



Speech by Stephen Haddrill, Director General of the ABI

Launch of the ABI Strategy

'Preparing the UK for climate change'

ABI, 27th January 2009

The insurance industry is proud of being in the forefront of the debate on climate change.

Today we are launching our new Strategy on Preparing the UK for Climate Change, and our Guide on property insurance for new developments.

Lets start with the strategy.

Climate change is a reality. It is happening now and its impact is felt across the world. Despite the financial crisis, it is the major risk facing the world today.

Change in the weather is of enormous importance to the insurance industry. We cover huge risks. For example, paying out £3 billion on the 2007 floods. We also invest in business to give us the income we need to back long-term commitments, such as for pensions. So we want to invest in companies that are sustainable.

Assessing risk is at the core of our business. And our assessment of climate change convinces us that the threat is real and is with us now. The carbon

already produced is already causing extreme weather. Sea levels are already rising. Windstorms are fiercer. Heat waves are more intense.

Reducing carbon emissions will not stop these trends for a century. So we must adapt.

If we do not do so, the economic and social costs will be extreme. Over the next 50 years we expect to see:

- windstorm losses increase by two thirds to \$27bn per annum worldwide
- additional flooding costs of €100-120bn a year in Europe
- a 15-fold increase in UK flood costs to £22bn
- subsidence costs increasing by 50% in clay-soil areas
- and increasing heat stress. By 2040 the summer of 2003 will be regarded as normal.

Despite these trends, insurers aim to provide affordable insurance cover to as many individuals and businesses as possible. But we can only do this if the climate risks are effectively managed. If we adapt to the risk. So we owe it to our customers to call for adaptation, by Governments, by industry, including our own, and by our customers themselves.

The 2007 floods exemplified our concerns. We cannot say they were due to “climate change”. But they were the result of a tropical inundation that seems to be becoming more of a feature of our weather as our seas and atmosphere get warmer. We had 180,000 flood claims. That is four years’ worth of claims in just two months.

Since those floods we have worked closely with the Government on a strategic approach to reducing risk in future.

In particular, last July, we agreed with the Government a new Statement of Principles – our deal with Government which says what we will do to provide insurance and what Government will do to make insurance possible. This new agreement sets out a new long-term approach to the provision of flood insurance.

First, the Government and the Environment Agency have committed to improvements in flood risk mapping. I am delighted that the new map is almost ready. The map will tell us where to focus our efforts, for flood defence and which properties we can safely insure.

Second we also have commitments from Government to put in place a long term strategy for investment in new flood defences.

Third we also have commitments to improve the coordination of surface water management, to be implemented through a new Flooding Bill.

We have reached a similar agreement with the Scottish Government and are working towards agreements with Northern Ireland and Wales.

These promises are, so far, just that - promises. Our side of the deal is dependent on them being carried out. Nevertheless they do provide a new and effective blueprint for action and we look forward with confidence to their delivery.

So much for Government. What do we in insurance need to do ? We have to play our part. And that is why over the next 12 months we will pursue a strategy based on five pillars

- first, we will help Government to implement its own strategy. We will set out the detail of new legislative and funding requirements that we see as essential, based on our own research.
- Second, we will raise the public profile and public understanding of the need to adapt by publishing new research into economic costs of climate change later this year.
- Third, we will help improve the resilience of the new developments to flooding, encouraging and supporting developers to take full account of flood risk. We are publishing new guidance to developers today to help ensure that their customers can also be our customers – that insurance can be provided for all new developments. To that end we are proposing a Kite Mark to show property purchases whether insurance will be readily available. We look to developers and professional bodies to take a lead in producing this.
- Fourth, we want to help local government and other authorities rise to the challenge of surface water management. The proposed Bill should make sense of the current mess of responsibilities. We are helping by sponsoring research into how best the new law can be made to work well on the ground, taking Peterborough and Bristol as case studies.
- Fifth we want to improve the resilience of individual homes. We are researching how retrofitting of homes , whether before or after a flood can

be made more cost effective and can be better promoted by insurers. And we hope that Lord Turner's review into how to boost the economy by delivering environmental measures that can include action to train and sponsor builders to make homes more resilient.

Our industry is committed to addressing climate change. Last year at the Prince of Wales initiative we signed up to ClimateWise, a comprehensive strategy to promote an effective industry wide response to the problem. That now has 41 members: all committed to reducing carbon emissions and promoting adaptation by working with Government, by helping their customers, as businesses in their own right, and in their role as investors. We encourage more to take part and the club is growing.

Climate change and its impacts are central to the insurance industry. In the UK this is particularly so because we are one of a very few countries where the private sector fully protects people against the costs of flooding, a standard part of insurance cover. Almost everywhere else in the world, that cost falls on the taxpayer. So adaptation is vital for our customers and us.