



Climate Change Is Measurable – And Therefore Manageable

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Headlines about the cost of climate change tend to raise alarms – and for good reason. The National Oceanic and Atmospheric Administration (NOAA) says that billion-dollar disasters have cost us **\$2.1 trillion** since 1980 – and those disasters aren't going anywhere.

But what's often lost in the conversations surrounding climate change in the insurance industry is that the cost is predictable. And if it's predictable, it's also an expense that can be managed.

Hurricane Models Account for Our New Normal

The catastrophe modeling firm Karen Clark & Company (KCC) found that the shift in hurricane intensity has likely already led to an increase in insured losses of about 11 percent above the expected loss potential if climate change weren't a mitigating factor.

Its recent whitepaper on [climate change and insured wind losses](#) describes how it incorporates the latest data into its hurricane model to create scenarios for 2025, 2030, and 2050. Its major findings include:

- The average global temperature has already increased by 1.1 degrees C relative to the 1850 to 1900 average.
- The warming climate has increased the intensity of tropical cyclones, leading to more Category 3 to 5 hurricanes.
- Global temperatures are projected to increase by an additional 0.4 to 1.3 degrees C by 2050, depending on the emissions scenario.
- Average annual hurricane wind losses will increase an additional 10 to 19 percent by 2050, depending on the emissions scenario.

This isn't to say that the increase is unsubstantial. It is, especially if you look at what it means in cold hard cash. But if it's spread out over almost 30 years, which makes it a much more manageable expense. Moreover, because the cost can be modeled, it can be accounted for.

Both data and our modeling will get better over time, which will further equip insurers who serve catastrophe-prone markets to better prepare for and respond to the risk.

The Risk Isn't Going Away

Here's another "known known" for you: climate change and the risk it poses to property owners is not dissuading people from moving to the coast.

According to [US News' list of fastest growing places](#), 14 of the top 25 are in prime hurricane country, and 11 are in Florida. The state's average of 237 sunny days a year combined with [low average home prices](#) and no state income tax most likely make the high cost of home insurance more palatable. Plus, people seldom think the bad thing is going to happen to them, even when they see maps showing the damage rising sea levels and a Category 3 hurricane could [do to their property](#).

Of course, weather risks aren't going anywhere, and they translate directly into higher insurance costs for consumers and a larger market for insurers. Swiss Re anticipates the property market will more than double by 2040, attributing 22 percent of that increase to climate change. That should drive down expense ratios considerably because the overhead of writing an insurance policy is fixed. It doesn't vary with the level of risk.

But there's one last hurdle: [insurers have to adapt to the realities of climate change](#). They have to grow more sophisticated in their use of technology and data so they can accurately model the risks, create the coverage people need, and remove distribution inefficiencies to make coverage affordable. All these steps are possible, so ultimately the question isn't whether insurers can manage climate risks. The question is: will they?

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