

Climate Change Adaptation: An Insurer's Perspective

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Agenda

- Who IAG is
- Weather risk, climate change and insurance – the connection
- The importance of adaptation
- Ways to adapt
- What IAG is doing
- Conclusion

IAG is a leading general insurer that distributes products under many well known brands

Australia and New Zealand



Asia



UK



The recent Melbourne and Perth storms are a reminder of the impacts of severe weather events



- More than \$1bn of insured damage each
- Damage occurred in less than one hour
- Storms caused by only a small change in background climate

A significant driver of damage was hail with reports of hailstones as large as 10 cm in width



Storm surge and associated water damage was also widespread



And strong gusts up to 120km/hour wrecked havoc



It's clear why climate change poses a significant threat

Impacts of Climate Change include:

“altered frequencies and intensities of extreme weather events, [which] together with sea level rise, are expected to have mostly adverse effects on natural and human systems”*

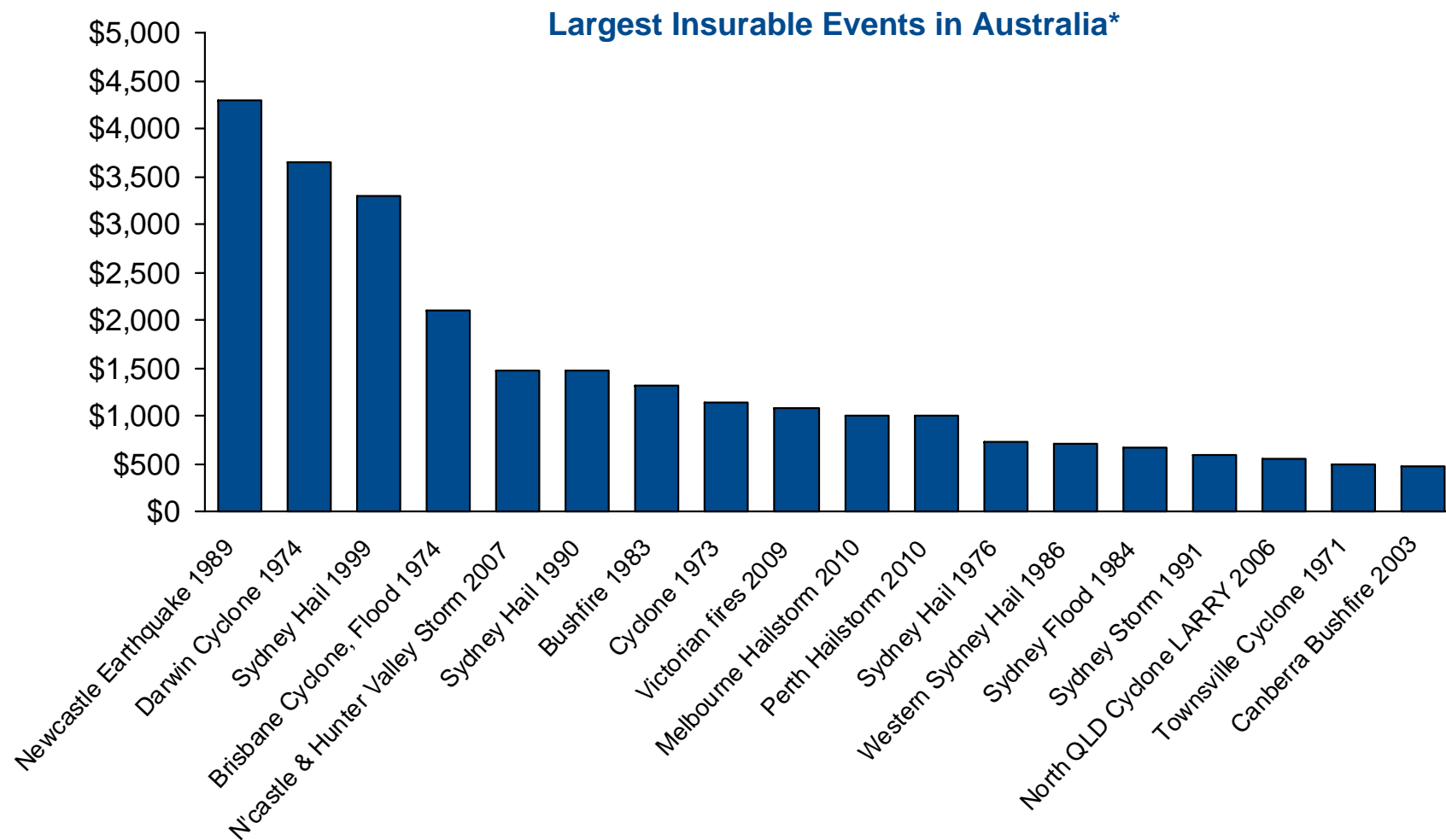
* Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report, Climate Change 2007: Synthesis Report

