

Global Impacts: Local Concerns – Critical Risk Implications of Climate Change on Local Businesses

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I recently attended a breakfast seminar in Melbourne hosted by the Total Environment Centre (TEC) on climate change and the carbon economy. Happily, it was a sold-out forum, with nearly two hundred attendants. It was sponsored by Insurance Australia Group (IAG), Origin Energy and Baker & McKenzie, and key note speakers included Greens Senator Dr. Bob Brown and Chief Risk Officer and Group Actuary at IAG Tony Coleman.

Amidst the recent announcement by the European Parliament of the approval for the world's first greenhouse gas emissions trading system, designed to help Europe meet its Kyoto Protocol emission reduction targets, to come into force in 2005, this seminar was timely in increasing awareness of key business risks from climate change implications. One of the most interesting presentations was given by Mr. Coleman of IAG, an insurance group that is increasingly facing the potential for higher insurance pay-outs as a consequence of severe climatic incidents. It is well established that the frequency and severity of extreme climatic conditions are increasing globally. According to recent reports by the World Meteorological Organisation Southern France and Switzerland endured record high temperatures, US recorded more tornadoes a month than ever before and phenomenal heatwaves have tragically killed thousands in India and France.

Mr. Coleman of IAG, taking the example of the effect of hailstorm damage in Sydney on insurance pay-outs and increases in premiums, suggests that "climate change threatens the insurance industry's core business. At present, IAG is continuing its pioneering hailstorm modelling work and keeping abreast of any advances in scientific understanding...But insurance companies acting alone or even collectively will have limited positive impact because whole-of-global-economy action is required. Climate change makes a compelling case for the need for business, governments and community groups to work together to find sustainable solutions to 21st century challenges."

Despite recent investor nervousness about corporate governance concerns within IAG, the group has actively been pursuing a sustainability business strategy. IAG is a signatory to the United Nations Environment Program Financial Initiative, and has implemented high-level social and environmental objectives. Mr. Michael Hawker, Chief Executive Officer of IAG (See *inset*), suggests that "we have identified that climate change has the potential to cost insurers and the economy billions of dollars. In fact it is probably already costing us substantial amounts". "Doing what we can to reduce the incidence and impact of climate change, can have a direct benefit to any insurer. It is financially responsible for us to take an active role in resolving these challenges for our customers and our shareholders" Hawker said.

As I confess having said before, as with IAG, it's the companies that start thinking about, and accounting for, environmental, social and economic implications of business that will indeed be the success stories over the next fifty years.

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