

## Climate resilience

Enhancing climate change adaptation and closing protection gaps

### THE CHALLENGES

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The Swiss Re Institute recently estimated that under the current trajectory, global GDP could be 11-14% less by mid-century than it would in a world without climate change. As climate change continues its trajectory, extreme weather events, such as floods, storms and droughts, are increasing in frequency and intensity.

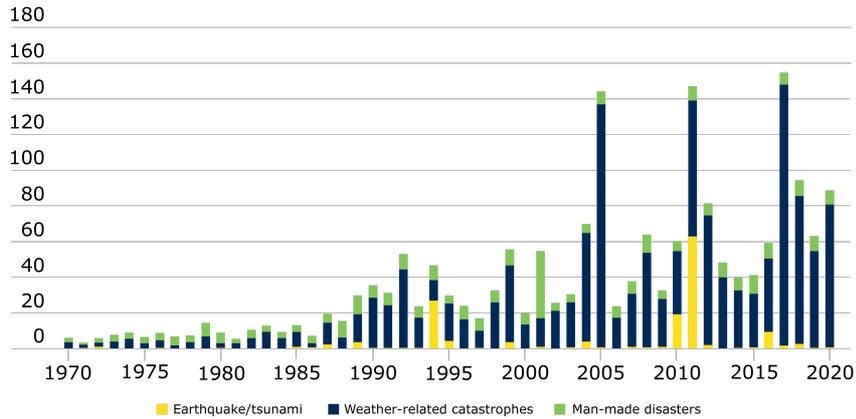
WHAT INSURERS CAN DO

WHAT POLICYMAKERS SHOULD DO

Yet, while an increasing number of people across Europe are exposed to the risks that come with these extreme events, many are inadequately protected against them, or in some cases not at all.

Weather-related natcats cause increasing damage

Global insured catastrophe losses — 1970-2020 (\$bn, 2020 prices)



Source: Swiss Re Institute, March 2021

Closing protection gaps, thus boosting the climate resilience of communities, families and individuals, is a critical task to which insurers are ideally placed to contribute. However, this cannot be tackled by insurers alone, but rather demands the involvement of the public sector and potentially other stakeholders as well.

Natural catastrophes led to over \$175bn of losses globally in 2020, up 26% compared to 2019 (Swiss Re Institute, December 2020)

THE  
CHALLENGES

## WHAT INSURERS CAN DO

Countries with high insurance penetration and, consequently, a lower protection gap, tend to recover more quickly from natural catastrophic events, such as earthquakes, floods or storms. This confirms insurers' pivotal role in combatting the effects of climate change by helping people, businesses and societies reduce their exposure to risks.

WHAT  
INSURERS  
CAN DO

WHAT  
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SHOULD DO

Insurers contribute to increasing societies' climate resilience in a number of ways. Traditionally, they cover the risks to which policyholders are exposed. They do so on the basis of their understanding of risks related to extreme weather events and their expertise in measuring, modelling and pricing weather-related risks.

In the first place, though, prevention is key, as it can contribute to making risks insurable or reducing premiums. Insurers contribute to enhancing prevention by raising awareness of weather-related risks or by offering lower premiums to customers who implement preventative measures.

Adaptation to a changing climate is another key area in which insurers can play a role. The issue of climate change adaptation is complex and vast, as it involves adjusting existing and institutionalised systems and processes to make them more climate resilient. It also requires changes in the behaviour and practices of individuals and companies, so that they become more resilient to the risks of extreme weather events. Insurers can contribute to climate change adaptation by working together with national and local authorities, advising them on how to adapt, notably on the basis of available climate-related loss data. As each region is exposed to different types of risks, each of these types of public-private partnerships (PPPs) are generally tailored to local market characteristics, regulations and levels of awareness.

## What Insurance Europe is doing

Insurance Europe's engagement with EU policymakers is focused on advising that any new regulatory activity should go in the direction of promoting climate resilience, and that it does not put adverse and undue burden on the sector so that insurers can continue playing their important role.

### The EU classification system

Insurers welcome the fact that the EU taxonomy for sustainable activities — which entered into force in July 2020 — recognises that non-life insurance and reinsurance contribute substantially to climate change adaptation. It was essential to ensure that the criteria applied to non-life insurance in the taxonomy captures the full extent of insurers' contribution by not focusing exclusively on price signals or product features, but also allowing company-wide prevention measures to be taken into account. It was also vital for the screening criteria to reflect the central role that data plays in insurers' business models. While the screening criteria eventually adopted by the Commission for non-life insurance are not without flaws (especially on data-sharing), they should give a generally fair reflection of the sustainable nature of non-life insurers' business to potential investors.



