



## Na Mídia

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### **Insurance: soaring premiums and major losses after wildfires show devastating impact of climate crisis**

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*Wildfire, California 2022. Brian Gailey/AdobeStock.com*

Early data showed that insurance companies paid out over \$4bn for losses from the two largest wildfires that devastated the Los Angeles area in January. The Association of British Insurers meanwhile says the industry lost a record £585m as a result of weather-related damage to homes and possessions in 2024, while an Insurance Council of Australia report on catastrophe resilience indicated a 73 per cent increase in claims in 2023/24 compared to the previous year.

Warren Percival, European Regional Forum Liaison Officer for the IBA Environment, Health and Safety Law Committee, says the data shows that losses for natural disasters worldwide have exceeded \$100bn for five years running. 'That to me feels like a very concrete answer that you should deal with climate change regardless of the asset class you're involved in,' he says.

Recent natural disasters have highlighted the breadth of the climate crisis. In addition to the wildfires in California, catastrophic storms have battered Europe. Australia has been hit by flooding, storms and wildfires. Heatwaves in Brazil have had a further impact on areas affected by historic floods in 2024.

‘The physical risks to property are higher than they’ve ever been. We’ve been through 1.5 degrees warming since pre-industrial times. We’ve just sailed by it. It’s picking up at pace and so too are the types of impacts we’re seeing,’ says Mark Siebentritt, Global Practice Lead for Climate at consultancy Edge Impact.

Much of the current discussion of climate and insurance centres on residential properties. In most countries, a residential mortgage is contingent on the homeowner also having property insurance. Rising insurance premiums can make owning a home unaffordable, even as the value of the home drops due to growing risk.

‘Insurance encourages people to stay in areas,’ says Michael Showalter, Membership Officer for the IBA Environment, Health and Safety Law Committee. ‘The trend in the US has been for people to move south into places that are going to be more exposed if you have increased temperatures. It’s going to be interesting to see what happens if people start pouring back north.’

Siebentritt says insurers are responding in several ways to the losses they’re facing, firstly by factoring climate risk into the underwriting process. ‘Some people or businesses will pay more or choose not to have insurance. When the next fire comes along they’re exposed and may never recover,’ he explains.

While insurers are pulling out of some markets, they’re also being creative about looking at different ways of investing their money and at new products. This includes moving investments into areas such as renewables, says Siebentritt.

Meanwhile a product that’s growing in use is parametric insurance, which covers the probability of an event – such as flooding – happening. The insurer pays out when the event meets a pre-determined parameter. For businesses in particular, this type of product allows the insured party to buy insurance in line with their risk tolerance levels and their ability to cover losses from their own funds.

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*European Regional Forum Liaison Officer, IBA Environment, Health and Safety Law Committee*

**Governments will probably also have to get more involved, especially where insurers don’t cover a particular market. Fernanda Stefanelo, Programme Officer on the IBA Environment, Health and Safety Law Committee, says the concept of social insurance is being discussed in Brazil. ‘The idea is for a region to have money to restart life because when you have a situation like floods or fires, people lose everything, and then the federal government will provide some money,’ she explains. However, there are issues with accountability and with the potential transfer of funds from one region to another.**

‘The thing about climate change is that the earlier you deal with things and the earlier you’re willing to spend significant money on mitigation issues, you can mitigate long-term losses,’ says Showalter, who’s also a partner at ArentFox Schiff in Chicago. He highlights that the insurance industry was, for example, heavily involved in creating regulations requiring the use of seatbelts in cars. ‘They have a role here too,’ he adds, highlighting that the insurance industry can say ‘we’ll insure your house under conditions A, B and C.’

‘We’re going to move from the concept of the cost of construction to the cost of living and maintaining,’ says Siebentritt. ‘If we fully factor in the operating costs you can invest in resilience measures, which means that over the lifetime of the asset it becomes cheaper to operate. We’ve also seen insurers getting much more actively involved in [assessing how] they encourage that discussion.’

Percival, who’s also a director at RSK Group in Manchester, England, and Chair of the UK Environmental Law Association, says everyone in a particular value chain must take responsibility for dealing with the climate crisis as a business risk. ‘The more asset owners can deal with resilience perhaps the insurance market can meet them more in the middle,’ he says.

Stefanelo, who’s a partner at Demarest in São Paulo, adds that the same discussion is happening in Brazil. ‘Companies in general are more sophisticated in terms of understanding their losses not only in the present but also in the future,’ she says. ‘There are changes in general in the environment that may affect their business, for example depending on where their property is located. They’re being sophisticated in understanding the culpability and their losses.’

There’s agreement among environmental lawyers that addressing the future risk of climate disasters is key across all sectors, and that if rising insurance costs help prompt this discussion, that’s a positive. ‘It’s a whole system view that you’ve got to have in terms of the impact of climate on individuals and businesses, and how you become more resilient,’ says Percival. ‘It can almost feel too big [of] an issue to deal with, but if we do it in the right way as a whole system approach from each part of the sector, we can start thinking in a more holistic way about how to deal with these issues.’