

Climate change calls for non-profit insurance

Green Left Weekly

In *This Changes Everything*, author Naomi Klein raises the question of how capitalist societies will “adapt” to the people made homeless and jobless by increasingly intense and frequent natural disasters. One of the issues she focuses on is the reaction of insurance companies, pointing out that the chief executive officer of Swiss Re America admits that climate change is “what keeps us up at night”. And so it should. During the 1970s there were 660 reported disasters worldwide. They ranged from droughts, floods, and extreme temperature events to bushfires and storms. By the 2000s there was a fivefold increase to 3322. In 2011, total damages from major disasters was \$US380 billion.

So what actually keeps Swiss Re America’s executives up at night is wondering how their insurance company can profit from the increase in natural disasters caused by climate change.

Swiss Re America is part of the Swiss Reinsurance Company based in Zurich, Switzerland. It is the second-largest reinsurer in the world, with operations throughout the globe, including in Australia. In 2009, Warren Buffett’s hedge fund, Berkshire Hathaway, invested \$US2.6 billion in Swiss Reinsurance. Buffett and Swiss Re are in effect betting that underwriting a large number of risks around the world at high premiums will offset losses paid out, because the odds of all of the risks underwritten going sour simultaneously are almost zero.

One of the other ways insurance companies increase profit margins is from selling house-and-contents insurance policies that come with policy statements so lengthy and complicated that only a few specialist lawyers can understand them, let alone unsuspecting policy holders.

All of the recent disasters in Australia have come with distraught homeowners suffering further trauma when they find out that their losses are either not covered or that replacement costs are far in excess of the insurance payout.

The series of cyclones in Queensland over the past few years are said to have led to “losses” of \$2.4 billion by insurance companies - which is to say that overall expected profits were down by \$2.4 billion. Profit-making insurance companies simply increase their premiums after each insurance payout in order to maximise profits. On the latest data available, house-and-contents insurance increased in price by 12% in relatively incident-free Sydney, but by 45% in flood-prone Brisbane in the financial years 2005-6

to 2012-13.

In the cyclone belt in North Queensland, insurance prices increased by 80% over the same time. Higher insurance premiums often lead to households not insuring or underinsuring their homes.

Following the recent Cyclone Marcia in central Queensland, insurers have received 17,400 claims totalling \$135 million, but this “loss” is mitigated by the many homes that had no insurance.

Acutely aware of the problems this causes, the Abbott government’s assistant treasurer Josh Fryberg, in a recent speech to the Insurance Council of Australia, called on the Queensland government and insurance companies to do more to address insurance affordability.

He proposed that the \$5.7 billion a year that the Queensland government receives from insurance stamp duties be abolished. In the unlikely event that this is taken up by the state government, it would simply mean \$5.7 billion in windfall profits to the insurance industry, which is sure to solve the problems of Queensland homeowners.

Profit-making insurance companies are the problem. In California, which has had more than its share of climate change disasters in recent years, a San-Francisco-based advocacy group, United Policyholders, has identified the solution – non-profit disaster insurance.

Privatising state-owned insurance companies was never sound economic policy in the best of times. It has led to losses in government revenue and higher, and in some cases unaffordable, premiums for householders.

In the face of increasing climate change disasters the only sustainable public policy is to nationalise and then rationalise the insurance industry on a not-for-profit basis.