

RAB OPINION



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SUSTAINABILITY

Green lights

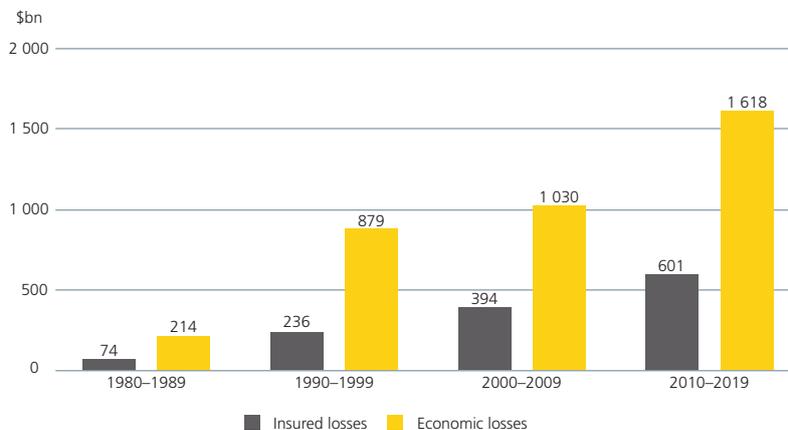
Reinsurers are natural partners in the European Green Deal

Sustainability is at the front and centre of everyone's agendas, permeating discussions with clients, investors, regulators and employees. Within the reinsurance sector, sustainability is becoming an integral part of the core business on both the liability and investment side, and companies increasingly see it from a risk perspective but also as a business opportunity.

The EU is leading the global response to climate change, setting out its ambition to be the first climate-neutral continent by 2050 in European Commission President von der Leyen's landmark European Green Deal. That Green Deal is welcome news for European reinsurers as it marks a major step in society's response to the most significant socio-economic challenge of our time. The members of Insurance Europe's Reinsurance Advisory Board (see box on p71) have been modelling the impacts of climate change on natural catastrophes since the mid-1990s. Our analysis shows that secondary peril events (such as drought, wildfire and flood) will become more extreme as a consequence of an ever-warming world.

Reinsurance acts as an enabling and protective financial mechanism that strengthens society's resilience to the effects of climate change. The insights yielded from our expertise in natural catastrophe modelling can be used to assist policymakers in identifying the most appropriate adaptation measures, which could be, for example, strengthening flood defences or improving

Global economic versus insured losses from weather-related catastrophes — 1980–2019 (\$bn, 2019 prices)



Source: Sigma 2/20, "Natural catastrophes in times of economic accumulation & climate change", Swiss Re Institute

building codes, as Insurance Europe outlines in its article on climate adaptation on p13.

However, underinsurance remains a significant issue. The Commission's work on adaptation to climate change is welcome, but more action is needed to address the significant imbalances in protection levels that exist between EU member states.

Mitigation as well as adaptation

RAB companies are also strong supporters of mitigating the impacts of climate change and supporting the transition to a low carbon economy through our underwriting and investment practices.

Our companies believe that sustainable business is good business. With that in mind, some European reinsurers have already committed to stop providing reinsurance that supports the operation of new thermal coal mines or

the construction of new coal-fired power plants. At the same time, reinsurers are facilitating the development of new technologies that will reduce emissions by increasing the insurance coverage of renewable energy technologies. These include risk solutions for electricity grid infrastructure, battery storage and offshore wind turbines.

As a natural consequence of their long-term business model, reinsurers' investment activities contribute to climate-change mitigation, predominantly by funding a more sustainable economy. Like our commitments on underwriting, the reinsurance industry as a whole has expanded commitments to responsible investing both by increasing exposures to issuers carrying out sustainable activities and by reducing exposures to carbon-intensive investments. In addition, reinsurers use different techniques to explicitly embed sustainability into their investment practices. RAB companies have provided transparency through ESG (environmental, social and governance) reporting and disclosures and some, for example, have been early adopters of the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.

"More action is needed to address the significant imbalances in protection levels that exist between EU member states."

Stimulating sustainable assets

We support action that promotes and stimulates the supply of suitable sustainable assets for investment, such as the

Commission's work to develop a green bond standard. We are also supportive of an enhanced EU strategy to accelerate the energy transition by fostering the creation of viable green infrastructure projects and deepening the market of green assets. While the focus is still frequently on the environmental component of ESG, social — including human and labour rights — and governance issues must not be neglected. RAB companies have always been committed to fostering diverse, inclusive environments and societies in which individuals can meet their full potential.

Although reinsurers are not themselves major greenhouse-gas emitters, many have set ambitious targets to reduce their own carbon emissions, engaging with their employees and supply chains to increase their sustainability. As more governments pledge to become net-zero carbon emission economies by 2050, some reinsurers have also taken first steps to commit to net-zero by 2050 or sooner in their core business and investment. They are also committed to sustainable business models as employers. If anything positive is to come out of the COVID-19 crisis, maybe it is that it has reinforced that it is possible to make our operations more sustainable through, for example, more virtual meetings reducing air travel.

The EU's ambition for carbon neutrality is the right one. Concerted and globally coordinated action will be needed to reach net-zero CO₂ targets to reduce the effects of climate change and ensure that the risks associated with it remain insurable so that together we can close the natural catastrophe protection gap. ■



RAB: representing Europe's reinsurers

The Insurance Europe Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at CEO level by seven major reinsurers: Gen Re, Hannover Re, Lloyd's of London, Munich Re, PartnerRe, Scor and Swiss Re, with Insurance Europe providing the secretariat.

