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Press release

Ambitious climate protection targets are needed – or the cost of climate change will keep rising

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Climate change is one of the biggest challenges facing mankind. It claims many lives. And it also costs a great deal, given the rising trend in weather-related natural catastrophes and resulting losses. Whilst a number of factors are involved, there is clear evidence indicating that one cause is climate change. Climate protection is necessary and makes economic sense. It is therefore very important for the Copenhagen climate summit (7–18 December 2009) to achieve significant progress and, as far as possible, lay the cornerstones of a strict climate agreement.

“Our statistics clearly show that the loss burden from weather-related natural catastrophes is increasing. A year like 2009, with relatively low losses to date, in no way contradicts this”, said Torsten Jeworrek, member of Munich Re’s Board of Management responsible for reinsurance business. “Something must be done. Even if an all-embracing agreement does not seem feasible in Copenhagen, at the very least fundamental framework conditions should be established. We cannot afford a delay at the expense of future generations.”

Munich Re’s NatCatSERVICE database shows that, globally, the average number of major weather-related catastrophes such as windstorms, floods or droughts is now three times as high as at the beginning of the 1980s. Losses have risen even more, with average increases of 11% per year since 1980. To what extent the increased losses are due to climate change is not yet clear. Preliminary analyses suggest that it accounts for a low single-digit percentage of annual overall losses.

Although this increase appears low, the amounts involved are enormous. This is illustrated by total natural catastrophes losses in the period 1980–2008. According to studies by Munich Re, overall losses due to weather-related events came to around US\$ 1.6tn in original values, with insured losses amounting to approximately US\$ 465bn. In the period from 2000–2008 alone, overall losses totalled over US\$ 750bn, whilst insured losses came to around US\$ 280bn.

“Even conservative estimates show that we are talking here about climate change costs already running into billions per year. The insurance industry is able to adapt but, in the end, each individual has to bear the cost”, said Peter Höpfe, Head of Munich Re’s Geo Risks Research. “It is therefore very important and makes economic sense to lay cornerstones for a new agreement, with

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ambitious targets, in Copenhagen. After all, the climate reacts slowly. Even now, climate change can no longer be halted, it can only be attenuated. And it is high time this was done.”

According to Höppe, in Copenhagen a binding commitment will have to be defined that limits global warming to 2°C above pre-industrial levels. This can be done only if global carbon emissions are cut to 50% of 1990 levels by 2050. Höppe: “That means the industrial countries will have to achieve 80%, and that globally there will have to be a real fall in emissions within the next few years.” Furthermore, to rapidly find a successor to the Kyoto Protocol, all the principal carbon emitters would have to accept binding reduction targets.

Those worst hit by the impacts of climate change include a large number of developing countries, many of which are located in regions highly exposed to natural catastrophes and are unable to adapt to the growing danger. To help such countries, the Munich Climate Insurance Initiative (MCII), founded by Munich Re, has introduced a risk-management system with insurance solutions for developing countries into the Copenhagen negotiating process. It is expected that items from the MCII programme will be incorporated into the final Copenhagen document.

The MCII estimates that the solution – a combination of prevention, support for microinsurance schemes and the funding of a climate insurance pool for the biggest risks – will cost around US\$ 10bn per year. “Since the developing countries did not cause climate change and are not able to adapt well to its impacts, active cooperation and help with risk reduction and insurance from the industrial countries is only logical. The insurance solution is a key element of adaptation, and important in earning the approval of developing countries for a new agreement”, according to Dr. Koko Warner, MCII Executive Board member, who will also attend the Copenhagen summit.

Munich Re Board member Torsten Jeworrek emphasised that climate protection opens up vast economic potential: “New technologies are being developed and energy efficiency is increasing. This will bring benefits all round. Using our expertise, we have developed a range of risk-transfer products to help such technologies achieve a breakthrough. A prime example is our cover for manufacturers’ performance warranties on photovoltaic modules.” Munich Re’s primary insurance group, ERGO, has also developed a large number of innovative climate-change products, making it one of Germany’s leading renewable energy insurers for end-consumers and industrial clients.

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