

## Perspectives from C-level executives in the insurance industry

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*This report is based on in-depth interviews with 62 C-level executives of globally active insurance and reinsurance companies, and offers insights into the role of the insurance industry in addressing climate change adaptation and mitigation.*

Failure to address climate change has been identified as one of the highest potential socio-economic risks to our society.

Only recently, the focus of the climate change debate has moved from being mainly a scientific, environmental and social responsibility issue to one of the core drivers of socio-economic development and risk management. With rising socio-economic costs associated with physical risks of climate change, there is increasing evidence of a paradigm shift in governments' approaches, from 'inaction' or 'post-disaster reaction' towards a comprehensive and more integrated risk management approach.

Following the adoption of the Paris Agreement, there has been a burst of initiatives and activities across a wide range of stakeholders to support transitioning to a low-carbon economy. Emphasis on climate resilience and decarbonisation of critical infrastructure is rising as one of the top priorities of some governments in relation to their economic planning.


Increasingly, governments are recognising the role and benefits of the insurance industry as risk management experts and risk underwriters, yet there is a large, and in some places growing, protection gap that needs to be addressed.

## Recent developments related to transitioning to a low-carbon economy




### Policy and regulation

 Growing wave of climate policy and regulatory measures, but fragmented, with sketchy implementation pathways

 Fragmented sectoral approaches dominating




### Technology

 Growing opportunities in green and clean technology, although still risky and volatile




### Financing and markets

 Need for pipeline of investable grade opportunities, asset classification, standardisation, methodologies and expertise



### Reporting and compliance

 Emerging standard climate risk reporting – a potential game changer

The insurance industry offers solutions for building resilience to climate change and for supporting the transition to a low-carbon economy. The industry already contributes significantly to both adaptation and mitigation and would like to do more.

### Summary of findings of the study

## 1 The insurance industry is already taking action in addressing the climate change challenge.

**As risk managers and underwriters**, the industry provides leadership in risk modelling and pricing, knowledge of preventive measures and innovation in risk transfer solutions—all of which enable building socio-economic resilience to climate risks, entrepreneurial pathways for clean technologies, incentives for GHG reductions, and more efficient settlement of contracts.

**As investors**, the industry, under its liability-driven approach, is constrained by fiduciary duties and regulations. It is evaluating investment strategies and policies that increasingly integrate climate change considerations, and conducting due diligence of their asset managers. ESG is emerging as a predominant methodology—although with a few considerations.



## 2 External hurdles hinder the expansion of the insurance industry's contributions.

### Hurdles to expansion of risk transfer solutions

- Limited access to risk information and related risk pricing difficulties
- Public policy, regulatory and legislative issues
- Lack of awareness about insurance
- Weakness of domestic insurance markets
- Limited take-up of disaster insurance
- Regulatory barriers to access global reinsurance
- Scalability and sustainability of insurance programmes

### Hurdles to scaling up green investments

- Limited capacity of the markets to accommodate large-scale portfolio allocations to green
- Need for well-defined asset classifications, standards and methodologies for assessing green investments
- Fragmentation in climate policies and regulations that impact investors' confidence
- Regulatory risk capital charges that could restrain long-term green investments
- Lack of appropriate price signals, such as failure to price carbon
- Need for green technology investment opportunities and structures that better satisfy the insurance industry's risk appetite
- Data and transparency for informed investing



## 3 Climate resilient and decarbonised critical infrastructure is an opportunity for the insurance industry but it poses specific challenges.

**As risk managers and underwriters**, the industry requires data to assess the risks associated with climate resilient and decarbonised infrastructure projects throughout their lifecycle—from design and construction to operation and maintenance.

**As investors**, the industry requires a stable regulatory and political framework, a clear 'infrastructure' asset classification, a robust pipeline of opportunities and an efficient market for critical infrastructure. Pooling and structuring projects could reduce transaction costs.



Building resilience to climate change requires proactive risk management and adaptation strategies, and transitioning to a low-carbon economy needs to align governments and the private sector.

The Geneva Association is putting forward three recommendations to accelerate the contributions of the insurance industry to address climate change.