Three public-private partnerships to boost climate resilience

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## WHAT POLICYMAKERS SHOULD DO

Policyholders at various levels have a crucial role to play in boosting climate resilience by enhancing both climate adaptation and climate mitigation efforts. First and foremost, it is important to reduce greenhouse gas emissions in order to limit climate change as much as possible and thus meet the Paris Agreement under the UN Framework Convention on Climate Change. In this regard, European insurers support the ambitious European Green Deal as an important step towards this goal and making the EU economy more sustainable (see our [Investment resilience](#) article). However, as climate change is already happening and will continue, climate adaptation is at least as important. Measures required include raising public awareness of the need to adapt, implementing effective prevention measures and promoting public-private partnerships.

### At EU level

Insurers welcome the recently launched European Climate Adaptation Strategy as an important step towards more coordinated action. It is now vital that the ambitions outlined in the strategy are matched with constructive and impactful actions.

#### Strengthening dialogue between key stakeholders

In line with the EU Adaptation Strategy, the European Commission can play a role by strengthening the dialogue between insurers, policymakers and other stakeholders. Ongoing dialogue serves to generate a more holistic picture of climate-related risk by ensuring that stakeholders do not operate in silos and this paves the way to more effective decision-making.

#### Coordinating adaptation efforts

The EU has an important role to play in coordinating adaptation efforts and can do so by supporting member states with the roll-out of national adaptation plans, promoting awareness-raising efforts at all levels, supporting the setting up of public-private partnerships and continued (financial) support for the implementation of prevention measures at all levels. It is important to point out, however, that there is no one-size-fits-all solution; in addition to the fact that every region is exposed to different climate change-related risks, each country has its own history and traditions. Moreover, insurance penetration and awareness levels differ from one region to the next.

### At national level

#### Prevention measures

First and foremost, national and local authorities should enhance resilience by implementing effective prevention measures and risk-averse policies. These measures and policies come in many different shapes and sizes, depending on the type of risk a particular area is facing. Of particular importance, for instance, are measures to avoid new buildings being constructed in high-risk zones, such as flood plains. More broadly, public authorities should adapt and implement building codes and standards to boost the climate resilience of new and existing buildings. In a similar vein, building flood defences or retrofitting homes against flood or wind damage could be effective in areas where such risks are high.

The responsibility for these types of prevention measures lies with public authorities, yet they are vital if insurers are to continue providing cover for climate-related risks. Insurers are therefore keen to work with authorities and share their long-standing expertise in this area.

#### Raising public awareness

Raising public awareness of climate-risk exposure by national and local authorities remains paramount for ensuring that people are aware of and adequately protected against the adverse effects of catastrophic events. Each region's exposure to climate-related risks is different, depending on geographic location, different levels of public awareness about potential risks, the extent of government intervention, liability regimes or adaptation practices. Effective solutions therefore need to be defined at national or even local level.

### Setting up public-private partnerships

Public-private partnerships, often involving insurers, have already proven an effective tool for sharing expertise, data, and experience between core stakeholders in the area of climate resilience. While insurers bring their extensive expertise in risk management and prevention to the table, public authorities and other sectors and stakeholders have the ability to implement the necessary prevention and adaptation measures.



## Three public-private partnerships to boost climate resilience

One successful PPP is the French National Observatory for Natural Hazards (ONRN), created in 2012 by the Ministry of Ecology, Sustainable Development and Energy, state-owned reinsurer CCR and Mission Risques Naturels, the association of French insurance companies for natural hazard knowledge and prevention.

The ONRN serves as a neutral platform for the collection, sharing and dissemination of public and private data and indicators related to natural hazards, paving the way for better management of risk prevention and governance and facilitating the economic analysis of crisis management and prevention.

Another stand-out example is Norway's insurance loss data-sharing project for climate-resilient municipalities. Within the framework of this pilot PPP, the insurance sector shared asset-level loss data with nine municipalities. Matching information on extreme rainfall and storms to insurers' data on the location of insurance claims allowed these nine communities to move to a more evidence-based approach to climate adaptation.

The third example is a PPP within the framework of the Dutch national Delta Plan on Spatial Adaptation, launched in the wake of heavy rainfall that hit Amsterdam in July 2014. The event inspired a private insurer, water management company Waternet and the Amsterdam fire brigade to join forces and exchange data on claims and the information received from the public on the damage incurred by the rain.

- The collected data was analysed by researchers at the Delft University of Technology and Synoscope, a consultancy firm, and revealed that 60% of the damage came from leaky roofs, gutters and walls. Most vulnerable were found to be houses on the ground floor or with basements. 65% of those suffering damage did not file any insurance claims, demonstrating that insurers' data alone is not enough to map the breadth of the damage and impact. This confirmed that there are benefits to stakeholders working together on raising awareness among citizens of the need to reduce their exposure to losses and how they can go about this.