

# ADAPT TO SURVIVE

INTERVIEW BY  
**JENNIFER BAKER**

**As we emerge from the Covid19 pandemic many things will look different, in particular how we built back better and become more resistant to risks. It has also put the looming threat of climate change centre stage. We spoke to Elena Višnar Malinovská, the Head of Unit in charge of adaptation to climate change, cities and international cooperation, within DG CLIMA at the European Commission.**

*Could you give us a general introduction to the European Green Deal and a status update on the work to reach climate neutrality commitments for 2050 and on the 2030 emission reduction target as well? How's it all going?*

‘I would say the Green Deal is the top political priority we continue to deliver on. And just before Earth Day on 21 April, the climate law was agreed between the two co-legislators – the European Parliament and the Council – which means we are the first continent that is putting the political commitment into law. This includes the increased ambition for 2030 for cutting emissions by 55 percent. So it's going beyond the benchmark of halving emissions. We now have a legal instrument and not only the politics of climate targets. We have collectively committed as European Union and Member states, to go on a pathway towards climate neutrality. And we will have to report and to check whether we are on this pathway every five years, whether the

measures adopted are adequate. So as I said, all is going at the right speed and in the right direction.’

*Obviously, I imagine the work has been affected by the Covid19 outbreak. If so, how and what knowledge has been learnt from the outbreak that you could take into account for future planning? Has the goal or the timeline changed because of the pandemic?*

‘Everything changed! Everything came a bit fast, so we have realised that the risk of not being prepared is huge. When you see the stalemates around the economy because we don't have the health systems that can support us, there was no trust in science or lack of transparency in international cooperation. Consider that for the covid pandemic, we have put in billions and a huge effort, and now we have the vaccine. Imagine the climate risks that are now unfolding. And it's not just the emissions of today, it is also the sum of the past, it's today, it's tomorrow. So we really feel that

the pandemic has shown us the cost of inaction, the cost of not being prepared. And this is why the whole work has been very much accelerated, I must say.

What has also happened also during the Covid pandemic is that real investment went forward into areas like cycling paths, our green spaces, or energy efficiency measures for renovation because we are sitting at home much more than we used to before. So I would say in real life it has very much accelerated, but also in legislative terms. Let's not forget that DG CLIMA in the Commission has been sitting at home during lockdown, as you and I, and I don't think we have ever been more efficient than right now. We are really progressing on the impact assessments – the analytical work underlying the legislation – but also on the changes that will be put into the different parts of the trading scheme, effort sharing, how member states will share the new ambition and so on.'

*It's good to hear there is some silver lining to the horrible pandemic. I suppose analytical work is one thing you can do quietly if you're at home. Now the Commission President's Mission Letter to Frans Timmermans, the commissioner responsible, doesn't explicitly mention insurance or pension companies or pension funds. How do you see these companies may be able to support reaching the goals of the European Green Deal? Can you see any role for them?*



ELENA VIŠNAR  
MALINOVSKÁ

'Absolutely. Because the Green Deal is about these sorts of longer-term goals where we often have to put costs upfront that are concentrated on a few parts of the society. But the benefits then are for the whole of society. And where we very much need insurance is when we look at the cost of mispricing the risks. If you underestimate the risk that is out there, and you act in the market as a reckless cowboy, then of course, maybe in the short term it pays off, but definitely not in the long term.

*Now imagine you are a pension fund, you are more or less depending on clients that invest into you over 20, 30, 50 years. And they want to see*

*this patient capital pay off. They want to see where the money is. So they have an interest in seeing this invested into something that is indeed good, that is futureproof, as we say in our jargon. These are typically the portfolios of new energy, new technologies, but also natural capital. We don't speak about it too much. We often underestimate how much a drop of water costs until we are out of the water. So I would say, insurers have it in their way of thinking. They should get insulated against climate risks because they see it in their daily life. Insurers have to pay based on claims after a situation has happened.'*

*Is there anything that you think that the individual actuaries should bear in mind on a day-to-day basis? An approach they could take that would keep the goals of the Green Deal or the sustainability aspirations front and centre?*

‘Definitely, I think we are now looking at allocating the financial responsibilities. In the past, we had the sort of thinking as a whole society. It means when something happens, at the end of the day, it will be public funds that come to rescue. But I think we are over this stage. Actuaries or professionals working in the system already work with climate scenarios or climate risks. They know what losses have been incurred in the past. They work with modelling with state of art techniques. So definitely, if you look towards the new professions of the future, for me, it’s not just the construction worker that will insulate your house. For me, it will be an army of data analysts that will support the financial sector to move the economy.

I think if we fix the financial system, we will also fix the real economy. We always look towards the financial sector: what they are doing, what they are thinking. In the past there has been hesitation, but hopefully now the regulation is there and the financial actors will start to exercise their muscle to actually avoid some of the polluting activities.’

*Let’s talk about the EU sustainable finance taxonomy. I’m wondering how much investment held by insurers might fall into this. Perhaps*

*only a small proportion of insurers’ investments are made in economic activities that might be eligible. So can I ask you just to comment on how that may help insurers identify sustainable economic activities?*

‘It is really a tool to say this is a sustainable activity, these are the criteria you need to fulfil to satisfy to be classified as a sustainable activity, and this is how you can report on it. Now, if you ask me directly, how much or what proportion is investment versus underwriting, which are the main activities for insurance? The response is I don’t know exactly. Insurance Europe tells us it’s around 50-50. I think what is more important than how much investment is now covered by taxonomy, is how they can move forward, so they cover more and more activities. I would be worried to hear that they are not moving in this direction, because if you do the underwriting and you do the pricing of a climate risk, you immediately see what you would have to change in your investment strategies – like investing more into nature-based solutions. I hope that insurance companies don’t do something with the left hand that the right hand then contradicts. But definitely based on the practices of a risk manager, sometimes even a crisis risk manager, you will then be encouraged to be a good investor.’

*Obviously some of this is about reputation management because we do see the practice of greenwashing and it’s about how much security you can have in products. But I was*

*very struck recently by one interviewee saying this isn’t about managing risk anymore. If we don’t act now, this will be about managing certainty rather than risk for the sort of climate disasters that we may see in the future. What do you think the European actuarial industry, the insurance and pensions industry should be thinking about over the longer term?*

‘It’s very nice to hear that it’s no longer about the likelihood of risk, but it is perceived as a certainty, that there is urgency, because in the past we have been very much faced with the question: should we take decisions, even if uncertainty is out there? And now I see that indeed this is what will happen. My business model depends on whether I take risk management into account and more and more I see it becomes a sort of a teamwork. And it should be a team effort. Imagine you are a city. You need a lot of preventative measures against different hazards that trouble your city and your citizens. So you sit with insurance or with actuaries, and you agree that as a city you will very much be pushing adaptation regulations. Please do not build in the floodplain, please insulate your houses, etc. And this is actually also to the benefit of the actuaries and the insurance business, because they are on safer grounds as the level of claims is going down. So I think that this is the sort of teamwork and partnership I would like to see more and more in the future.’