Managing weather risk is core business for IAG

- Weather risk is an important factor in the risk equation
- Insurance spreads the cost of risk across the community
- Claims and premiums are closely correlated. If claims rise significantly, this usually leads to a flow on increase in premiums
- Climate change is expected to increase the frequency and/or severity of extreme weather events and associated claims
- Clearly it makes sense for us to work to reduce risk in this space



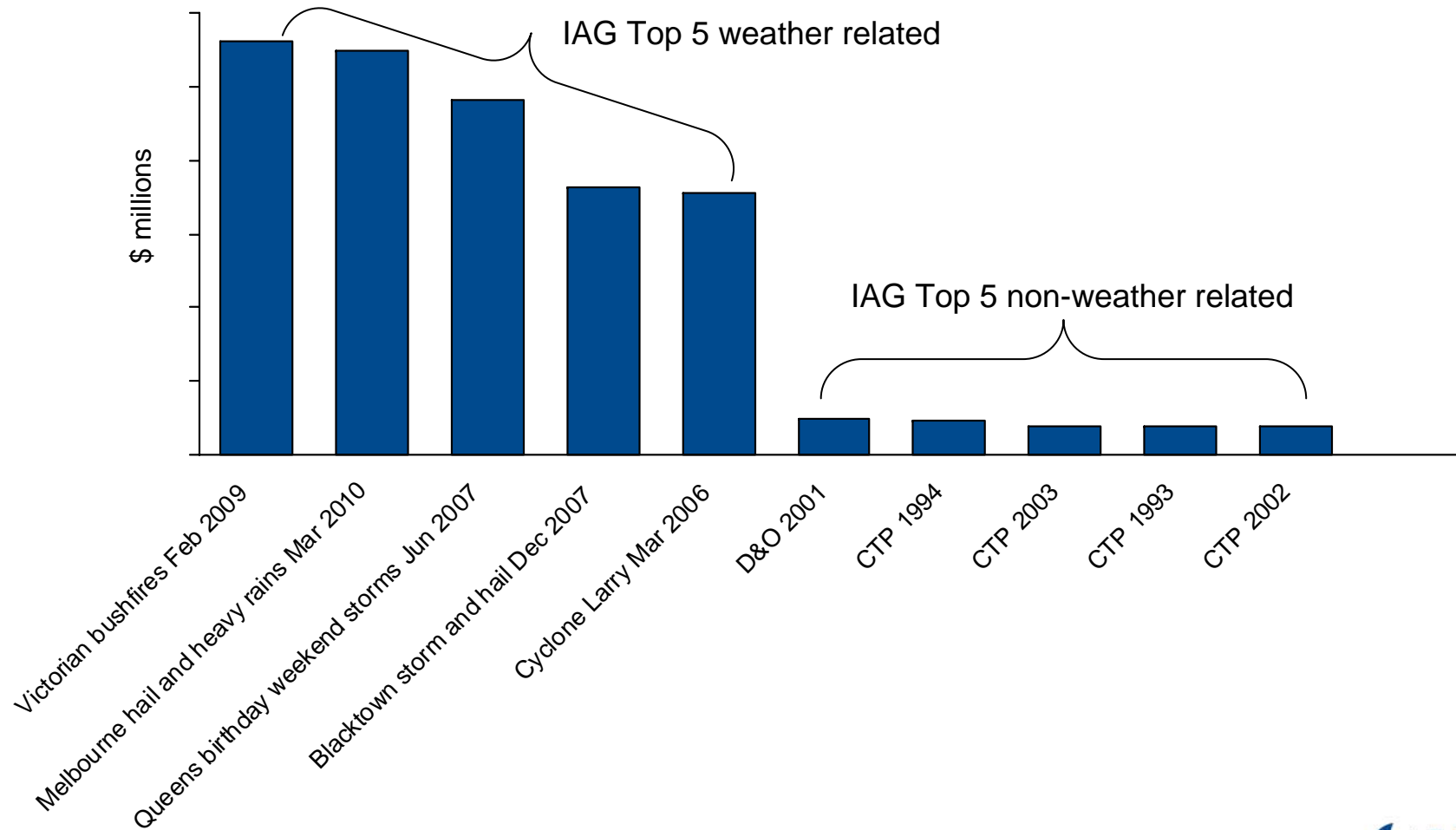
The most significant insurable events in Australia have been weather related



