

How Insurance Companies Can Successfully Tackle Climate Change

The effects of climate change have become particularly noticeable for insurance companies as claims and loss sums related to climate-related issues, including natural catastrophes, mortality and healthcare expenditure, are more prevalent than ever and will continue to rise.

This presents insurers with the challenge of addressing these ever-increasing climate change risks and a variety of new uncertainties that come with it. On the other hand, insurance companies are the predestined pioneers here: they have the opportunity to truly lead the way in helping to build a more sustainable economy and at the same time reduce their own risk exposure.

We are going to explore climate-related risks for insurers and walk you through a variety of actions for insurance companies to address these risks and work towards greater resilience of their core business.

Climate change as a risk to the insurance industry



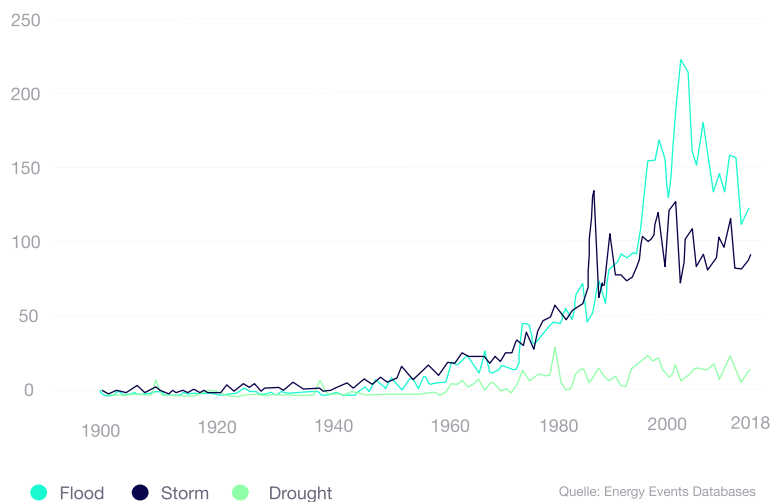
\$138 bn

total insured loss related to extreme weather conditions

In 2017, the total insured loss related to extreme weather conditions in the USA alone amounted to about \$138 billion. According to experts, this is [just the beginning](#) of what the future could bring as the number of weather extremes is increasing globally.

The [German Weather Service](#) indicates that rising sea levels are causing an increasing risk of floods and storms while at the same time drought as an opposite extreme is also rising significantly (see graph below).

Number of weather extremes from 1900-2018 worldwide



Adding to this, the United Nations' [Emission Gap Report 2019](#) highlighted that the 1.5°C target is hardly achievable according to current trends. We are rather on the way towards a global warming of 3.2°C compared to the pre-industrial level. This scenario would imply a growing probability of category 4 to 5 hurricanes by 28% and 70% more extreme precipitation. As a result, 275 million people worldwide would live in areas that are flooded and uninhabitable in the future.

As a result, existing [health threats](#) are likely to intensify and new health threats will emerge. Around the world, we can already observe an [increase in water-borne illnesses](#), malnutrition and [scarcity of clean and safe water](#). Rising temperatures also lead to the [spread of vectors of infectious diseases](#), including Dengue Fever, Zika or Vibrio bacteria in the Baltic Sea.



\$10 bn

climate-related healthcare cost



\$1 tn

per year expected increase in payments to cover insurance claims

What does this mean for the insurance industry?

Climate change will [increase demand for healthcare](#) and relevant supplies and services such as antimalarials, oral rehydration and [mental health offerings](#), thus increasing healthcare cost. The impact of climate-related disasters has already proven to be a burden on public healthcare resources: In 2012 alone, 10 climate-related extreme weather events across the USA created related healthcare costs of [\\$10 billion](#). [Studies](#) suggest similar tendencies in the UK health sector where hospital activity, hospitalisation rates and rising costs of hospitalisation are expected to significantly increase due to extreme weather events such as increased ozone concentration, floodings and heatwaves.

A survey conducted by the [Deloitte Center for Financial Services](#) also found that climate change is likely to have a very high impact on insurance coverage availability. Already today, insurance companies can see a strong growth in property catastrophe insurance in industrialised countries and mortality protection in emerging markets.

