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INSURERS AND CLIMATE CHANGE ACTIONS

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CLIMATE CHANGE: ACTION AGENDA

- The **2016 edition of the World Economic Forum's annual Global Risks Report** lists "failure of climate-change mitigation and adaptation" as the greatest risk facing the world over the next 10 years[1].

- The agreement reached at the **COP 21 conference in Paris (December 2015)** reaffirms the goal of limiting global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees . Limiting global warming to below 2 °C requires a significant effort on the part of governments, businesses and even individuals, called to change the current model of production, consumption, mobility and, more generally, lifestyle.

- The explicit **inclusion of insurance in the COP21 Paris Agreement** recognizes the importance of the sector as an integral part of national climate risk management strategies and the high potential for building financial resilience by expanding insurance and, at the same time, creating new business. In addition, in to their role of institutional investors, the analysis of the carbon footprint of portfolios could enable them to make an informed assessment about the climate change risk across their portfolio and to monitor progress in managing this risk over time.

- COP21 also saw the announcement of the **UN Secretary-General Ban-Ki Moon's Climate Resilience initiative named Anticipate, Absorb, Reshape (A2R)** which is geared around public and private sector organisations including companies, governments, UN agencies, research institutions and others, to develop new solutions to building resilience in the world's most vulnerable countries, and adapting to the climate impacts that we will face over the coming decades.

- In the same context, the **Financial Stability Board** launched the industry-led **Task Force on Climate-related Financial Disclosures (TCFD)**, with the aim of developing a set of recommendations for consistent, comparable, reliable, clear and efficient climate-related disclosures by companies.

- The wider insurance industry announced at the COP21 the launch of the **Insurance Development Forum (IDF)**. Comprising governments, international institutions such as the UN, and members of industry, the IDF will drive the widespread understanding of risk to create resilient platforms for sustainable growth and human dignity.

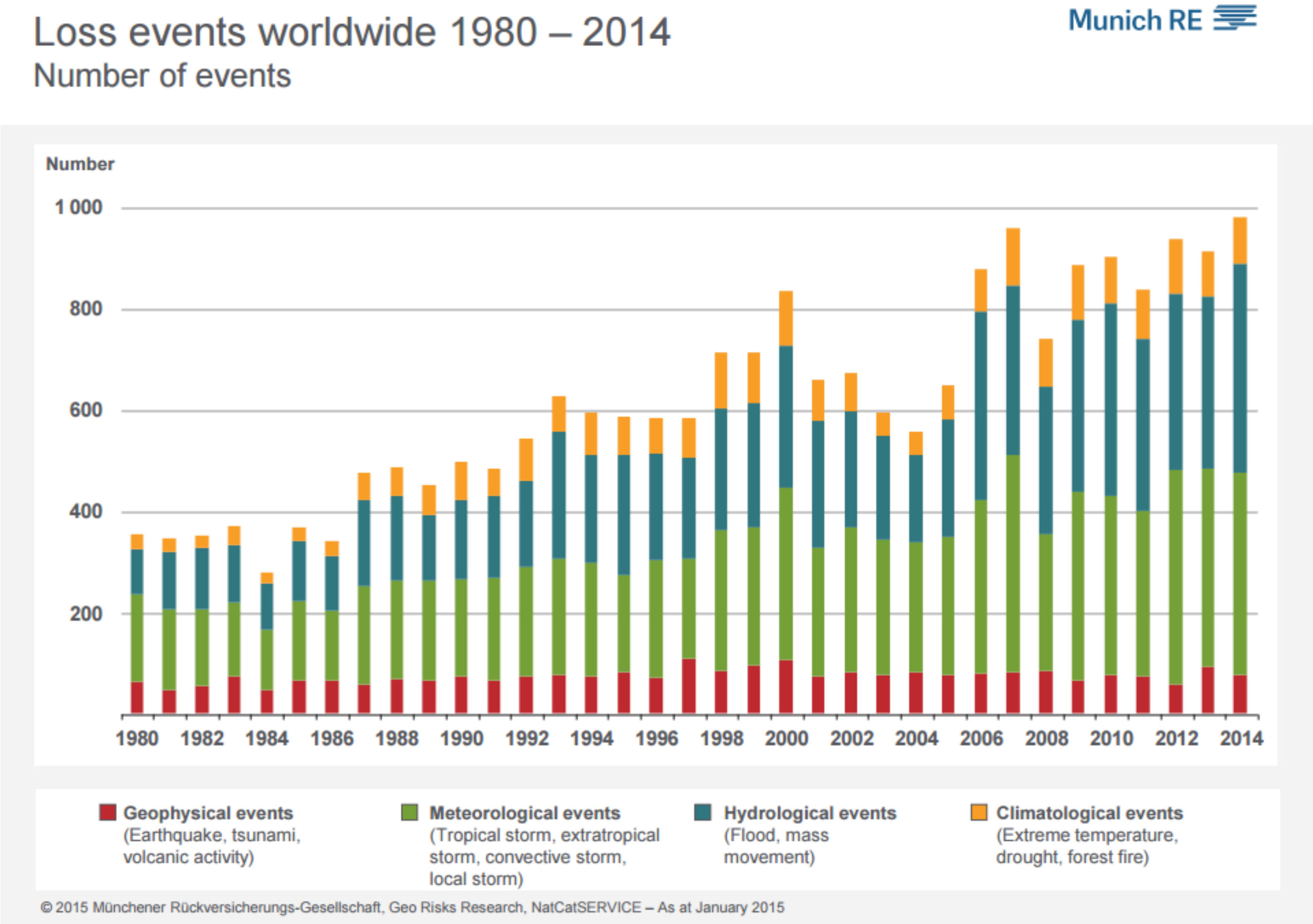
1 The Global Risks Report 2016 - WEF - http://www3.weforum.org/docs/GRR/WEF_GRR16.pdf