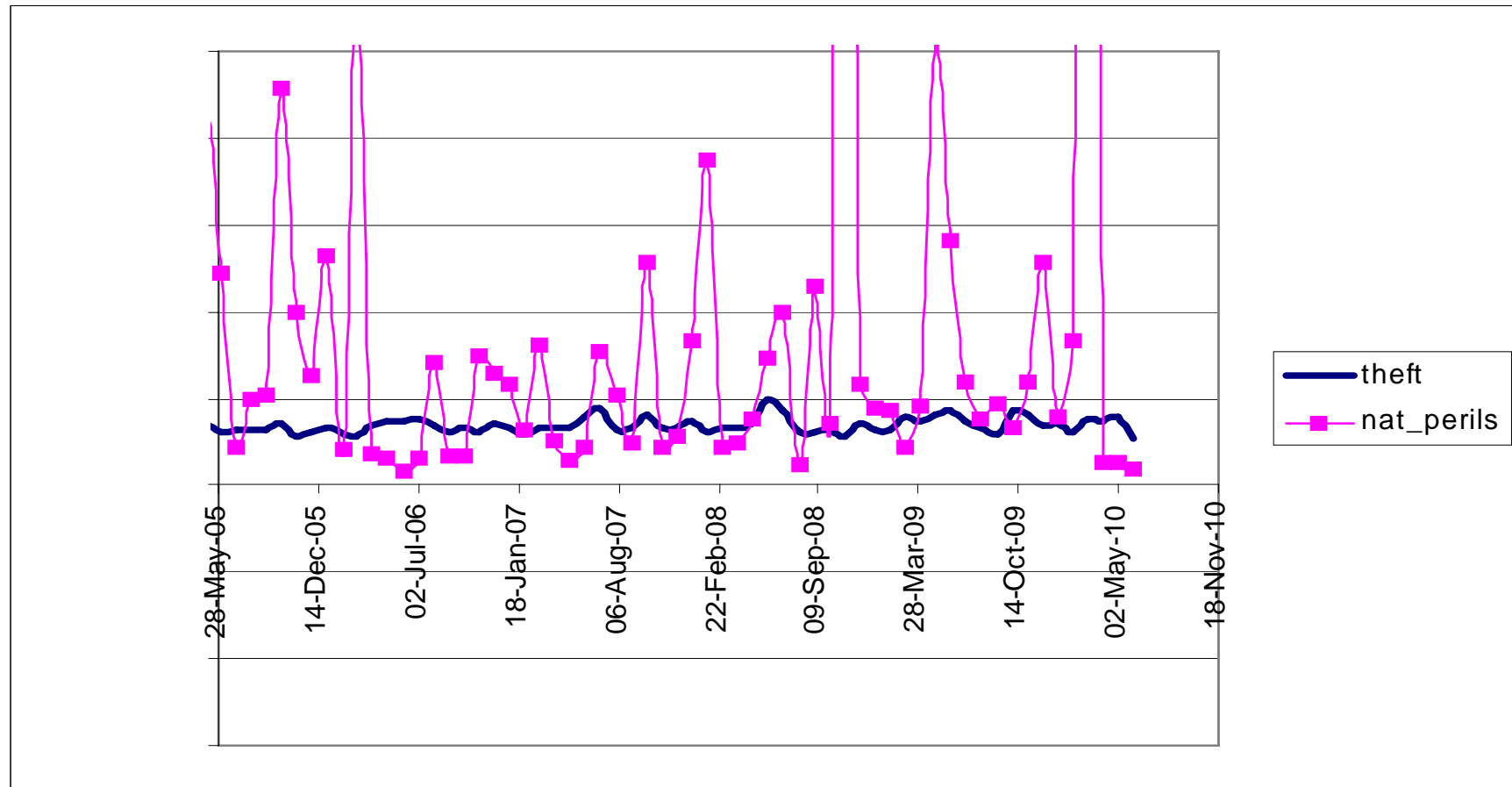
* Insurance Council Australia Losses 11/2009, adjusted to include Perth and Melbourne Storms

