



Thomas Hlatky
Chair, sustainability working group, Insurance Europe
Head of reinsurance, Grazer Wechselseitige, Austria

CLIMATE ADAPTATION

Time for a sea change

Insurers support the EU's increased focus on ways to adapt to the world's changing climate

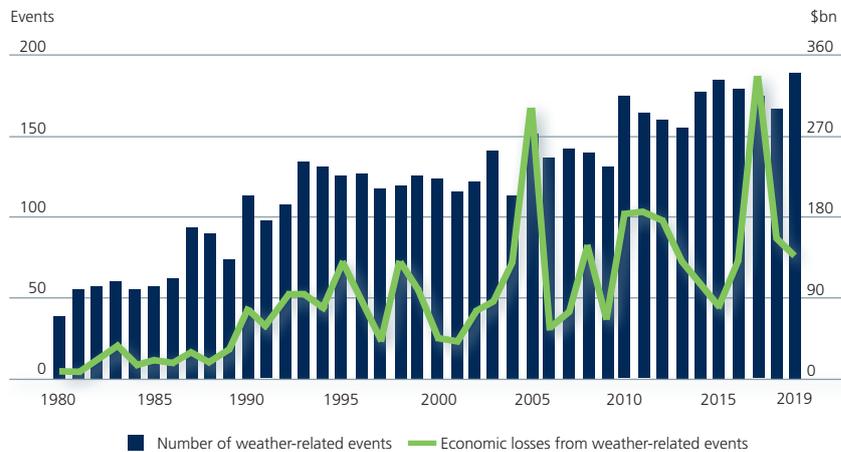
Tackling the effects of changes in climate on eco-systems and populations is arguably the world's most urgent challenge, requiring a concerted and shared global commitment. The scale of that challenge was brought into sharp relief by an analysis published in July 2020 by the World Meteorological Organisation (WMO), which showed a one-in-five chance that annual global temperatures will be at least 1.5°C warmer than pre-industrial times in the next five years. That clearly demonstrates the difficulty of meeting the 2016 UN Paris Agreement to keep the global temperature rise well below 2°C above pre-industrial levels.

The roles of (re)insurers

(Re)insurers, as providers of insurance cover and as institutional investors, are well aware of the transformation of risks brought about by climate change. They are risk carriers for increasingly destructive extreme events, as well as for higher health, mortality and political risks as a result of climate variations. And as institutional investors they face physical and transition risks for the billions of euro of assets they manage.

(Re)insurers play a pivotal role in developing the measures needed to mitigate and adapt to the effects of climate variability. They are actively engaged in climate-related discussions and actions, providing expertise in identifying, measuring and pricing climate risks, and in raising awareness of the risks and finding solutions to them (as set out in greater detail in the Opinion article by the

Weather-related events and associated economic losses — 1980–2019 (\$bn, 2019 prices)



Source: Sigma 2/20, "Natural catastrophes in times of economic accumulation & climate change", Swiss Re Institute

chair of Insurance Europe’s Reinsurance Advisory Board, Swiss Re’s Christian Mumenthaler, on p69). Insurers contribute in a wide range of ways to enhancing adaptation to climate change. Just one example is the increasing number of insurers that offer their clients incentives to reduce the risks they face, for instance by offering reductions in premiums to those who take preventive measures such as retrofitting homes against flood or wind damage.

Insurers also participate in public-private partnerships to build community resilience. In these partnerships, insurers often lend their expertise in risk management and risk modelling to support and train public administrations and SMEs on integrated business risk management. In addition, insurers regularly contribute to company or municipality-level adaptation plans.

And as Europe’s largest institutional investor, the (re)insurance industry is already financing the transition to carbon-neutrality, resource-efficiency and greater sustainability (see also the article on sustainable finance on p18).

Adaptation or mitigation?

As defined by the UN Intergovernmental Panel on Climate Change, **adaptation** is the process of adjusting to the actual or expected climate and its effects, moderating harm or exploiting beneficial opportunities.

