

Impact of climate change on insurance companies commerce essay



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Change in climate is emerging up as a new type of issue in the security aspect because of the way it affects both the life and the well-being of human's in a highly interconnected and fragile world. (Evans, 1994, 107-128)

Changing climate is becoming a threat to the basic welfare and survival needs of humans across the globe, including the production of food, health, access to water and the utilization of land. Environmental deprivation rising from different kinds of economical activities of humans has increased the intensity and frequency of natural disasters throughout the world.

Around the world, there has always been natural development in the weather and climate events. In fact, the insurers have become experts in modelling the disastrous risks which has now become an incorporated instrument in the insurance industry. This has helped a number of businesses to digest the losses from unexpected natural disasters without important defaults. This has now led to the fact that insurance companies have become more refined in analyzing, managing and understanding their recent risks because of their natural disasters around the world. Many of the companies in United Kingdom are observed to be improving in managing and assessing their ways of dealing with the future trends and risks of the industry.

As a number of UK insurance companies have started to note it, depending on their previous weather conditions and patterns for planning out strategies for future. For this, they must identify the probability of losses and gains related to weather conditions. The impact of climate change is on a very wide range from increased amount of hurricanes, fires and floods to health

and life getting affected by changing patterns of hot and cold weather.

(Evans, 1994, 107-128)

Physical impacts' effect on insurers:

Companies of insurance and reinsurance are likely to face the strong impact of the changes in climate more than other parts of the financial businesses.

There are a number of examples where it is seen that that how extremely weather condition can affect the insurance companies, the government and the sectors at backstops. Whilst there are examples of how the weather changes are affecting the insurance industry because of the flexibility of the insurance sector, in other ways it is quite well positioned in adapting the changes in weather events and patterns. (David, 2007, 28-38)

Threat of climate change for insurance industry:

The main threat that is facing the insurance industry is climate change. This threat affects both property and casualty insurance that the insurance people. Another concern: the two sectors will have to adapt to demographic change that is looming. This emerges from a study by Ernst & Young, in collaboration with Oxford Analytica. Ernst & Young has compiled a top ten list of threats that will confront insurers after interviewing twenty industry leaders worldwide.

According to Ernst & Young, climate change tops the list because global warming is changing the climate and increases the likelihood of claims arising from floods, hurricanes and other natural phenomena. " I'm not sure the industry is poised to cope with climate change, warned Tom Kornyia, a

partner at Ernst & Young, in an interview with Insurance Journal. Five years ago, this risk was not even on the list. “

Mr. Kornya adds that not only the sector of damage insurance that will be affected by climate change, life insurance should also deal with it sooner or later.

Damage will come to insurance when climate change will result in wind storms and floods. In life insurance, the consequences will be gradual. With temperatures that may change, life insurers will face new problems in health and mortality. So there could be different types of losses. “ The underwriting of these products is booming and no one has yet measured that cause climate change. The success of the industry will go through the development of innovative products, which will face great uncertainty, such as typing speed and severity of climate change, “ he said. The second risk that the industry faces is the demographic change with the arrival of the baby boomers retire, resulting in new needs. Insurers would be under great pressure, they will need to replace governments. (Rober, 2010, 34-33)

In addition to the pressure generated by this new role, insurers will also deal than their competitors. “ Banks, mutual fund companies and all financial institutions will struggle to get the same dollar. There is a risk there too. Insurance companies must remain innovative with their products to keep the advantage, “ says Kornya. (Rober, 2010, 34-33)

“ The environment in which insurers and practice is constantly changing quickly,” said Tom Kornya. We find that consumers are looking for simple, low cost products and others who want more complex products that are also <https://assignbuster.com/impact-of-climate-change-on-insurance-companies-commerce-essay-essay-samples/>

more expensive. A company that will not have a multichannel access could fall into the background if it does not use Internet, media and telephone. “ The last two threats on the list of the top ten risks of Ernst & Young are the legal uncertainties and the possibility of geopolitical or macroeconomic disturbances. In the first case, accountability and reform in terms of crime could lead to financial losses. For the second, the firm says that the threat of a severe financial crisis due to derivatives and hedge funds could be damaging to the industry.