IAG's own claims data demonstrates that extreme weather events drive our largest single event losses

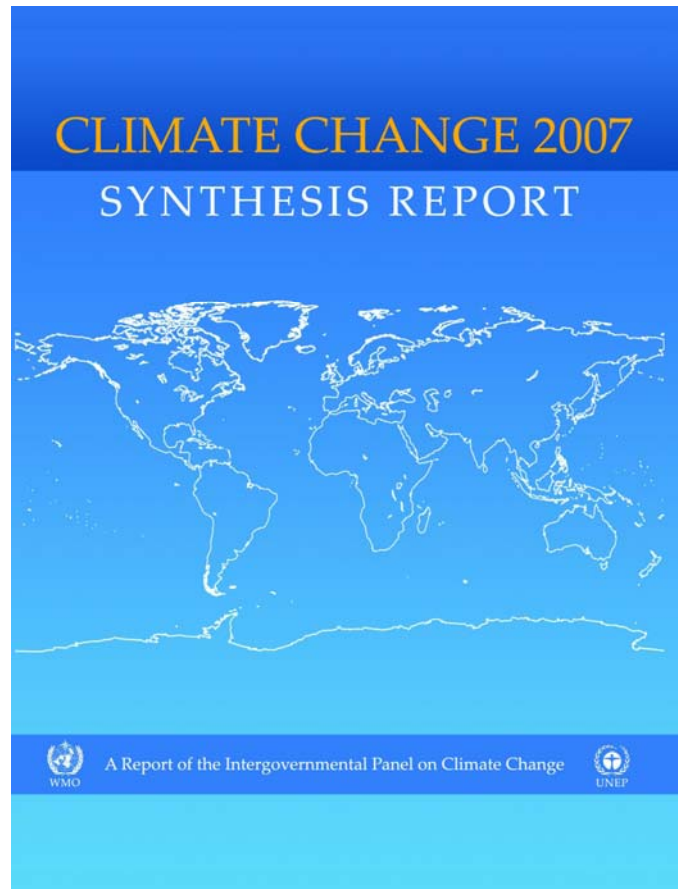
IAG Largest Single Event Claims 2001-2010



The challenge is the variability of natural perils and the difficulty of forecasting future events



Mitigation and adaptation go hand in hand



- Prior to the IPCC Fourth Assessment Report in 2007, the focus had been on raising awareness and mitigation efforts
- This changed with the publication of the Fourth Assessment report which established that even if we do succeed in reducing emissions, some climate change impacts are now unavoidable
- Given the inevitable, we must develop solutions to adapt to the impacts of climate change

Adaptation is not a new concept

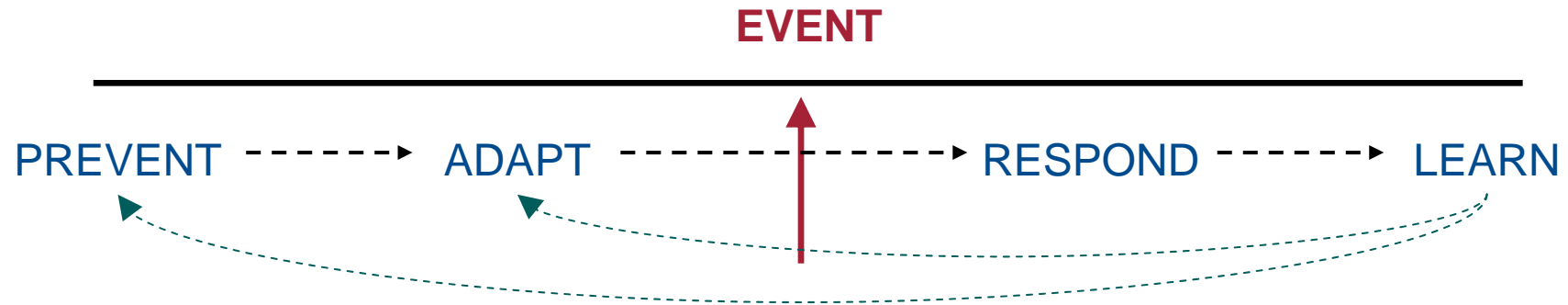
According to the United Nations Framework Convention on Climate Change (UNFCCC)*:

“adaptation is a process through which societies make themselves better able to cope with an uncertain future.

