insurance europe

AMBITIONS FOR EUROPE

CREATE A GREENER, MORE SUSTAINABLE EUROPE

THE CHALLENGES

Embed transition in the real economy

Just to meet its 2030 climate and energy targets, Europe needs to close an annual investment gap of €260bn, according to the European Commission.

Yet there is currently a lack of sustainable assets in which to invest, not least because Europe is still highly dependent on fossil fuels, as opposed to renewable sources of energy.

Adapt to natural catastrophes

Irrespective of the efforts to limit climate change, adaptation strategies are needed. Climate change is already affecting the frequency and magnitude of natural catastrophes. This will only intensify, bringing about unprecedented economic losses and making it increasingly difficult for insurers to offer affordable cover. Current resilience and prevention planning falls short of what is needed. Correcting this will require major efforts at all levels (local, regional, national and European) by public and private stakeholders.

A related problem is that a significant proportion of the economic losses from natural catastrophes in Europe are uninsured.

> *"In 2018, around two thirds of the losses from natural catastrophes in Europe were uninsured."*[1]

WHAT INSURERS OFFER

The insurance industry is uniquely positioned to contribute to sustainability, given its role as both an investor and a provider of protection.

Sustainable investments

As Europe's largest institutional investor, the insurance industry can help to finance the transition to carbon-neutral, resource-efficient and more sustainable economies.

On their own initiative, insurers have already developed a number of sustainability approaches, including sustainability-related disclosures and standards, and have made sustainable investment commitments, accompanied by environmental, social & governance (ESG) strategies to bring about change. A number of major insurers have already committed to invest an estimated €50bn sustainably between 2018 and 2020.

In several EU markets, such as France and the Netherlands, the insurance industry has made explicit commitments to energy transition in support of the UN Paris Agreement.

Insurers are significant investors in green, social and sustainability bonds, financing environmental and climate-mitigating projects, such as energy-efficient housing construction or work supporting UN Sustainable Development Goals. Some insurers also offer investment products such as sustainable funds that target companies with specific sustainability profiles.

> *"Europe's insurers have €10 200bn of assets under management."*[2]

Insurance products & risk management expertise

Insurers play a clear role in providing compensation to businesses and individuals for the effects of increased extreme weather events that are a consequence of climate change. This is vital to the economy since it allows businesses and individuals to plan with more certainty and recover more quickly.

Yet the role of insurance is much broader. Insurance is an integral part of the risk-management cycle, from risk identification to risk transfer and recovery. For example:

- Insurers raise awareness of risks through risk-based terms and conditions and customer advice, and offer incentives to increase prevention and take risk management measures.
- They can help policymakers with tools such as risk zoning and mapping, land-use planning and building codes.
- They can provide advice to public authorities on projects such as building and maintaining flood defences.
- Some national insurance associations have partnered with public authorities to share, systemise and analyse climate-related loss data. This gives authorities a better understanding of climate risks and how to adapt to and mitigate them.
- Insurers contribute to a better understanding of risk, for example by developing forward-looking risk models. They are updating their risk assessment and underwriting policies to improve how long-term changes in climate are taken into account, often via innovative solutions. This, in turn, helps insurers develop tailor-made products for consumers with different risk profiles.

> *"Natural catastrophes have caused more than €150bn of economic losses in Europe in the last four decades."*[3]

WHAT POLICYMAKERS SHOULD DO

The transition to a sustainable, carbon-neutral economy requires joint commitment and is the shared responsibility of policymakers, all industrial sectors and individuals.

That said, EU policymakers and EU member states need clear and ambitious plans to promote and incentivise the adjustments to sustainability. In terms of energy production, for example, Europe remains highly dependent on fossil fuels rather than renewables.

Increase the availability of sustainable assets

Beyond the worthy objectives of the European Commission's Capital Markets Union project and of public-private partnerships, policymaker action is needed to stimulate the supply of suitable sustainable assets for investment, such as infrastructure and climate transition projects.

Insurers are ready to invest more in sustainable assets but their willingness and capacity to invest is currently not matched by available assets. In May 2019 for example, at a sovereign green bond auction in the Netherlands investors requested over €21bn, but only €6bn was allocated. Similarly, the 2019 green hybrid bonds issue of one of the largest European energy groups was six times oversubscribed.

Policymakers need to:

- Create a simple and clear sustainability taxonomy for investments to provide the foundation for harmonising standards and labelling schemes for green financial products. The taxonomy needs to be simple and flexible enough to accommodate different investor strategies while supporting the transition to a sustainable economy. The issues that exist with the availability and quality of data also need to be addressed.
- Remove regulatory disincentives to long-term investment, since these are also the barriers to sustainable investment. The 2020 review of the Solvency II insurance regulatory framework is the opportunity to make the following changes, which are needed to better reflect the long-term nature of the insurance business: reduce the excessive valuation of long-term liabilities; reduce artificial volatility in the balance sheet; and recognise how insurers' combination of assets and liabilities reduces their exposure to short-term investment risks. In short, insurers need an appropriate set of changes from the Solvency II review to unleash their capacity to help finance the transformation to carbon neutrality.

Enhance adaptation and address the protection gap

- National and local authorities should enhance resilience by implementing effective prevention measures. For example, requests to build on flood plains should be denied, while flood defences for vulnerable areas should be maintained and reinforced.
- Equally importantly, member states must make tackling underinsurance of natural catastrophe risks a priority to ensure citizens are adequately protected in the face of increasing catastrophic events. These solutions — to be defined at national level — can range from public-private partnerships to member states actively promoting insurance as a way to provide cover for natural perils.

1 EM-DAT, Munich Re
2 EIOPA Solo Annual Balance Sheet Report 2018
3 EM-DAT, Munich Re, Swiss Re