



Meeting Note: Swiss Re/PSI Roundtable Rushlikon, Zurich (11th – 12th May)

CISL's Tom Herbstein was in attendance, representing ClimateWise and its members. ClimateWise has an established partnership with the UNEP-FI PSI.

Overview

The Swiss Re/PSI Roundtable was held in Rushlikon, Zurich between 11th – 12th May. It was attended by representatives from a range of property and life (re)insurers, regulators from across Europe, the US and the Philippines, development organisations, ratings agencies and the UN. ClimateWise, as an institution affiliated with the UNEP-FI PSI, was also in attendance.

The Roundtable's overarching objective was to explore insurers' preparation for COP-21. It called on the delegates to focus on four themes: insurance risk and sustainability within their underwriting and asset management portfolios, engaging in policy leadership, shifting the financial culture to make sustainability the norm and working towards a long-term framework to ensure that any momentum is maintained.

The challenge

Christiana Figueres (UNFCCC) reminded delegates that we are currently designing a completely new chapter in the history of society and that we must remember the importance of the huge changes being created. From the perspective of insurance, the industry is still insuring against a sub-set of natural hazards but needs to urgently step up its response to the changing nature of risks being faced (i.e. from local to global and increasingly systemic).

Justification for this lies in the fact that the global insurance industry is currently more vulnerable to climate – rather than social and governance – risks due to the concentration of premiums across developed countries (Andreas Spiegel, Swiss Re). In these markets however a distinction must be made between the changing nature of hazards, driven by climate change, and growing socio-economic exposure that is neutralized by increased premiums (Peter Hoeppe, Munich Re). This growing exposure however is increasing the pressure on governments to ensure that all citizens will have adequate access to future insurance cover. Thus, it may not be possible to exclude large populations, in the future, just because they are unviable from a commercial perspective. Furthermore, addressing the coverage gap, between developed and emerging countries, also needs to be urgently addressed by better managing risk and introducing innovative products if insurance is to sustain itself in emerging economies.

In addition, a long-term approach to investments and infrastructure development is needed. A recent report has indicated that as much as US\$90 trillion will be spent globally on urban infrastructure, before 2030.¹ However, Julie Batch (IAG) highlighted how infrastructure development spend often follows disasters not pre-empts them For every A\$10 the Australian government spends

¹ http://newclimateeconomy.report/wp-content/uploads/2014/08/NCE_ExecutiveSummary.pdf

on post-disaster recovery, for example, it spends just A\$ 1 on pre disaster mitigation Therefore insurers should do what they can to ensure that such investments can start to contribute, more meaningfully, to also meeting emission and resilience targets.

It is therefore up to the insurance industry to become more pro-active is responding to climate risk. A balance needs to be reached that allows markets to evolve naturally but where policy makers can help to foster coverage growth when needed. The risk however, is that policy makers are not yet fully aware of the threat climate change present, nor how some of their actions, can ultimately undermine the availability and stability of insurance coverage.

Achim Steiner (UNEP) raised the irony that the general insurance industry has the capacity to think long-term yet operates almost exclusively on an annual basis. What lessons can be learnt from life and health insurers? Dave Jones, the Californian insurance Commissioner, concluded that US insurers that are reinsured by European reinsurers, think far more about climate change than those that aren't.

The response

A strategy of simply exiting the market (like in Florida) in reality is not a long-term strategy as it will ultimately increase the vulnerability of the broader market. Instead, Christiana Figueres (UNFCCC) stated that building resilience by maintaining the market and bringing risk back down into the bandwidth of the insurable, by managing risk, was a far more sustainable response over the long-term. Insurers have the luxury of some of the most sophisticated tools for risk management (Achim Steiner, UNEP) and the financial benefits are compelling. Idar Kreutzer (FinanceNorway) claimed that for every US\$1 invested in preventive action, about US\$4 can be saved in post-disaster losses. One example, provided by Dave Jones (California Commissioner), is of the one million Californian properties, built prior to the 1970s, that are not adequately earthquake or storm proof. For a small investment of just US\$10,000 they can be tied to their foundations.

Examples such as this should be motivating the insurance industry to help the public sector prioritize preventive actions (Idar Kreutzer, CEO FinanceNorway). However, the industry continues to struggle in this area given its historic tendency towards short-termism, that only raises uncertainty over commitments and can lead to a retreat by policy makers away from further engaging the industry as partners in risk management (Achim Steiner, UNEP).

One policy response would be to introduce legislation requiring the uptake of mandatory insurance cover for certain NAT CATs by the population. Andreas Spiegel (Swiss Re) suggested that this would help to solve 'anti-selection' problems, enhance coverage, inclusiveness and equity and ensure that insurers' capacity to absorb risks (such as flooding) can be maintained. Emmanuel Dooc, the Philippine Commissioner, proposed that mandatory NAT-Cat insurance be attached to property tax. However, the downside of this is that mandatory schemes tend to be often underpriced and therefore technically bankrupt (e.g. New Zealand) (Julie Batch, IAG).



Nonetheless, the G20 recently asked the Financial Stability Board to explore the implications of climate change on systemic risk and the materiality of financial systems.² One example is the UK's Prudential Regulatory Authority which is currently exploring these questions (in partnership with ClimateWise).³ The Philippines and Switzerland are asking similar questions. The Governor's Office of Business and Economic Development, in California, have now started to offer tax credits to companies (including insurers) that invest in the State in ways that have both a financial and social return (e.g. in social housing) (Dave Jones, California Regulator).⁴

On the practical side, IAG, the PSI and Munich Re have been collaborating on a global resilience project to help both evaluate risk reduction measures and identify any barriers to a response.⁵ They have invested A\$250,000 in developing a global disaster risk map, identified vulnerable communities and worked with stakeholders around driving change and reducing risk (Julie Batch, IAG).

However, insurers need to think about how to undertake a thoughtful, careful transition into the new technologies of the 21st century which should correspond with ongoing conversations between insurers and key ministers of finance (Christiana Figueres, UNFCCC).

Achim Steiner (UNEP) suggested that insurers response to climate change could be framed by introducing Insurance Development Goals that could help to guide a more coordinated response.

In conclusion, Christiana Figueres (UNFCCC) reminded delegates that 'the path ahead of us is longer than the path behind us'. However, if we do not reach a legally binding framework at the COP-21 11 November, it will take at least another 10 years to get another one on the table again. This is why Paris is so critical as it presents both an 'excruciating' and 'exquisite' opportunity.

From a ClimateWise perspective

Overall, the workshop helped to reinforce the need for insurers to focus more on the risk managing side of their business, and to help society manage the growing climate risks it faces, and not just on strengthening their ability to assess risk at ever growing rates of granularity. There was general consensus that although insurers have significant resources to contribute to responding to climate change, in many instances these were not yet being fully utilised for managing the physical impacts of climate risk, including insurers' significant activities as financial investors. ClimateWise's ability to draw together a range of partners and expertise to empower insurers, to focus on tangible solutions in these areas, speaks directly to this need.

2 http://g20.newsdeskmedia.com/Images/Upload/micro_sites/G20_Australia/PDFs/Climate-change-and-financial-stability.pdf

3 <http://www.cisl.cam.ac.uk/business-action/sustainable-finance/climatewise/news/has-enough-attention-been-paid-to-collective-financial-exposure-to-climate-risk>

4 <http://www.bna.com/demand-outstrips-supply-n17179923650/>

5 http://www.unepfi.org/fileadmin/documents/building_disaster-resilient_communities_economies_01.pdf



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