- The **Portfolio Decarbonization Coalition (PDC)**, a multi-stakeholder initiative, launched in September 2014 by the United Nations Environment Programme (UNEP), seeks to reduce global greenhouse gas emissions by mobilising a critical mass of institutional investors committed to gradually decarbonizing their portfolios the analysis of the carbon footprint of portfolios would enable investors to make an informed assessment about the climate change risk across their portfolio and to monitor progress in managing this risk over time.

THE IMPACT OF CLIMATE CHANGE ON THE INSURANCE INDUSTRY

The insurance industry is a key driver of the global economy, its products and actions stimulating trillions of dollars in private investment and influencing business activity across all sectors. It has unique risk exposure to all sectors of the economy and unique power to act on those risks, which can influence both public behavior and private investment. **Climate change is altering the industry's global business landscape and the risk models on which it crucially depends**. After centuries of operating in a relatively stable global climate, insurers are facing more volatile weather patterns driven by rising temperatures and human activities likely causing them.

The UN World Conference on Disaster Risk Reduction, highlighted that **between 2005 and 2015** over 700 thousand people lost their lives, over 1.4 million were injured and approximately 23 million were made homeless as a result of **climate-related disasters**, with more than 1.5 billion people affected. Total economic losses from natural disasters in the last decade were more than USD 1.3 trillion, with total direct losses in the range of USD 2.5 trillion so far this century. **In the past decade, 80% of natural disasters were climate-related, and climate change is predicted to increase the frequency and intensity of extreme weather events such as floods and storms**. This is becoming more of a problem especially for emerging economies where insurance policies are still scarcely present. Global insurance claims data show a rapid increase in loss and damage from extreme climatic events. According to Munich Re, the number of disasters in EEA member countries shows an upward trend since 1980[2].



2 NatCatSERVICE Loss events worldwide 1980 – 2014 – Munich RE - https://www.munichre.com/site/touch-naturalhazards/get/documents_E2080665585/mr/assetpool.shared/Documents/5_Touch/_NatCatService/Focus_analyses/1980-2014-Loss-events-worldwide.pdf

RESPONDING TO CLIMATE CHANGE - VIGEO FINDINGS

As highlighted in **Vigeo European Insurance** sector (published in March 2016), **the sense of urgency of climate protection is still not reflected in the sector performance**: the average score obtained by the sector on this challenge is 27.9/100[3], which is the lowest out of the other environmental issues faced by this industry.