Mitigation, on the other hand, refers to human intervention to reduce the sources or enhance the sinks of greenhouse gases or other substances that may directly or indirectly contribute to climate change.

Both mitigation and adaptation are essential to tackle the challenges of a changing climate.

Welcome EU ambitions

The European insurance industry supports the EU’s political commitment to become climate-neutral by 2050, as well as the European Commission’s proposal for Europe’s first Climate Law to enshrine that commitment into EU law.

The WMO study shows that mitigation measures to radically reduce greenhouse-gas emissions — while of utmost importance — are no longer enough. Extreme weather events are already becoming more frequent and severe (see chart) and this will only increase. To address the economic, social and environmental implications of a changing climate, more focus is needed on adaptation. Insurance Europe therefore

welcomes another element of the EU's European Green Deal package: the EC's new, more ambitious Strategy on Adaptation to Climate Change.

Adaptation enhancement is a key focus of the EC proposal for a European Climate Law, and Insurance Europe is highly supportive of the EC's ambition to step up climate-proofing, resilience-building, prevention and preparedness. Insurance Europe backs the Law's proposal that national and local authorities should enhance resilience by implementing effective prevention measures. It likewise supports the further development of national adaptation plans and strategies based on comprehensive risk-management frameworks.

Insurance Europe also welcomes work by the Commission to raise awareness of both the risks of a changing climate and of the appropriate insurance solutions. There is a key role for the EU to play in coordinating adaptation efforts, but it must be remembered that there is no one-size-fits-all solution at EU level, as member states have different risk exposures resulting from their different environments, levels of public risk-awareness, extent of government intervention, liability regimes or adaptation practices. This explains the highly diverse natural catastrophe insurance markets. In some markets, for instance, government/insurer natural catastrophe pool solutions are in place, while in others insurers provide private market solutions.

Insurers' respond to EU adaptation consultation

In its [comments on the EU Strategy on Adaptation to Climate Change](#), published in August 2020, Insurance Europe stressed that the first step in minimising extreme-event damage should be to ensure existing adaptation measures are fully and consistently enforced.

Insurance Europe went on to insist on the need for public-private partnerships to bring coordinated action on adaptation into the mainstream. Insurers believe that effective adaptation is a shared responsibility between governments (building flood defences, introducing and enforcing building codes and drawing up emergency sewerage plans, for example), the private sector, including insurers (investing, for instance, in adaptation measures) and the public (being made aware of and avoiding high-risk zones).

It is likewise vital that the EU continues to support *ex-ante* financing for extreme events by maintaining insurers' freedom

The importance of data

Data and statistics play a key role in the enhancement of climate adaptation, and Insurance Europe welcomes the Commission's recognition of this in its proposed European Climate Law and the renewed EU strategy on adaptation to climate change. Gathering, analysing and making widely available relevant climate-related data leads to a greater understanding of climate trends and risks, making it possible to meet the challenge of adapting to climate variations and to minimise future risks.

Several national insurance associations in Europe are already working with public authorities to share, systematise and analyse climate-related loss data. Such partnerships are generally tailored to local climates and geographies and national regulations.

In its response to the consultation on the EU Strategy on Adaptation to Climate Change, Insurance Europe stressed the need for more usable data on climate risks. The prerequisite for pricing climate risks is high-quality data on how such risks can occur and their effect on the economy. The EU is in the best position to support EU-wide efforts to model physical risks and to ensure the resulting data is accessible on an affordable digital platform to all interested parties.

Thought should also be given to the use of the substantial and valuable flood-risk data collected by member states as a result of the EU Floods Directive. This could contribute to enhancing the much needed research into torrential rain and the resulting flooding — a major loss factor in urban areas. Authorities could then be encouraged to base their planning decisions and building requirements on this data and research, and insurers could improve their understanding of such risks.