According to insurance company [Swiss RE](#), the global insurance protection gap - which quantifies the lack of resilience in three key risk areas: natural catastrophes, mortality and healthcare expenditure - currently amounts to approximately \$1.2 trillion. The overall impact of closing the protection gap is considerable: Swiss Re estimates that the average expected payments to cover insurance claims will increase by more than \$1 trillion per year.

On top of that, experts expect that global warming and the associated increase in extreme weather events will increase claims, possibly to a point where in some places certain assets are too risky to be insured. Thomas Buberl, Chief Executive Officer of AXA, [points out](#) that “[A] business in the basement in New York or Mumbai will no longer be insurable [at a scenario between 3 and 4 degrees]”.

Are insurance companies prepared?

Researchers found that the insurance industry has to change fundamentally to be able to mitigate the impact of the climate crisis.

The majority of insurers are already fully aware of the risks climate change poses on the industry but there is still a lot of uncertainty regarding the exact impact the changing climate may have on financial stability, underwriting risk and compensation of losses.

Many insurers are already working hard to overcome this challenge and develop effective strategies to ensure affordable and sustainable insurance cover in the future.

5 Effective Ways for Insurers to Tackle Climate-Related Risks

Many companies in the insurance industry are already working at changing their own actions - inside and outside the organisation - to better prepare for climate change in the long term. Here are a few effective ways to become more resilient to climate-related risks:

01

Develop climate-resilient policies and form strategic alliances

To avoid unaffordable premiums and a rising number of uninsured in the future, insurance companies could [co-develop preventative and climate-resilient policies](#) with administrative bodies and other alliances.

One of the largest strategic alliances in the field of sustainable insurance is the [UNEP FI Principles for Sustainable Insurance Initiative](#) (PSI Initiative), providing the insurance industry with a global framework for addressing environmental, social and governance (ESG) risks and opportunities. More than 140 organisations worldwide have already adopted [the four Principles for Sustainable Insurance](#), thereby committing themselves to act responsibly.

02

Create awareness for climate risk & educate policyholders and policymakers

Insurers should look for ways to ensure that the entire organisation is aware of climate-related risks and allocates resources to [continuously assess and mitigate these risks](#) across the organisation (underwriting, pricing, investing, etc.). They can further leverage industry efforts to help educate policyholders and policymakers on the impact of climate change and provide guidance on how to protect for example properties against severe weather events.

03

Use advanced analytics for risk assessment

With the help of real-time data and advanced analytics, insurers could gain more insights from historical weather records and [make more reliable assumptions](#) regarding future climate conditions. This could help them improve pricing and risk selection and they would be able to [warn policyholders of upcoming natural disasters](#).

Data and analytics can help insurers assess climate-related risks in ways others can't, thus providing them with a competitive advantage.

04

Review investment portfolios

Some insurance companies, including [AXA](#) and [Allianz](#), already started to shift some of their investments to more climate-friendly sectors and businesses. When planning to invest, insurers should take into account the climate strategies of the respective businesses, their vulnerability to climate change and also review carbon footprint metrics of potential investments. Criteria such as ESG factors can also function as guidelines for including and excluding certain sectors.

05

Reduce insurers' corporate carbon footprint

To prevent future insurance claims and losses due to consequences of extreme weather events from increasing even more, insurers can do their part internally and work on reducing their own emissions. This includes, for example, reducing emissions from office operations as well as employee commute and business travel. They can even go one step further and involve their customers by offering incentives to behave more environmentally friendly, such as reduced insurance premiums for low-emission cars.

First movers in the insurance industry

FRIDAY

FRIDAY, one of the fastest growing digital insurers in Europe, firmly believes that [insurance companies play an important part](#) in tackling climate change as they can actively influence customer behaviour through their insurance products.

The company offers car insurance where customers only pay for the kilometres they actually drive, creating an incentive for people to leave their car at home. On top of that, their car insurance product is one of the first ones where customers can offset their carbon emissions per kilometre driven. FRIDAY's investment strategy also reflects their climate action engagement: the primary objective of their investment strategy is to generate the highest possible but at the same time sustainable results.

