

**BLOG**

# With climate change, who will be insurable in the future? And who won't?

By Mike Vitulli, Senior Vice President & Director of Risk Management Services

**Dec 7, 2018**

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As climate change fundamentally alters the world's weather patterns, increasing the intensity, frequency and reach of catastrophic storms and brush fires, the question is quickly becoming: Who will be insurable in the future, and who won't?

The total cost of insurance claims is climbing at an alarming rate. The cumulative cost of damages in the United States caused by climate disasters in 2017 exceeded \$300 billion, the costliest year on record - and the total material losses from 2018 is yet to be determined, but given the extent of damage from the recent Camp Fire and Woolsey Fire in California, as well as massive flooding from Hurricanes Florence and Michael, it's safe to say that 2018 will continue the upward trend.



Traditionally, straightforward access to insurance coverage has undergirded economic growth by spreading out the risk an individual would otherwise shoulder alone. But climate change is creating new and higher risk in certain geographic areas, and not necessarily in ways that were once predictable. Wildfires, that were once contained mostly to California, are reaching into more western and northwestern states. Parts of the Appalachian Mountains are being hit with severe flooding. A warmer world is causing tornadoes in states like New York, which were once largely immune.

Computer algorithms that analyze data to predict future losses have historically been based on decades worth of information. But those old models are being thwarted by climate change because of the rapid escalation of severe weather in a short amount of time. Simply put, data past is no longer reliable prologue.

As insurers gather huge amounts of data on the material impact of climate-related disasters, and as the outdated catastrophe models are recalibrated to more accurately predict the losses based on new data, insurers will be better able to pinpoint specific areas of high risk.

What does that mean for the average buyer of insurance?

It could mean higher, and even unaffordable premiums. If an underwriter working with a newly calibrated data set determines that a certain region has had X storms in X years and faces a problematic trend, then

they will adjust premiums upwards by X% to meet that likely future. They're not in business to lose money, after all.

It could also mean that insurers might get to a point where they will say, "If you live in a certain zip code, we won't insure you for X, Y and Z-type risks."

Policy makers will also have to take a hard look at how climate change and its effect on underwriting is affecting their constituencies. Most states don't allow red-lining, or the picking and choosing of areas within the state that underwriters can cover. Generally, it's been seen as a way of disadvantaging poor and minority groups. But insurers do have some discretion they can invoke to adjust pricing. For example, you might have a lower premium if you live on a hill instead of in the flood zone. You will definitely have a lower premium if you're insuring a steel-frame structure instead of a wood-framed one.

But what will happen when big, national carriers opt out of entire states?

We're already starting to see signs of insurers in California unwilling to renew homeowners' policies in fire-ravaged areas.

It's impossible to ignore the reports coming out almost weekly that detail the impact of climate change on our health, homes and economy. The most recent report from the federal government is a comprehensive look at the impact climate change will have on the U.S. and the assessment is stark. The authors argue that global warming is "transforming where and how we live and present growing challenges to human health and quality of the life, the economy, and the natural systems that support us."

While there is no definitive answer yet for how the growing reality of climate-related catastrophes will play out in the insurance industry, preparing your home or business against physical harm and financial loss is quickly becoming more important than ever.

To get a better idea of how carrier underwriters view your risk in this changing world, connect with us at [safety@risk-strategies.com](mailto:safety@risk-strategies.com).

*This is one in a series of posts looking at the risk and insurance implications of the changing climate. To see the other posts in this series, [click here](#)*

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