

Viewpoint

The aftermath of a tornado that hit Arabi in New Orleans, Louisiana earlier this year



Leslie Gamboni/Xinhua/Alamy Live News

Pollution-related exposures will be challenged by climate change

Climate change poses a significant risk for those carriers insuring pollution-related exposures and is likely to continue to do so over the coming years

Tornadoes, hurricanes, wildfires, floods and heat-waves all around the world have been headline news over the past couple of years, causing huge amounts of damage to people, businesses and property, *write Doug Stepenosky and Cathy Cleary, SiriusPoint.*

The increased severity and frequency of these extreme weather events have caused an uptick in the severity of claims and in turn resulted in significant losses across the re/insurance industry. These risks should be carefully considered during underwriting.

At the same time, the re/insurance industry has seen clients seek coverage for the first time for such risks

as they recognise the need for protection as the world experiences the effects of climate change. The severity and frequency of climate-related events has caused insurers to limit capacity on any one risk or by localised geographical spread and to look for additional rate on these types of risks.

Weather-related risks

There is no doubt our business is heavily affected by weather-related events. Recently two of our insured sites were affected by tornadoes, causing the release of agricultural-related pollutants over a wide site area, triggering pollution policies for the remediation of the released contamination. A shopping cen-

tre, apartment complex or hotel hit by a hurricane or other flooding event has an increased exposure to mould if water gets into the building envelope. The risk of storm surge is pronounced for coastal properties.

Warming trends may also lead to unexpected exposure such as excess moisture from increased use of air conditioning. With the advent of hotter summers, we look at areas prone to heat and humidity where structures may not have been built with properly sized cooling systems. A few years ago, air conditioning would be likely to have run only some of the time but now it is in full-time use; moisture accumulates, which could lead to mould growth.

We are now seeing projects being started for infrastructure hardening – for example, trying to mitigate storms by adding cofferdams or buffer zones. It is an opportunity for us because there is a great deal of concern and public sentiment about figuring out this problem, which has translated into infrastructure dollars being spent. A lot of new coastal construction, for example, is considering sea-level change and larger storms and is therefore being built to more stringent zoning requirements.

Pollution conditions may be released as a result of storm events or, just as easily, by human error – underwriting for that occurrence has always been challenging and has become more so in recent years because of climate change.

While we look carefully at proximity to waterways and flood zones or known tornado zones, in many cases there is not much of an historical record. Places not historically affected by such storms may well be facing them today and it is all too often impossible to predict where the next severe event will occur.

Thinking ahead

Because of the augmented risk of weather events, re/insurance carriers should proactively and pragmatically look at their submissions and books to make sure we are thinking ahead of where climate change might take the industry. That translates into recognising the increased risk climate change presents.

This may result in passing on some risks, carefully monitoring the geographic spread of risk and capacity provided in a particular area or type of risk for others, adding a force majeure exclusion to some exposures or using higher attachment points to help mitigate risk.

While our industry may not always be in the position to insist on mitigation measures, when underwriting, re/insurers should consider what is being done by the particular insured or local government to address climate change. This can be a driving force when it comes to deciding what risk to place on the re/insurers' book.

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frequency and severity of claims experienced in this space. It can be difficult to determine who is at fault when a pollution incident occurs. However, in many countries the principle of the “polluter pays” is well established. This means those that cause pollution will bear the costs of its remediation.

However, when that cannot be established or is contested, the regulators may set their sights on a multitude of potential parties. This is when costly litigation may ensue to determine who is responsible for what and their share of the remediation cost.

Risk aggregation

It is becoming tougher to underwrite when the severity and frequency of weather events keeps increasing. Risk aggregation is a factor to take into consideration when looking at potential new business in a particular location. To avoid a high concentration of limits in the case of a large weather event, re/insurers should check what other properties or sites they already cover in a particular geographic area.

Brokers can also play a part in this heightened risk environment. Every re/insurer has a different risk appetite and in difficult cases with a high-risk exposure to climate-related events, the burden falls on the brokers to research different re/insurers' tolerance for risk or to find multiple carriers to build an adequate insurance tower for their client.

Climate change, as we all know, is a worldwide phenomenon. The US has certainly had its fair share with more tornadoes in the Midwest, severe flooding in coastal areas and wildfires in California, but there have also been terrifying bushfires raging in Australia and devastating floods in Europe.

Some governments and business sectors are starting to take climate change seriously, looking for ways to reduce carbon emissions and halt global warming. Meanwhile, re/insurers should look at every presented risk with an eye towards climate-related impacts and events. ■

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