THE NEW CLIMATE: HITTING HOME

Insurers seek shelter from climate change

Weather-related claims continue to mount

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Insurers seek shelter from climate change

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Jonathan and Katie MacLennan's new home, which sits on the red-tinged soil of Prince Edward Island, is a steel-reinforced fortress against nature.

It's the first of its kind in Canada and a symbol of what houses could be like in the future -- at least, if insurers have their way.

The Canadian insurance industry, which is seeing weather-related claims soar, is considering how to cope with climate risks.

Wackier weather means they're on the front lines because they must pay for damages to cars, crops, houses, businesses and people.

Which explains the MacLennans' house, the result of a partnership between insurers and the industry-backed Institute for Catastrophic Loss Reduction. Set on a hill overlooking potato fields, the house is built with special windows that resist 200-kilometre-an-hour winds, tougher shingles and steel reinforcing.

"It feels like a fort," said Mr. MacLennan, who moved into the home with his wife in December after their old farmhouse was destroyed by fire.

"Being a farmer, we're fairly in tune with the weather and we notice the weather change. It's certainly something where there's no doubt [climate change is] happening."

Many insurers and reinsurers would agree. Worldwide insurers' catastrophic losses have soared 20-fold in the past three decades. Last month, Lloyd's of London's chairman called climate change the "No. 1. issue" for the industry and said a $100-billion (U.S.) "mega-catastrophe" may hit anywhere on the Atlantic coast.

Canada's not immune. Three quarters of insurers' spending on disasters has occurred in the past decade alone.

Which means insurers are battening the hatches -- calling for better building codes, preparing for catastrophes, making sure the language on policies is clear and emphasizing weather in their risk analysis. They're also diversifying into new areas, such as weather derivatives.

"We are seeing more storms, and as a result more damage. You can make arguments as to the reason why, but we just know we're seeing it," said Bryan Seaton, spokesman for ING Canada, the country's largest property and casualty insurer. ING's water-damage claims doubled between 2000 and 2005.

Mr. Seaton expects the number of claims will rise in the future as the weather worsens, and that coastal areas will be most affected.

Insurers are boosting spending on reinsurance and models that predict weather and potential damages. Allstate Insurance Co.'s reinsurance costs, for example, will soar to $770-million this year from just $30-million five years ago.

Swiss Reinsurance Co., the world's largest reinsurer, expects Canadian demand for natural catastrophic risk reinsurance will only grow. Insurers' interest in climate change has grown "dramatically" in recent years, said J.J. Henchoz, president and chief executive officer of Swiss Re Canada.

Which raises the thorny question of premiums. As regions become more disaster-prone, insurers may well jack up rates.

"I don't see swaths of Canada becoming uninsurable," said Gregg Hanson, CEO of Wawanesa Mutual Insurance Co. "Nothing is uninsurable, it just might not be economical . . . . You can always get insurance if you pay a price."

He sees high risk looming in low-lying, flood-prone areas, such as the Red River Valley in Manitoba, the Saguenay region of Quebec and areas of the Fraser River in British Columbia

Others say no region will be immune. "We're all at risk, and that's perhaps the most troubling trend we see," said Kathy Bardswick, president and CEO of Co-operators Group Ltd., Canada's third-largest home insurer. "These events are happening everywhere."

That's why her firm, which paid for the PEI project, is focusing on how to prevent damage in the first place.

As for the MacLennans in PEI, it's the first time they've lived in a home that doesn't echo and shudder with the constant whistling of the wind.

Dealing with disaster

In 2005, natural catastrophes killed 97,000 people and cost the insurance industry $98-billion -- more than ever before.

The European winter storm Kyrill could cost the insurance industry up to €3.5-billion ($5.37-billion).

Catastrophe losses have been doubling every 10 years as a result of the surge in building along coastlines and other high-risk areas.

In the past 30 years, global insurance companies' spending on damages claims rose at least 20-fold, adjusting for inflation.

SOURCES: Lloyd's of London, Swiss Re, Allianz, Stern Review,

Institute for Catastrophic Loss Reduction