Adapting to climate change entails taking the right measures to reduce the negative effects of climate change (or exploit the positive ones) by making the appropriate adjustments and changes”.

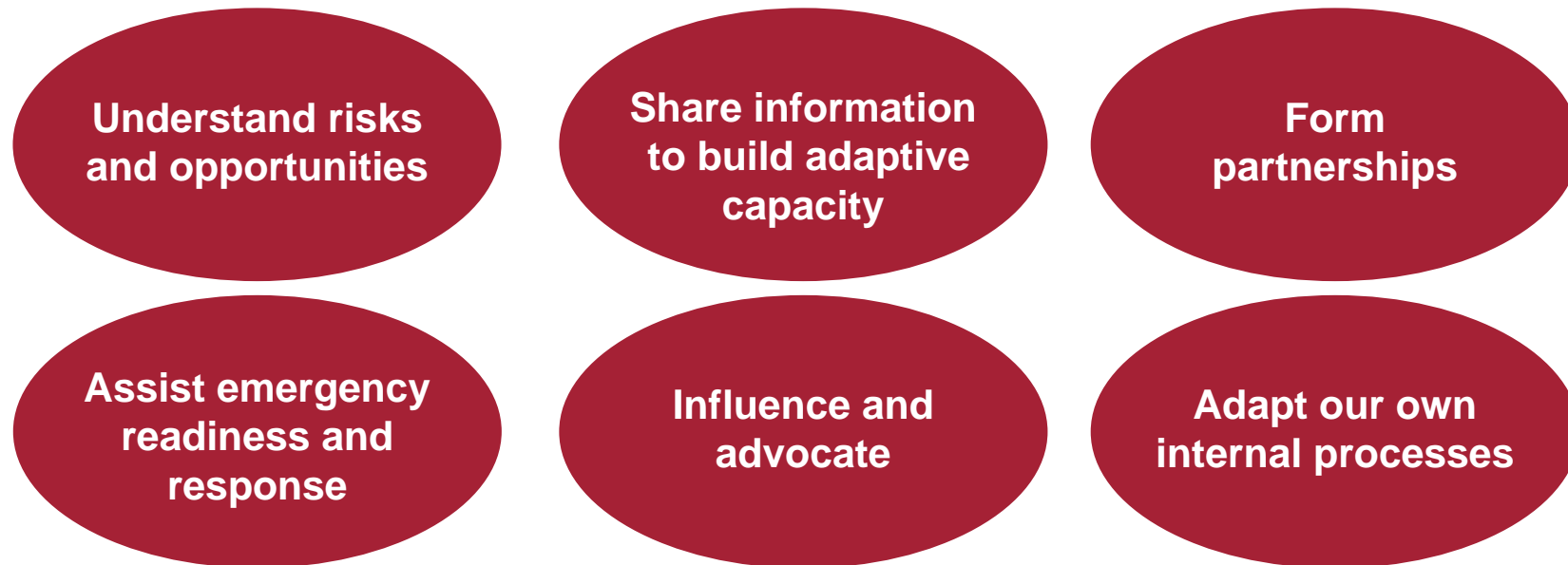
** United Nations Framework Convention on Climate Change (UNFCCC), 2007 “ Climate Change: Impacts, Vulnerabilities, and Adaptation in Developing Countries*

Adaptation can and should take many different forms and is an iterative process



- **Individuals:** making houses more resilient, reducing the reliance on water as it becomes more scarce
- **Business:** developing products and services to assist individuals and communities become more resilient (manage their risks), geographic diversification of supply chain
- **Community:** risk-appropriate land-use planning and zoning, installing early warning systems for extreme weather events
- **National:** enhancing building codes to include a resilience component together with standard safety features, developing policy and a regulatory framework that promotes community resilience

