



## Climate Change : Climate Solutions

### Insuring Against Climate Risks

**More storms, less predictable weather, and higher temperatures - climate change creates new risks. Martin Gansneder from the Allianz Center of Competence for Climate Change explains how individuals and companies can protect themselves.**



**Martin Gansneder, Allianz Climate Solutions, Center of Competence for Climate Change**

"We use weather derivatives to protect our customers against certain effects of climate change." (Photo: Gansneder)

#### **Why should an insurance company think about climate change adaptation?**

We are affected through higher claims, especially in the property insurance, and the variability of these claims is also rising. We could simply adapt our underwriting policies and pricing models, but that would mean that some customers could not afford insurance any more. So, it is in our interest to offer our customers ways to adapt to climate change, avoid excessive losses, and even participate in mitigating climate change.

#### **How do you help consumers mitigate and adapt to climate change?**

First of all, we give them the possibility to improve their energy efficiency and save money. This also helps protect the environment, because less carbon dioxide is emitted. In Germany, Allianz offers an Energy-ID program, which includes consulting, finance, and assistance to improve the energy efficiency of homes and offices.

We also support adaptation to climate change. Even traditional storm insurance covers against certain impacts of climate change, but it would be certainly greenwashing to offer it as a climate change product. We must go further and cover new risks like changing weather patterns. Many customers sometimes face a very warm winter one year and a very cold winter the next. With weather derivatives, we can protect them against these changing weather phenomena.



**Picture Gallery (click on the image to start)**

See examples of how we can adapt to a changing climate

Finally, we offer consultation on carbon offsets and trading for those carbon dioxide emissions that cannot be avoided. Our ECOMotion product, for example, offsets the emissions from cars. We also insure these offsets. With Allianz Global Corporate and Specialty, we offer traditional property insurance that covers business interruption and also the loss of income from missing emissions reductions certificates produced under the Kyoto Protocol framework.

### **That sounds complicated. Can you give us an example?**

Take a customer who is running a wind park in India and buys a policy to cover against technical problems. We can also offer him a hedge against changing prices for his emission certificates. If a wind turbine breaks down, we pay him for the lost certificates.

These certificates may only make up about ten percent of his total income, but they are very important for the business plan. Investors can often only run such an investment with the extra revenue from the certificates for every kilowatt hour of renewable energy produced. And if an investor has insurance that covers the loss of certificates, it is much easier for him to raise money for new projects. So insurance also helps to produce more renewable energy.

### **Allianz also offers weather derivatives. What are these and how do they work?**

Normally you use derivatives if you have a risk with high probability and small losses. Compared to this, insurance normally covers risks like a fire that doesn't occur often, but have drastic effects, like the total loss of your property.

We use weather derivatives to protect our customers against certain effects of climate change. Our colleagues in Russia are building a weather-index-based agricultural derivatives that protect farmers against loss of earnings through heavy rainfall or hailstorms that destroy their harvest. This allows farmers to get a loan on their future harvest and invest in seeds and machines, because the creditor can be sure that the farmer will have a fixed income.

### **How can you insure something as unpredictable as weather?**

You can try to hedge these risks on the capital markets or by finding the opposite party in the customer spectrum. In Germany, for example, restaurants with terraces suffer heavy losses if it rains on a weekend in June or July. Meanwhile farmers are very interested in steady rain during this important growth period. So again, we have a situation where two parties have diverging interests, and if we can hedge them together our risks will be calculable, while the customers get affordable coverage.

### **Are there any risks that you might not be able to cover?**

Well, if the weather becomes more volatile, then you need more money to protect against the risks. Someone has to pay for this risk. You can buy re-insurance coverage, but it's expensive and limited in scope. You can also try to offer your risk to the capital market as cat bonds, but there is also a limit to this. From a certain level of volatility onward, you cannot protect your customers anymore, because the risks get out of hand.

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### **Scientists have proposed different scenarios for climate change. Where do you see the manageable limit?**

We are not scientists; we are product developers at an insurance company. We accept that climate change is happening, and we know that it will be at least two degrees warmer, but no one can say now how much it will really be or what the difference between four or five degrees of warming really means.

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