



Anyone for insurance?

Posted by [Heading Out](#) on March 14, 2006 - 8:03pm

Topic: [Economics/Finance](#)

Tags: [fires](#), [hurricanes](#), [insurance](#), [oil storm](#), [rig](#), [tornadoes](#) [[list all tags](#)]

The stormy weather is coming early this year, and there has been very heavy damage across the [MidWest from tornadoes](#) that seem to have arrived a couple of months earlier than are normally expected.

With the high costs that arose last year from the impact of the hurricanes, and the other unseasonable weather impacts on the country, such as the current [fires in Texas](#) and Oklahoma brought about by the drought, the insurance industry has been starting to take a look at the levels of risk that it is now getting into.

Last year, based on info that came from the industry we [posted](#) about some of the problems that companies engaged in drilling in the GOMEX were starting to encounter in insuring their rigs. All of a sudden the condition of the rig and the level of storm that it could withstand was being considered against the likelihood of it encountering a storm of that or greater magnitude. The insurers were asking, at that time, for assurances that rigs could withstand the storms, in the form of models that would validate the design strengths that were being proposed.

With the temperatures of the Gulf reported to already be warmer than normal, this is probably an indication that the Hurricane season will be at least as intense as last year.

But there is a new issue that is beginning to concern the insurance companies. What if you are insuring the companies that might be considered causative of global warming. What happens if they get sued?

A bit of a stretch still you might think, but insurance companies need to consider that risk, and as an article in [Salon](#) has just pointed out, they are starting to realize the problem.

Swiss Re is a reinsurance company --- a large chunk of its businesses comes from selling insurance to other insurance companies to cover their potential losses. As one might guess, Swiss Re's business took a hit in 2005, as a result of the unprecedented hurricane damage that ravaged the United States. Swiss Re is alarmed at the rate at which the financial cost of natural disasters has been rising -- doubling every 10 years, and predicted to hit \$150 billion a year within a decade.

Executives at Swiss Re are beginning to worry that the executives of corporations responsible for greenhouse gas emissions may ultimately be found legally liable for damage from natural disasters that result from climate change. Swiss Re has decided that it would rather not be on the hook for that kind of legal liability, especially for those corporate executives who are denying that there is any problem at all.

And, of course, being cautious folks

"So," said Walker, "we might go to them and say, "Since you don't think climate change is a problem, we're sure you won't mind if we exclude climate-related lawsuits and penalties from your [Directors & Officers] insurance.""

A single year of bad weather and its impact is something that insurance companies have learned to survive, but if the pattern of hurricane damage is going to be an annual event for the next decade then the whole game may be redesigned.

However there is at least one [prediction](#) that suggests that the season will be somewhat less intense than last year, with the probabilities of there being a Category 3 or greater Hurricane being

1) Entire U.S. coastline - 81% (average for last century is 52%)

U.S. East Coast Including Peninsula Florida - 64% (average for last century is 31%)

Gulf Coast from the Florida Panhandle westward to Brownsville - 47% (average for last century is 30%)

Above-average major hurricane landfall risk in the Caribbean

So maybe it won't be as bad as we may anticipate.

The only superstitious worry that I have is that we had that predictive movie from Fox called [Oil Storm](#) last year, and it was a bit more accurate than one might have liked - at least in setting up the problems. CNN are about to show the new version called "We Were Warned" [this weekend](#).

Oil Storm has a very fictitious ending that we posted about at the [time](#). Given all that has happened since, and the realities of the Gulf Coast situation, somehow I suspect that the pill won't be quite as sugar-coated this time. Ulp!



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