INSURANCE MATTERS

CLIMATE CHANGE AND SUSTAINABILITY

Due to climate change, the impact of events such as severe floods, storms, droughts, or heatwaves keeps growing, affecting Europeans and their livelihoods. The severity and frequency of such events will continue to increase, resulting in unprecedented economic losses and increasing the chances of a growing number of people not being adequately protected against such risks.

Insurers play a crucial role not only in fighting the effects of climate change, by increasing the resilience of people and businesses through their cover, by incentivising climate adaptation, and by providing advice to authorities on risk management and prevention, to some extent through public-private partnerships, but also by contributing to limiting climate change. Indeed, as one of the largest groups of institutional investors, insurers help finance the transition to a carbon-neutral, resource-efficient and more sustainable economy.

The global natcat protection gap is around $139bn per year and average annual losses increased from $126bn (1990–1999) to $219bn (2010–2020).

Source: Global protection gaps and recommendations for bridging them, GFIA, 2023

With insurance…

Green net-zero transition
Insurers can facilitate the transition towards net-zero emissions by providing insurance coverage for renewable energy projects and by making significant investments in such projects.

Cover and protection in the wake of an event
Insurance enables a swift recovery from climate-related events by providing timely compensation for losses. This helps affected communities to rebuild and recover more quickly, minimising the long-term socio-economic impacts of extreme weather events.

Adaptation
Insurance companies often collaborate with governments and communities to develop comprehensive climate adaptation and resilience plans. These initiatives involve assessing vulnerabilities, identifying priority actions, and implementing measures to protect lives, property, and critical infrastructure from climate-related hazards.

Behavioural change
Advice, insurance pricing and coverage terms can influence individual and corporate behaviour towards more climate-resilient practices. For example, premium discounts can be provided to property owners who implement flood mitigation measures, whereas charging higher premiums for buildings in high-risk areas is an incentive not to build in such areas.

Without insurance…

Lack of resilience in the aftermath of an event
The cost of climate-related disasters falls solely on those affected, potentially leading to financial ruin for many and hindering recovery efforts.

Increased risk of maladaptation
Without insurers sharing their risk management expertise and experience through collaborative efforts, there is a higher risk of public authorities or the private sector initiating projects or building infrastructures that are not designed to cope with the changing climate, thus increasing the risk of maladaptation.

Lack of investment in green transition projects
The European Green Deal is estimated to require investments of around EUR €520bn per year until 2030, according to the European Environment Agency. Without private investment, including from key institutional investors such as insurers, the green transition will not be achieved.

Efforts to mitigate and adapt to climate change would be severely hindered, and the costs and consequences of climate-related disasters would be disproportionately borne by individuals and society as a whole.

CULTIVATING A CULTURE OF RISK AWARENESS AND ANTICIPATION

As climate change accelerates, events that once seemed unimaginable are becoming more frequent. Insurers are directly affected, as their ability to continue to provide cover will be increasingly dependent on efforts to reduce greenhouse gas emissions (GHG) and strong adaptation measures. These efforts require joint action, by businesses, including insurers, citizens and public authorities. It also involves making tough choices, such as restricting construction in flood-prone areas. Such decisions, which require a good understanding by decision-makers of the climate change related challenges, have economic ramifications in the short term, but are crucial to bolstering climate resilience in the long run. Equally vital is the need to ensure that citizens and businesses are well-informed about potential risks they face, in order to act and adapt accordingly.

Understanding, managing and reducing risks is also increasingly important in the context of battery use, storage, disposal, and recycling. Indeed, the green transition requires the massive use of (lithium-ion) batteries in all economic sectors. The high risks related to such batteries make some of the activities involving them difficult to insure at prices policyholders expect. Efforts therefore need to be put in reducing risks, notably by enhanced prevention, risk awareness and risk management. Achieving this requires joint efforts by insurers, policymakers and key stakeholders, such as e-waste recycling plants. The stakes are high: success or failure in the green transition.

INSURERS CAN DO EVEN MORE…

How policymakers can help insurers in their role as providers of protection…

Accelerate the uptake of adequate climate adaptation measures at all levels, from the individual to the municipal and state level.

- Policymakers should provide guidance on how citizens and businesses can increase their resilience, encouraging the uptake of risk reduction measures and instilling a reflex in citizens and businesses to consider possible risks facing them and their properties.
- Policymakers should introduce a requirement to provide risk information to prospective house buyers and renters.
- Policymakers should review the rules on land-use and urban planning, as well as building codes, so that they are climate-proof.
- Decision-makers should be encouraged to, where appropriate, make arbitrage decisions, such as deciding not to build in risky areas, even when that is a missed economic opportunity, in the short term.
- People and businesses should be incentivised to make their properties more resilient to climate risks like windstorms and flooding through education, grants, and tax relief. Policymakers should encourage national governments to support these efforts and create a tax environment that promotes purchasing insurance and resilience efforts, thus incentivising insurers to offer premium reductions for resilience improvements.

Continue efforts to strengthen the dialogue between all key stakeholders.

- It is key that policymakers continue their efforts in ensuring a good understanding of climate risks, as well as a holistic approach to identifying avenues to explore in combatting climate change.
- This also involves launching initiatives to enhance the insurability of new risks, such as developing guidelines or standards with input from all relevant stakeholders. These initiatives could address resilient building standards, mitigate risks associated with lithium-ion batteries, e-waste recycling, and photovoltaic panels.

Set up an "insurance expertise centre" in the European Commission that serves as a knowledge hub across Directorate-Generals.

- Such a centre would ensure due consideration is given to all risks involved in any new legislative initiatives, so they meet the objectives without compromising insurability and, ultimately, climate resilience.

How policymakers can help insurers in their role as long-term investors…

Shift focus to implementation of key obligations and reporting with the highest impact and ensure that new rules work in practice.

- While the insurance industry is generally supportive of the EC's many policy initiatives related to sustainable finance and sustainability reporting, it is vital that they are designed and implemented in the right way if they are to achieve the objective of channeling private investment into the transition and increased transparency. In some cases, there is a need to improve their design in order to ensure that the requirements are appropriate and workable. It is also key that the framework ensures legal certainty and a period of stability for financial market participants, consumers and investee companies.

Enable insurers to continue playing their role as a long-term investor.

- This includes eliminating regulatory barriers to insurers offering long-term products, guarantees and investments, including investments in the projects necessary to achieve the green transition.