Opportunities for insurance:

Climate change presents risks but also opportunities. The possible opportunities created by the effects of a changing climate may require nurturing through the dedication of attention and resources. Too often, news coverage portrays climate change as a doom-and-gloom story of impending disaster. Certainly, many of the possible impacts of climate change are likely to negatively affect us, and we must address them, but we should not ignore the possible opportunities that a changing climate could create in part by proactively adapting to them. Some economic sectors and businesses may do better because of the effects of climate change, and they should seek to identify those new economic opportunities and invest in pursuing them. Turning back to the example the reduced reliance on winter roads due to warmer average temperatures disrupts supply chains and increases costs for the mining companies operating in the region. (David, 2007, 28-38).

“ It is a risk for insurers, but also a great opportunity, says Tom Kornya.

There will be a great demand for pension products. Baby boomers look for

low-cost products that generate revenue. By cons, debate the role of
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government in the pension is not very advanced. Insurers will be required to take this place and this is a new risk to which they are unaccustomed. “

Financing and advisory

Companies in carbon-intensive sectors are already seeking finance to help them decrease greenhouse gas emissions. In the public sphere, large sums of capital will be needed in the coming decades to develop, modify and renew key energy, transportation and flood defense infrastructure across the world. Climate change may appear to be a slow burn issue for the financial sector, but companies would be wise to give it significant attention, as much for the emerging upsides of changing demand as for protecting themselves against the erosion of value in the long term.

Hedging and trading

The demand from the industry is increasing for a number of risk transfer instruments in order to protect the companies against the increase in the prices of energy, the changing patterns of weather and the probable failure of current newly introduced technologies. The occurrence of carbon among the commodities that are tradable has grown higher to complex products that are starting to pull a large number of financial organizations and allow some further violation and exploitation of the products.

Consumer revenues

The awareness spread about the green issues encourages growth in socially responsible investments by the consumers and organizations alike. Even

though, the market for mortgages, insurance and loans that give reward to <https://assignbuster.com/impact-of-climate-change-on-insurance-companies-commerce-essay-essay-samples/>

low carbon behaviour is right now less, it may increase quickly. Similarly, the increased awareness of windstorms and floods has started to increase the desire of customers who are at risk for the property and casualty insurance.

Implications:

There are a number of activities that the insurance industry can do in order to improve their understanding of the impact and affects of change in climate, help the society and government to understand in a better way and prepare for the risks involved in the development in fire-prone or coastal areas and make items that could protect their clients from the damage induced by the climatic change. Following are some of the implications in order to reduce the negative impact of the climate change on the insurance industry: (Evans, 1994, 107-128)

Most of the climatic scientists agree that the weather conditions in future are most likely to differ that the previous weather conditions. Thus, it will be sensible for the insurers to understand in a better way, what will be the future if the predictions of the scientists are true. Risk models can be developed on the basis of these predictions with the help of expertise. We can also put more potential for the research and studies as they will provide more knowledge and analytical capacity. It will also help in enabling the insurance companies to find the hidden markets and new opportunities for their products along with the risk management and educating consumers. (Rober, 2010, 34-33)

Work with the scientists in order to raise the economic relevancy and accurateness for the climatic change modeling.

Disclose and acknowledge the risks of climatic change in annual security filings and by other business communications.

Should take a practical approach in order to influence the planning and development of land use, in fraction as most of the expected rise in the losses are stemming out from the disastrous events that could be prevented by good spatial planning. There are a number of steps that could be taken: 1) keep the valuable property out of the risk regions and 2) grant both the economic and environmental benefits.

Reference

Rober, D., (2010), NAIC's Climate Dogma Is Putting Insurers at Risk, National Underwriter / Property & Casualty Risk & Benefits Management, Pp. 34-33

Evans, S., (1994), Recent climatic change and catastrophic geomorphic processes in mountain environments, Geomorphology, Pp. 107-128

David, P., (2007), Impact of Climate, Best's Review, Pp. 28-38

“ the unpredictability of future climate brings significant threats for insurance companies.”” The unpredictability of future climate brings significant opportunities for insurance companies” Consider the arguments for and against the above statements. W

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References

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