

INSURANCE

AND THE CLIMATE AND BIODIVERSITY CRISIS

Insurance and the climate are opposite matters, so it seems. What could be the role of innovation to bridge these two opposites? We asked Regula Hess, Senior Advisor Sustainable Finance at WWF Switzerland.

On 13 September 2023, 29 scientists published the study 'Earth beyond six of nine planetary boundaries' in the magazine Science Advances. According to the study, six of the nine planetary boundaries have already been exceeded. How big and how acute do you think the threat to the everyday life of people in Europe is?

'The threat is urgent and enormous. This year, Spain experienced the worst drought in 500 years; water had to be rationed and crop failures are driving up food prices. The price of olive oil has more than doubled since 2022. At the same time, studies show many links between air and water pollution and cancer

and other diseases. In 2020, an estimated 238,000 people died prematurely due to air pollution in the EU alone. Or a study from France concludes that children living near vineyards are more likely to develop leukaemia - grapes require large amounts of pesticides.'

Do we still need new technical solutions to solve the climate and biodiversity crisis or is the challenge more one of implementation?

'There are already many good solutions that are not being implemented and scaled at the speed necessary. Let's think of solar systems on roofs. There are so many suitable surfaces that can be used

without encroaching on nature. Nevertheless, such systems are being built far too slowly. Or the most efficient electric vehicle: the train. There is immense potential in the expansion of public transport instead of motorised individual mobility and air travel.

However, even better and more efficient (technological) solutions often help to displace unsustainable alternatives. It is therefore crucial that insurance companies support both existing green technologies in scaling up and new or improved approaches in development. After all, there are also win-win situations in our behaviour - completely without technology. We can eat healthier and more sustainably to the benefit of ourselves and the planet.' >

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Also on 13 September 2023, the WWF published the report ‘Underwriting our planet: How insurers can help address the crises in climate and biodiversity’ together with Deloitte Switzerland, for which you were a co-author. What does the report deal with?

‘The report discusses the interactions between the insurance business on the one hand and the climate and nature on the other. For example, the climate and biodiversity crisis are having an impact on insured risks, while at the same time insurance companies are underwriting economic activities that exacerbate precisely this crisis. Losses due to natural disasters are continuously increasing globally and it is assumed that insured losses will once again exceed the USD 100 billion threshold this year. At the same time, the growing unpredictability of these events is making the pricing of insurance products more difficult. Accordingly, the report argues that it is essential for insurance companies to achieve global climate and biodiversity goals and makes recommendations on how insurance companies can contribute to these goals.’ >



REGULA HESS is Senior Advisor Sustainable Finance at WWF Switzerland

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How can insurance companies make a concrete contribution to the global climate and biodiversity goals in their core business?

‘We have identified 11 levers in three categories that insurance companies can use for this purpose. Firstly, it is crucial ‘what’ is insured. Insurance products and risk management support should be expanded for green technologies, but also for landscapes and their restoration (nature-based solution). Simultaneously, economic activities that destroy our livelihoods should no longer be supported, and the associated companies should be supported in their green transformation. Secondly, insurance can provide incentives for sustainable practices by companies or behaviour by private customers for example through insurance conditions and claims management. Thirdly, insurance companies are important stakeholders for their customers and politicians. They can use this position to

highlight to politicians the risks of the growing climate and biodiversity crisis and the need for reliable framework conditions for the insurance sector.’

Which opportunities are opening up for insurance companies in connection to decarbonisation?

‘As already mentioned, sustainable technologies and companies are growing. Insurance companies that position themselves early on as partners to these up-and-coming economic sectors will have a larger market share in the future. Moreover, we believe that insuring transition risks is a business area that is still underdeveloped. For example, numerous agricultural businesses must switch to more environmentally friendly production. This is associated with risks that they can hardly bear alone and that could be efficiently distributed by insurance companies.’

One problem in the field of insurance in general, but particularly when it comes to climate change, is that of so-called ‘moral hazard’ How can insurers ensure that their insurance products do not lead to riskier behaviour on the part of policyholders with view to environmental and climate protection?

‘The report discusses moral hazard related to environmental liability insurance. This insurance cover can tempt insureds to act more carelessly when handling toxic and environmentally hazardous substances. The literature draws the conclusion that insurance products that combine a high deductible with safety and environmental standards and also check these with inspections can effectively counteract these false incentives. In addition, a high level of cover is important to ensure that nature is restored and injured parties are compensated. >

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More specifically, climate liability is quickly becoming a topic of interest. Around 2,000 court cases are pending globally and the Bank of England has pointed out the risks for insurance companies, particularly regarding D&O liability insurance. To ensure that the incentives for companies and their managers to combat the climate crisis are not distorted, the report proposes that climate liability should only be covered for those companies that have aligned their entire business with the Paris climate goals.’

The long-term affordability of insurance products is a core actuarial task. Prevention is inextricably linked to this, particularly in the context of climate change and biodiversity. How can prevention look like worldwide and for society as a whole?

‘Prevention and adaptation are key to prosperity, but will not be sufficient without consistent mitigation efforts, i.e. stopping the climate and biodiversity crisis. We see a particular opportunity in the combination of prevention and mitigation, for example through increased

investment in nature-based solutions. The reforestation of mangroves or the restoration of peat land can offer protection against flooding and absorb greenhouse gas emissions in the long run. At a global level, there is a clear need for politicians and supervisory authorities to act. It is therefore crucial that insurance companies proactively support ambitious and stringent climate and environmental policy.’

This interview also appeared in the German magazine Aktuar Aktuell. <