Insurers have an important part to play across a number dimensions



To develop real adaptive capacity we need a multi- level Response that engages many stakeholders

Understanding the risks and opportunities is key

Understand risks and opportunities

Cyclone Testing Station at James Cook University:

- Established over 30 years ago following Cyclone Tracy's devastating impact on Darwin in 1974
- IAG has been a long standing benefactor of the Cyclone Testing Station, and we are actively involved in the Station's Management Committee
- Work undertaken has been vital in developing building codes and standards to enhance the quality of construction
- Key learning is that one small oversight in the design or construction process can lead to a disproportionate amount of damage should a cyclone or high wind event occur

Sharing information to assist adaptation – The IAG Hail Gun

Share information
to build adaptive
capacity

Roof material

Corrugated steel sheets

Concrete tiles (new)

Terracotta tiles (new)

Old slate (100 years old)

Old terracotta (50 years old)

What size hailstone caused roof to crack?

Not penetrated

7cm (diameter)

7cm

5cm

5cm



Helping our customers prepare for adverse weather events

Share information to build adaptive capacity



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RELATED PRODUCTS

Home Insurance

Home Contents Insurance

Home Buildings Insurance

Natural disasters such as bushfires, floods and tropical cyclones occur every year across Australia. These extreme weather related events cause millions of dollars worth of damage and serious disruption to communities.

More worrying still, things are expected to get worse. Scientific research indicates that with climate change we can expect higher temperatures, changed rainfall patterns, and more frequent or intense extreme events like heatwaves, drought, and storms*.

While doing whatever you can to prevent climate change, there are simple steps you can take to reduce the risk of damage to your home and help keep your family safe.



Get a quote

Select a product ▼ Go

Renew or pay

Select a product ▼ Go

- ▶ Buy a new policy
- ▶ Make a claim
- ▶ View or print your policy
- ▶ Change your details

Green goods



Find out more

Bushfires

In recent years, the bushfire season has been arriving earlier than ever. Here are some simple things you can do right now to get [bushfire](#) ready.



Storms & Cyclones

A severe storm or tropical cyclone can strike at any time with little warning. See our tips on how you can stay safe in a [storm](#) or [cyclone](#).



Floods

Storing a roll or two of builder's plastic can help to save your home. See our other tips for staying afloat in a [flood](#).



Partnering to help communities adapt - SES

Form partnerships

Assist emergency readiness and response

- Partnership commenced in November 2007
- Educates customers and the broader community on preparing for storms to help to improve home safety and reduce damage
- Primary activities include:
 - Annual storm season community education campaign
 - SES Week promotions
 - Storm Heroes Awards and Grants program



Our Major Event Rapid Response Vehicles (MERRVs) enable us to respond quickly

Assist emergency readiness and response



- Rapid response to critical incidents
- Immediate service to customers anywhere and at any time
- Enhanced consumer awareness

Removing the barriers to taking out adequate insurance

Influence and advocate

- We encourage consumers to regularly check their level of insurance cover because it is estimated that a significant number of Australians are underinsured
- We look at ways to reduce non insurance as approximately 23% or 1.8 million* Australians do not have house and contents insurance
- We work to eliminate inequitable forms of taxation such fire services levies. These taxes drive insurance premiums higher and cause underinsurance and non insurance to occur
- IAG has been actively engaged with governments at the state and federal levels to influence policy changes that would deliver a tax system that is fair and equitable and encourages people to take out adequate insurance

* Insurance Council of Australia study on “The Non-insured: Who, Why and Trends”

Adapting our own internal processes to enable faster catastrophe response

Adapt our own internal processes

Victorian Bushfires Feb 2009



Satellite Images of Victorian Bushfires



- The Victorian Bushfires were so severe that access to the affected areas was not possible for many days and weeks
- This made the 'on the ground' assessments for insurance claims difficult
- Rather than delaying action, we leveraged satellite imaging technology to determine total loss assessments so that we could settle claims more quickly and get people back on their feet

This problem requires action at all levels



- Only small changes in the climate can cause large changes in the weather
- Adaptation is critical, and must be delivered together with mitigation
- A multi-dimensional approach is required – we can't do it on our own

Adaptation is critical for long term sustainability

“It is not the strongest of the species that survives...
nor the most intelligent that survives.

It is the one that is the most adaptable to change.”

Charles Darwin