As for **Property & Casualty**,

- **30% of property & casualty insurers have issued a comprehensive commitment to assess climate change related risks in their insurance activities** and 26.5% take part to international initiatives as the Climate Wise Principles or the Munich Climate Insurance Initiative. However, only three companies have set quantified targets in terms of promotion of climate risk insurance solutions. A good practice is offered by **Swiss Re**: in 2014, the company has made a commitment to the United Nations, i.e. to advise 50 sovereigns and sub-sovereigns on climate risk resilience by 2020 and to provide them with USD 10 billion in coverage.

- **Product innovation can promote the transition to a low-carbon and resource efficient economy**, such as specific insurance products for clean energy projects, green buildings, energy efficiency, and hybrid and electric vehicles. Advancements in index-based insurance are supporting coverage of a more diffused range of climate-related risks. More specific solutions, including policy risk insurance for renewable energy investments, insurance solutions for low-emission transport, and products for green rebuilding and green domestic appliance replacements, are beginning to emerge. Developments in environmental liability insurance covering risks arising from environmental damage continue to gain momentum. The most commonly found measures refer to the offering of climate friendly products, favourable conditions to foster climate friendly behavior and providing dedicated insurance solutions to the renewable energy sector. **Almost half of companies providing P&C insurance have conducted research on climate risks** while only 20% participate in initiatives with government agencies and academic institution to promote climate risk research and awareness on climate change issues. **Aviva**, for instance, uses catastrophe models in the assessment of customers' risks and provides insurance products and loans that benefit people who utilise solar panels and wind turbines to generate electricity, low-carbon vehicles, people who drive less and people who use sustainable transport. **Only five companies report to offer advice and climate risk management services** to their clients. **Axa**, among the best performers of the sector, has created dedicated operational units offering prevention services to clients, as well as to the general public. The company also reports that all of its 57 global subsidiaries are engaged in providing risk education, including a focus on climate risk, to the local communities in which they operate.

- **In terms of KPIs reported, information on the share of contracts explicitly including climate change related aspects are still hardly disclosed**. Only few companies report very partial figures, such as **Swiss Re,** which reports the amount of P&C Reinsurance premiums for natural catastrophe covers as a percentage of the total premiums in this business segment.

As for role of **insurers as asset owners**, despite the commitments to greenhouse gas accounting and the participation to relevant international initiatives, such as the Montréal Carbon Pledge and the Institutional Investors Group on Climate Change (IIGCC):

- **20% of the sector players disclose a comprehensive commitment to mitigate climate risks through their investment activities**. A good practice is offered by **Axa**: the company announced a EUR 500 million Coal divestment; the commitment to assess and disclose the carbon intensity of investments by 12/2015 and the commitment to triple green investments in the period 2015-2020.

- **only 14% of companies disclose very partial quantified data on the carbon footprint of their investment portfolio**. In this regard, **Storebrand** uses carbon data from external providers to calculate the carbon footprint of its holdings and reports on carbon dioxide equivalents, which is a measurement that includes carbon dioxide and equivalent greenhouse gases.

- Finally, **two companies have been criticised by stakeholders for their support to fossil fuel projects** and to maintain financial links with major carbon emitting companies.

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3 Vigeo's scoring scale ranges from 0 to 100, 100 reflecting the highest performance

FORWARD

Climate change has been a driver of market innovation, policy engagement and analysis, and is now stimulating new regulatory approaches for insurance in many countries. **An energy transition is first necessary in terms of environmental sustainability, but may also involve economic opportunities**: for example, according to a study of New Climate Institute[4], if China, the United States and Europe would accomplish energy transition to renewable sources by 2050, they could benefit 3 million additional jobs by 2030, in addition, the reduction in imports of fossil fuel would result in an annual savings of up to 520 billion dollars. Evidence shows that, depending on their size, assets under management, and their core activities, insurance firms have started identifying climate change among the for insurance looking forward to the next decades. However, **major gaps still remain among insurance companies to address this challenge**, such as market failures, misaligned policy frameworks, underdeveloped markets, as well as gaps in critical capabilities. A broader, more comprehensive action from across the entire insurance industry is needed and expected by stakeholders.

4 Assessing the missed benefits of countries' national contributions – New Climate Institute - https://newclimateinstitute.files.wordpress.com/2015/10/cobenefits-of-indcs-october-2015.pdf