## Recommendation 1

*Third-party stakeholders such as governments, policymakers, standard setting bodies and regulators across sectors should work in a more coordinated fashion to address key barriers that hinder insurers from scaling up their contribution to climate adaptation and mitigation.*

### Climate change adaptation

#### Governments

- Identify and quantify socio-economic risks of climate change (with regular updates) and conduct cost-benefit analysis of possible measures to underpin climate risk management decision-making.
- Develop comprehensive and integrated climate risk management plans that span all sectors of the economy and levels of the government.
- Engage with and establish relevant public-private partnerships with the insurance industry for building socio-economic resilience to climate change.

### Transitioning to low-carbon economy

#### Policy setting, regulatory and standard setting bodies

- Develop clear 'green' classifications for assets and financial products.
- Support expansion of green bond markets with verification.
- Support, promote, and enable the expansion of the pipeline of green investments and new investment tools.
- Establish well-defined standards and methodologies to assess merits of green investments.

#### Governments

- Provide greater clarity on national decarbonisation plans and policies.
- Develop consistent national sectoral strategies in alignment with the national decarbonisation plans.
- Ensure better alignment across sectoral, climate, financial and trade policies, regulatory frameworks and related incentives.
- Discuss carbon pricing/trading policies with the goal of incentivising and/or helping with the financing of a 'well-managed' transition.
- Ensure that the Nationally Determined Contributions plans are accompanied by clear capital raising plans.
- Establish strong public-private partnerships and structures to enable private investing in the green sector.
- Phase out the fossil fuel subsidies and establish subsidies and tax incentives for green.

#### Financial reporting and compliance authority bodies

- Provide better information and consistent disclosure rules for all market participants.

#### Insurance regulators

- Align regulations to enable green investments with a long-term view.

#### UNFCCC

- Ensure stocktaking of global markets' response to climate change.



## Recommendation 2

*The insurance industry should continue to institutionalise climate change as a core business issue, expand its contributions towards building financial resilience to climate risks and supporting the transition to a low-carbon economy by collaborating with governments and other key stakeholders.*

### Company level

- Expand underwriting products and services for addressing the protection gap to natural hazards and physical risks of climate; reduce business risks associated with the complex green and clean tech value chain; and incentivise preventive measures and GHG reduction.
- Reduce carbon footprint for all aspects of business.
- Institutionalise climate change as a core business issue.
- Establish governance mechanisms to address long-term climate risks and promote such approaches as the norm.
- Stay abreast of latest developments in stress testing and 2°C Scenario analysis, as well as of developments with the FSB-TCFD.
- Integrate climate risks into investment decisions.

### Industry level

- Proactively engage with governments to leverage the industry's value proposition to build socio-economic resilience to climate risks.
- Support the development and advancements of forward-looking catastrophe risk models.
- Promote the need for systematic collection and availability of publicly-funded environmental and socio-economic data.
- Invest multilaterally in climate adaptation research.
- Promote the need for clear, coherent and consistent climate change policies and regulatory frameworks.
- Promote the need for 'green' and 'infrastructure' asset classification, expansion of pipeline of investable opportunities, standards and methodologies, reliable data and transparency and regulatory stability for long-term investments.
- Stay abreast of latest developments in stress testing and scenario analysis.



## Recommendation 3

*Governments and the insurance industry should explore ways to support climate resilient and decarbonised critical infrastructure through the industry's risk management, underwriting and investment functions.*

### Governments

- Ensure new infrastructure projects are climate resilient and decarbonised by setting clear policies, legislation and regulatory frameworks.
- Reassess physical risks of existing public infrastructure and invest in retrofitting.
- Join forces and consult with insurance industry to explore the industry's potential contributions.

### Financial regulators/standard setting bodies

- Establish infrastructure as an asset class and support development of a market.

*The core of the report is based on interviews with Chief Executive Officers, Chief Risk Officers, Chief Investment Officers and Chief Underwriting Officers from 21 globally active insurance and reinsurance companies, with total assets under management exceeding USD 4.7 trillion and a total premium volume in excess of USD 550 billion in 2016.*

Read the full research report online at [www.genevaassociation.org](http://www.genevaassociation.org)