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Insurers urged to prepare for impact of climate change



By Tania Theriault

Climate change should be at the forefront of insurers' concerns, industry leaders heard at a Hot Topics Seminar organised by insurance practice attorneys from Sedgwick.

Sedgwick New York partner Edward Kirk said insurers should not be deluded into thinking the threat from climate change is a "flash in the pan" comparable to the Y2K scare.

"Regardless of the debate on what causes climate change, whether it is cyclical and uncontrollable or linked to greenhouse gases, it is clear that climate change will directly or indirectly impact almost every business and investment portfolio," Mr. Kirk said, speaking to *The Royal Gazette* after his presentation on Wednesday at the Bermuda Underwater Exploration Institute.

The insurance industry has already felt the impact of climate change with an increase in storm activity over the last decade leading to higher claims pay-outs, he said. In addition to more frequent and more severe hurricanes, there have been extreme weather events including the floods in the US and the

UK and heat waves in Europe.

Based on current projections, such events will become more common along with threats from rising sea levels and coastal erosion.

The spillover effects for insurers may extend farther than simply insurance claims.

As global organisations and governments grapple with climate change, there are regulatory changes being made which are extremely complicated and changing all the time, Mr. Kirk said. Companies may be exposed to fines or disclosure challenges related to climate change if not following developments intensely to ensure compliance.

There may also be claims made on professional liability or directors and officers liability if ill advised investments are made in climate or energy related companies.

While there is also potential for litigation related to climate change effects, to date legal challenges of this type have been dismissed, he added.

Increasingly, the wording of insurance policies may be changed in an effort to carve out certain areas of risk, or to separate it from others assets, to protect against claims.

Companies may also face increased pressure from investors to show that they are taking action on climate change — whether through investment decisions, policy or by supporting efforts to combat climate change.

Environmentally driven investor groups like CERES, a US-based group, are putting pressure on companies to address climate change and backing their efforts with their investment dollars. According to CERES' website, the Investor Network on Climate Risk it directs has collective assets of more than \$7 trillion.

"It's good marketing to say that you are on top of this issue because investors want to put money into companies that are dealing with climate issues — both from a moral standpoint and a financial standpoint," Mr. Kirk said.