurance industry must now seize the opportunity to make a difference.” – Darragh Grey



BACK TO WHAT IS!



Real Estate Property Market: How Did We Get Here?

- Real Estate, Hospitality, and Retail are segments where there have been extreme build ups in Cat exposed areas (Wind and EQ)
 - Those segments go where the populations have grown in huge numbers, even in the last 15 years



Real Estate Property Market

- Domestic, London, European, and Bermuda markets have all reduced cat capacity
 - Ratios (set asides) required by Rating Agencies
- Number of players have gone up exponentially
 - A program with three players in 2005 may have 10 or more in 2006 (can be from 3 to 10 times expiring)
 - The flight to primary
- This market is fundamentally different than after 9/11.



Real Estate Property Market

- Why is this market fundamentally different from the post - 9/11 market?
 - 9/11 was mostly a price issue; post-Katrina is a capacity issue first and price issue second
 - 9/11 was an overreaction to a previously underestimated peril; post-Katrina market is a fundamental change in the way markets will do business going forward. Much closer attention will be paid to aggregates going forward by the ratings agencies and also by the carriers and treaty reinsurers themselves. This will be more long reaching.
 - 9/11 was more focused on urban centers; post-Katrina market is more widespread (Tier 1 and 2 wind; CA EQ, Pacific NW EQ; New Madrid EQ etc.)



Industry Losses

- **Estimated Losses in 2004**

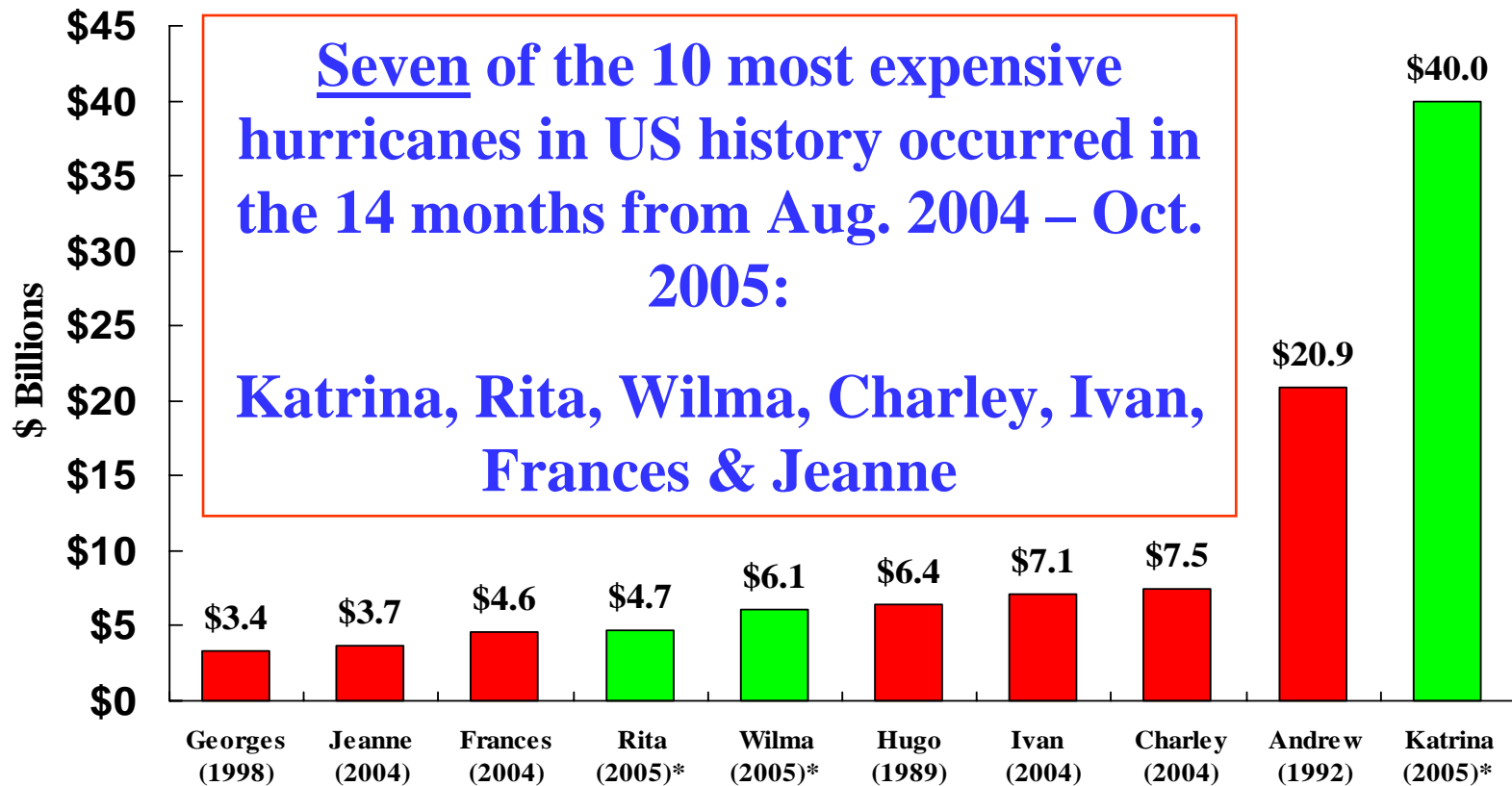
- Hurricane Charley **\$7.5B**
- Hurricane Frances **\$4.6B**
- Hurricane Ivan **\$7.1B**
- Hurricane Jeanne **\$3.7B**
- **Total 2004 Loss Estimate** **\$22.9B**

