



How do we protect growth in a world of 'new normals'?

An opinion piece by John Coomber, ClimateWise Chairman and former CEO of Swiss Re

November 21, 2011

Last Friday the Nobel Prize-winning Intergovernmental Panel on Climate Change (IPCC) approved a new report on 'Managing the Risks of Extreme Events and Disasters for Climate Change Adaptation'. This is compelling reading both for those interested in climate change science, and for those working everyday to protect future economic and social activity.

The IPCC report leaves me in no doubt that the number one risk facing the world is climate change. Yet it also points to a whole range of solutions which, provided we work together to deliver them in time, would serve to make this risk vastly more manageable. What does this mean at a time when we are so concerned about economic stability and growth? A perspective from the world of risk management may be apposite.

Good risk management involves taking action to remove undesirable and avoidable stress factors from the equation wherever practical. For over 300 years, insurance markets have helped people chart a more resilient course through a world in which they have had to take risk, of various extremes, into account. Without this financial safety net, individuals, businesses, and even governments would not have been able to bear the risks inherent in the trade and development that has shaped our progress.

Throughout this period, the parameters of these extremes have fallen within - more or less - manageable ranges of uncertainty. We can think of this as the 'normal' state of affairs. However, during the 40 years I have spent in the insurance industry, it has become increasingly clear to me that we now face the prospect of an utterly 'new normal'; the chance of a 5°C rise in global average temperatures is considerable over the next century if carbon emissions escalate on current projections.

The planet hasn't been that warm for 30 million years. So in risk terms, we must contemplate unpredictable outcomes and should expect major shifts in weather patterns, such as rainfall and more extreme weather events. The prospect of such fundamental change forces us to confront the vulnerability of the many complex systems we have come to rely on like financial hubs in coastal cities, global agricultural belts and international supply chains.

But despite solutions being well understood, the global response to climate change to date is lethargic and totally out of proportion with the scale of the threats we face. In good risk management terms, this latest science demands that we ask ourselves whether the risks of climate change are acceptable, or whether they are so great and so undesirable that we should act to remove them from the equation.

To my mind, there are many mega-trends that will re-define our way of life in the coming decades, including demographic change, the dominance of cities, redistribution of the world's economic activity and resource scarcity. In this context, the severity of the potential impacts of climate change and the uncertainty connected to exactly when and where those impacts will be felt are so great that we must surely conclude that these risks are more than we are prepared to accept.

Insurers can help to forge and promote solutions by using our industry's core expertise to better understand and communicate climate risks and to manage those risks down to an acceptable level.

To do so, our global industry must work together with key corporate partners, financiers and policy-makers alike. ClimateWise already exists as a collaborative mechanism in the insurance industry from which to build. Under my predecessor Andrew Torrance's guidance, ClimateWise has in a few short years expanded its membership beyond its UK base and advanced its aspiration to become a leadership group on climate change within the global insurance sector.

At our annual summit in London today, insurance industry leaders will sit down with our counterparts in key sectors such as energy and utilities to explore how we can better support their efforts to deliver low carbon growth. The conversation will undoubtedly cover a range of roles the insurance industry can play. In the past few months, for example, ClimateWise members have been working to shape attractive investment opportunities in long-term low carbon infrastructure. Similarly, we have been applying our expertise in risk management to the challenge of protecting people and businesses in the developing world from climate risk.

Climate variability will always be with us, but climate change doesn't have to be. So as Governments are rightly focused on rebuilding our economic system, there is no better time to reconfigure that system so that the unacceptable risks of climate change are taken off the table. In doing so, we give ourselves better prospects of adapting to the other changes that will shape the world's progress in the 21st century.