In view of the likely increased severity of climate risks in the coming years, Europe's insurers would like to see broader partnerships or fora for dialogue that involve all public and private stakeholders in order to build up a more holistic picture of the risks, address their causes and make decisions that create greater resilience.

Insurer/government cooperation on floods

Across Europe, insurers are working with national authorities on flood risk. One example is Austria's "HORA" risk-zoning system.

As a result of severe floods at the turn of the century, in 2002 the Austrian Federal Ministry of Sustainability and Tourism and the Austrian Insurance Association launched a nationwide risk-zoning system for natural hazards, with a special focus on floods.

HORA documents the risk of natural disasters in order to better assess the potential for damage. Data was gathered on the high-water levels of 25 000 kilometres of rivers and in 2011 HORA was updated and expanded. Since then, it has been available to use online (<https://hora.gv.at>) and as an application.



to negotiate terms and conditions with their policyholders directly, thus enabling the insurance industry to continue with its many market-driven solutions that are tailored to local conditions. Indeed, the EC's report on the implementation of the EU Adaptation Strategy recognises that insurance markets function as a crucial adaptation tool.

Raising public awareness of the consequences of climate change is another area in which the EU should be active. This work, along with partners such as (re)insurers and others, could be complemented by the collection and dissemination of high-quality climate-risk data (see box on p15).

And, since investment by the private sector in adaptation is essential, more projects are needed of the type in which insurers are keen to increase their investment; tying in nicely with the EU's stated "green recovery" ambition following the COVID-19 pandemic. There should also be good use of the EU taxonomy to classify investments that contribute to adaptation (see sustainable finance article on p18) and more incentives, such as tax breaks, to encourage businesses to implement adaptation measures.

Focus on floods

In 2019, Insurance Europe [contributed](#) to the Commission's public consultation on its fitness check of the 2007 Floods

Directive, which requires EU member states to identify and manage zones at risk from river or coastal flooding.

Changing weather patterns and rising sea levels as a result of global warming are leading to increases in all types of flooding. European insurers already provide significant levels of compensation for flood losses; they paid out \$6.9bn (€5.8bn) in 2002 alone — the year of catastrophic flooding along the Danube and Elbe rivers. Furthermore, insurers use their considerable flood-risk expertise to engage in the whole of the risk-management cycle: helping to identify risks and giving advice on reducing or adapting to them, in addition to providing services in risk transfer and recovery.

Overall, insurers believe the Floods Directive has had a positive impact on Europe's preparedness for increased flooding, but that it could still be improved. There must be an appropriate policy framework that involves public authorities and private stakeholders in flood risk management, with the proper

"The EU Floods Directive has had a positive impact on Europe's preparedness for increased flooding, but it could still be improved."



financing of — and investment in — ways to increase resilience to flooding.

While insurance is not a substitute for adaptation or mitigation measures, the Directive should require EU states to encourage the uptake of insurance in order to provide effective cover for flooding, without, however, defining that insurance cover. And the scope of the Directive should be extended to include floods caused by torrential rain and storm surges, as well as smaller rivers and streams. This could be done by introducing a threshold above which flooding has to be modelled, calibrated to the number of people who would be affected.

Some terms in the Directive, such as “frequent” and “extreme” flooding, need clarification to facilitate cross-regional comparisons. Greater clarity is likewise needed on what should be included in flood-risk modelling; for instance, whether sewerage systems should be included.

Year of action

2020 has been designated the “year of action” by the Global Commission on Adaptation, which was launched by the UN in 2018 to encourage the development of measures to manage the effects of climate change. The EU’s plans in this area are wide-ranging and ambitious, and insurers are already supporting them with expertise and investment. ●

Sustainable ambitions for Europe

In response to the ambitions outlined by the 2019–2024 European Commission to create a prosperous, sustainable and competitive Europe, Insurance Europe published its own “[Ambitions for Europe](#)” in January 2020, setting out four key objectives and how to achieve them.

One of its four ambitions is the creation of a greener, more sustainable Europe, including enhancing climate adaptation and addressing the protection gap.