- **Estimated Losses in 2005**

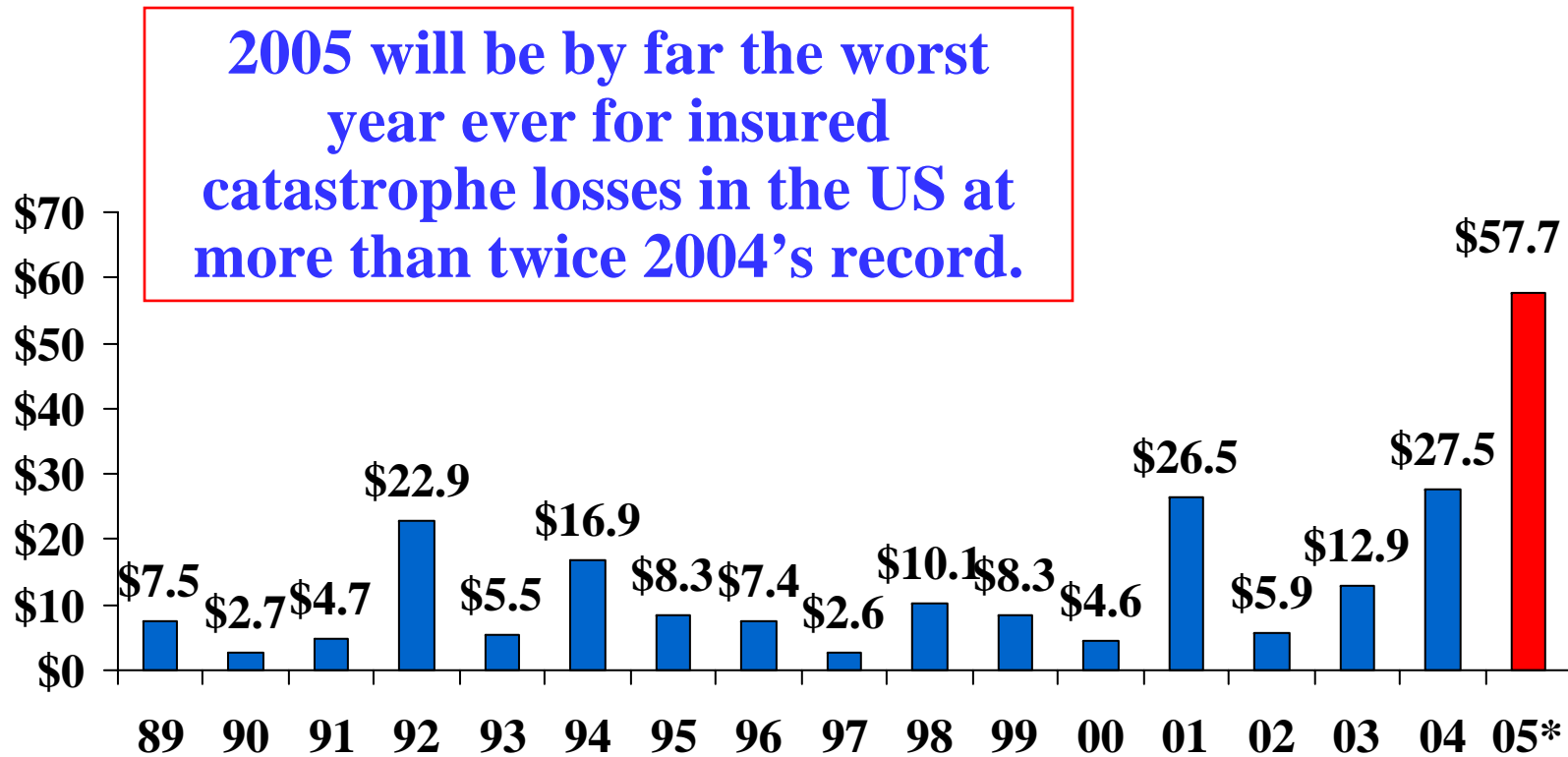
- Hurricane Katrina **\$45B - \$65B**
- Hurricane Rita **\$4.7B - \$15B**
- Hurricane Wilma **\$6.1B - \$15B**
- **Total 2005 Loss Estimate** **\$55.8B - \$95B**



