PRESS RELEASE

THE GENEVA ASSOCIATION

SOCIETAL BENEFITS WOULD ARISE FROM INTEGRATION OF CLIMATE SCIENCE INTO CATASTROPHE RISK MODELLING

Zurich, 19 November 2018 – Catastrophe risk modelling has revolutionised the way insurers assess, price and manage disaster risks. Its usefulness to society could be even further enhanced by integrating the latest climate science, observational capabilities and emerging technologies, according to a research report from The Geneva Association, the leading international think tank of the insurance industry.

The report *'Managing Physical Climate Risk: Leveraging Innovations in Catastrophe Risk Modelling'* offers a comprehensive review of latest developments, opportunities and value proposition of the so-called Cat models. The study provides recommendations for enhancing Cat modelling with a forward-looking approach. This could enable stress testing and risk analysis under different climate change scenarios and support new climate insurance product and service offerings.

Anna Maria D'Hulster, Secretary General of The Geneva Association, said: "Cat modelling is more relevant than ever. As the effects of climate change become more severe, the insurance industry must keep up with market demand and anticipate future changes through the advancement of risk analytics. Cat models can assist insurers and policymakers develop a thorough understanding of the costs and implications of catastrophe risk. Few sectors of the economy play a role as intense in catastrophe recovery as insurance; therefore, the industry should strive to continually strengthen the predictive power of its Cat modelling capabilities."

Maryam Golnaraghi, Director Extreme Events and Climate Risk of The Geneva Association, added: "Building on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, increasingly more sectors are considering physical climate risk in their core business and investing methodologies. Cat models, if properly conditioned to climate change scenarios, could be utilised to understand the impact of weather-related risk on assets, operations and investments, and to develop risk management measures to address such risk."

In light of the investment gap in infrastructure, Cat models could be extended to assess and mitigate extreme weather risk across the life cycle of infrastructure projects. This could enhance infrastructure climate resilience and offer additional risk transfer and investment opportunities.

Furthermore, the next generation of Cat models should embrace a systems-based thinking, by connecting them with other modelling systems such as those applied in economic analysis, the water-food-energy nexus, and infrastructure and health systems. This could result in better understanding of feedback loops and cascading effects within and across sectors, and lead to improved policymaking, planning and risk management decisions.

The research report builds on experiences and insights from leading international experts from catastrophe risk modelling firms, the scientific and academic communities, international development practitioners and the (re)insurance industry.

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