Top 10 Most Costly Hurricanes in US History (Insured Losses, \$2004)

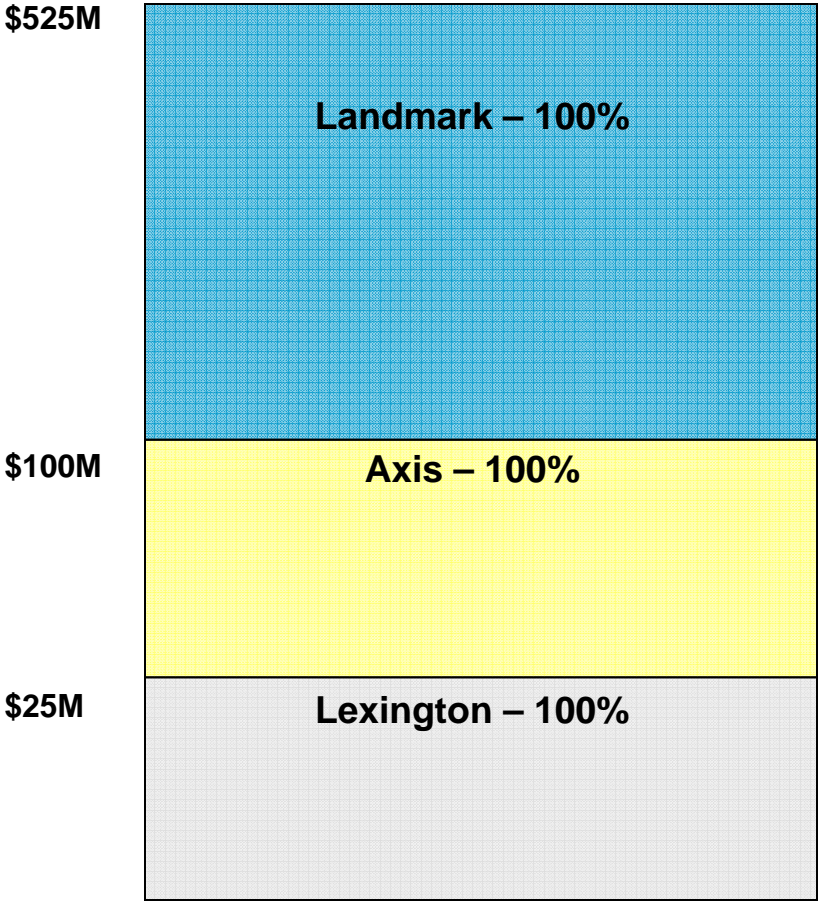


U.S. Insured Catastrophe Losses

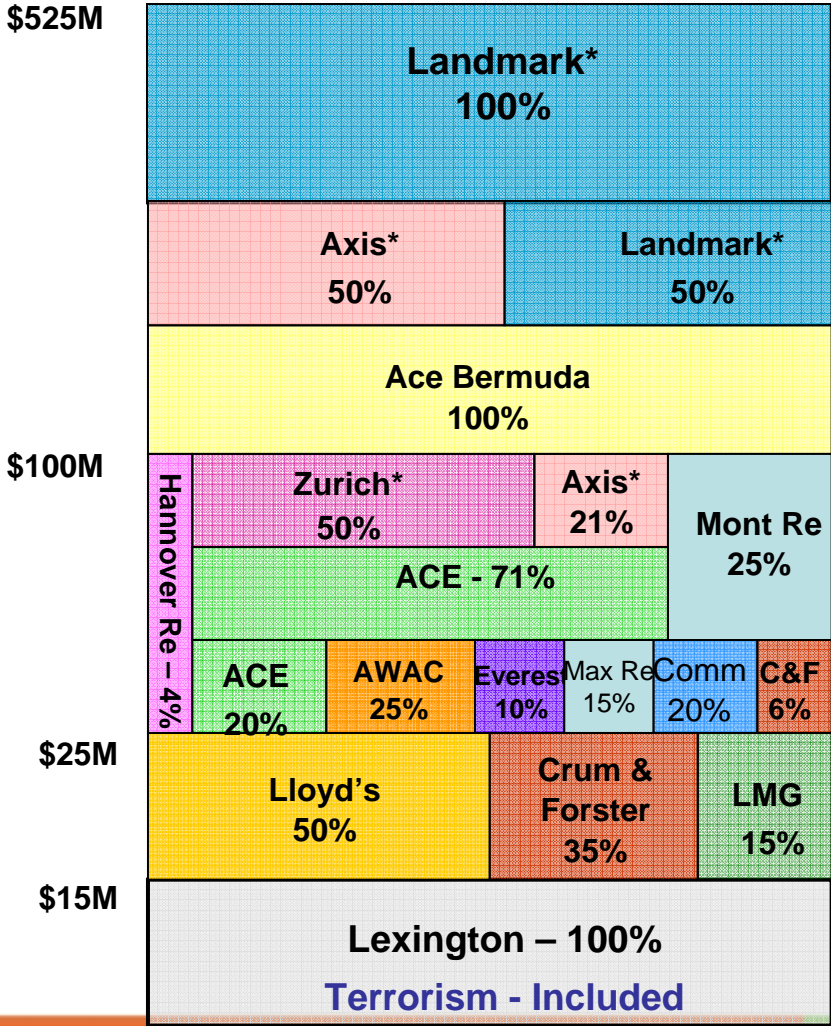


Pre Katrina vs. Post Katrina Cat Program

Client A – 12/1/04 Renewal



Client A – 12/1/05 Renewal



Real Estate Property Market

- Items of interest
 - Named storm deductibles regularly begin at 5% (occasionally 3% and we have seen 2%, but we have also seen 10%)

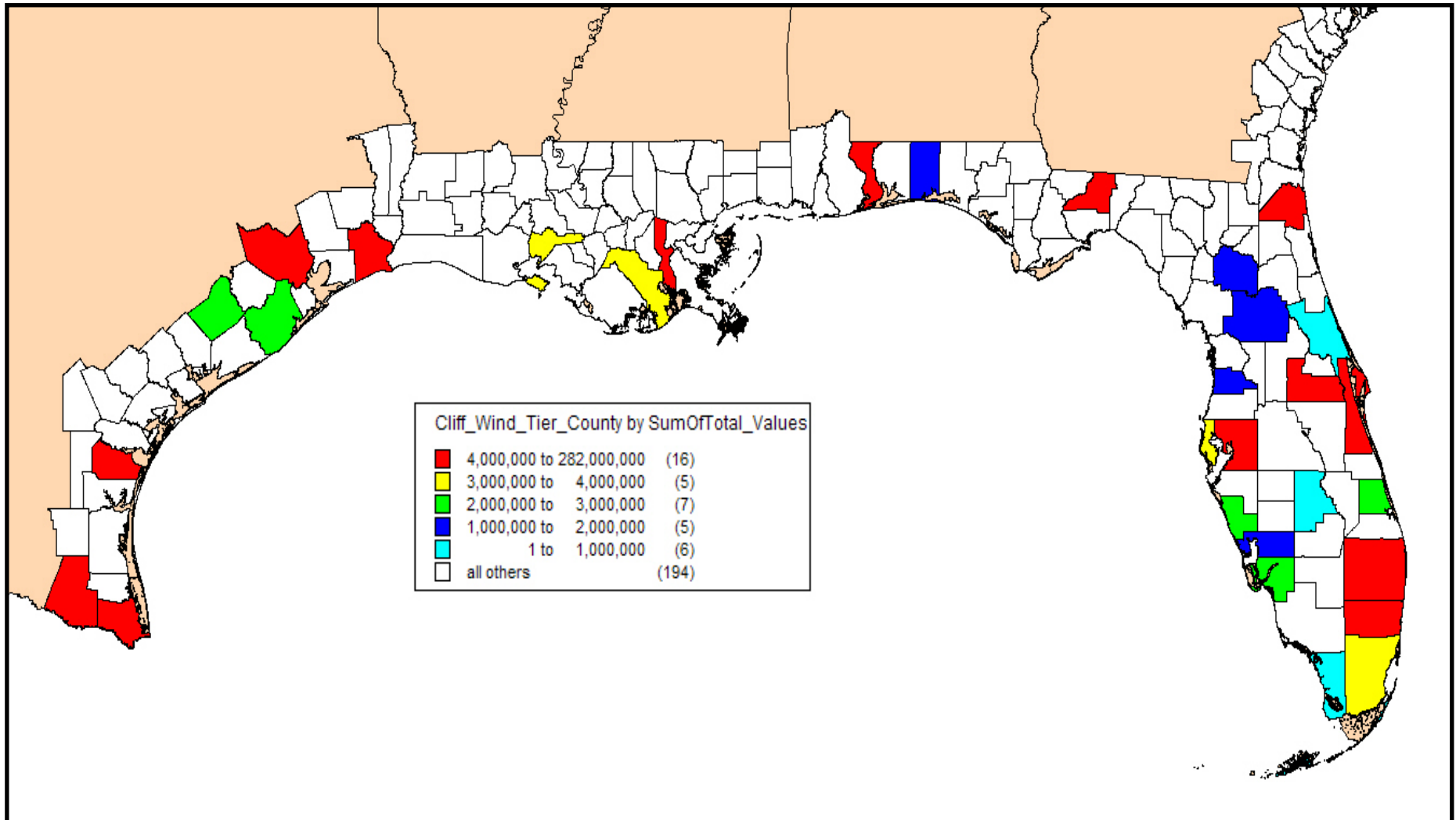


Strategies

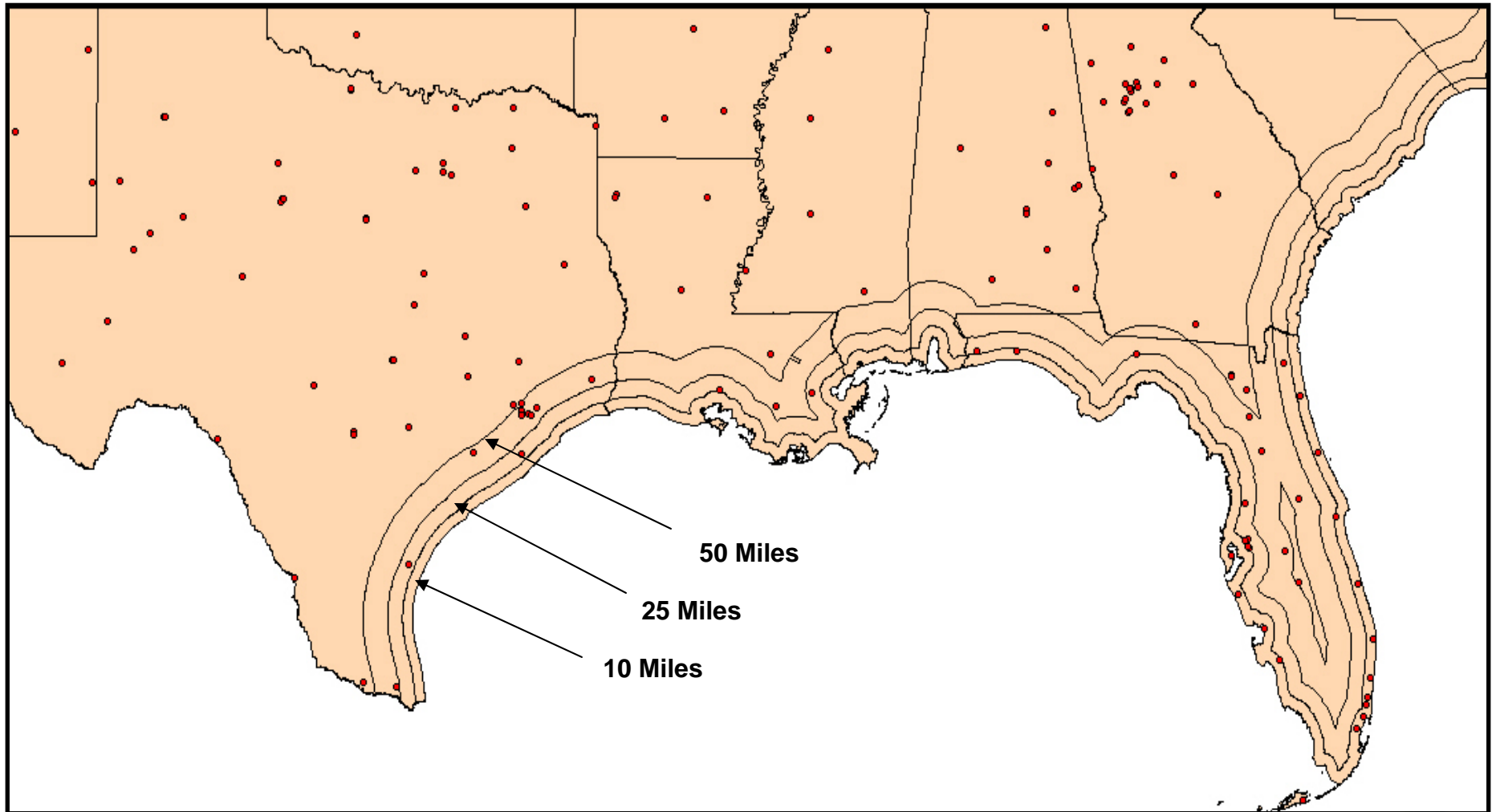
- Differentiate your account
 - Use technology available and often
 - Modeling
 - Mapping
 - Risk Control
 - Property Conservation Inspections and process for addressing recommendations (especially EQ/Flood/Windstorm)



TIV by Tier 1 & 2 Gulf States



Distance to Coast – Gulf States



Long Term CAT Solution For All Businesses

- Influence governmental policies on the environment
- Support a government CAT reinsurance pool
 - RAND Study
 - James Lee Witt
- Not an insurance bailout
 - Allows a longer period of payback for CAT losses, which lowers the cost
 - Private insurers cannot do that
 - It smoothes out economic disruption
- Creates a more efficient financial mechanism for getting the money back into the economy