To lead by example, FRIDAY also analysed, reduced and offset the carbon emissions of their own business activities. FRIDAY offset all its carbon emissions since the company was founded in 2017 and develops strategies to even more [actively manage its future corporate carbon footprint](#).

Allianz

Insurance company Allianz published its first climate change strategy back in 2005 and, since then, has been promoting the inclusion of climate-related risks and opportunities in its insurance and investment business.

Allianz stopped investing in coal-based business models in 2015 and no longer insures coal-fired power plants and mines. Instead, they insure large-scale renewable energy plants and sustainable buildings and offer [reduced insurance premiums for fuel-efficient cars](#). Allianz has also provided more than 10 million people in Asia, Africa and Latin America with affordable [microinsurance and micro-saving solutions](#).

On top of that, they have been working at [minimising their corporate carbon footprint](#) since 2012.



(Re)insurer [Munich Re](#)'s operational business activities have been carbon neutral since 2015 and the group has been active in various climate protection organisations, such as the United Nations Environmental Programme, for many years.

To be able to provide new viable risk and loss prevention measures as well as risk transfer solutions for their customers, Munich Re developed effective ways for recording and analysing the impact of climate change. Among other things, Munich Re has developed [digital analysis tools and insurance solutions](#) for climate-related issues such as natural catastrophes.

The group also no longer insures new coal-fired power plants or new coal mines in industrialised countries and in the majority of emerging markets and instead, wants to shift their focus to direct investments in renewable energies and green bonds.



German health insurance company BKK ProVita is one of the first movers among health insurers to become carbon neutral. The insurer analyses its carbon footprint since 2016 and reduces its carbon emissions constantly ever since, for example by switching to green electricity or developing a green mobility concept for its employees.

Their motivation for climate action is driven by their belief that personal health and the health of our planet are inseparable - this is referred to as "[Planetary Health](#)", a concept of the global Planetary Health Alliance of 95 universities, non-governmental organisations, government agencies and research institutes.

BKK ProVita further encourages its policyholders to adopt a healthy, conscious and environmentally friendly lifestyle. They promote, for example, [whole-food, plant-based nutrition](#) by subsidising cooking courses and nutrition workshops as well as dietary supplements such as vitamin B12.



Schwäbisch Hall

Schwäbisch Hall, Germany's largest building society and a leading provider of construction financing, has been working on its climate efforts for many years and, for example, purchases certified green electricity and uses waste heat from local power plants for its headquarters. For its employees, Schwäbisch Hall provides free job tickets for public transportation and dedicated parking lots for those who carpool.

The company has set itself an ambitious goal: [an 80% reduction of carbon emissions by 2050](#). To achieve this, Schwäbisch Hall continues to reduce its energy consumption, for example by modernising data centres.

On top of that, the company grants customers an interest rate discount of 0.25% on loans for energy-efficient refurbishments. By financing new climate-friendly buildings and energy-related modernisations, they already helped customers save [more than 500,000 tonnes of CO2](#) in 2019.

Barmenia

Barmenia offers pension and private health insurance, car insurance as well as property, liability and accident insurance. Besides ensuring that its investment activities comply with the United Nations Principles for Sustainable Investment, Barmenia creates incentives for its members to live more sustainably. Policyholders of a car insurance, for example, get a discount or advantages for driving less.

The company's own environmental performance is also remarkable: emissions have been reduced on a yearly basis and the main administrative offices are already carbon neutral. Moving forward, Barmenia wants to further reduce their carbon footprint.

Insurance companies can help drive climate action

Climate change presents insurers with a lot of uncertainty and it will take some time to tackle these challenges. At the same time, this situation provides insurers with vast opportunities to think and act differently to fulfill the needs of a new market of customers who are looking for [new products, services and experiences](#).

They can rethink their business models and investment portfolios and, on top of that, address their own corporate emissions. Insurance companies have a major influence and are therefore in the position to truly shape and drive climate action moving forward.

Are you ready to take a first important step by learning to manage your company's carbon footprint? Planetly can support you on this journey, helping you to introduce and automate your carbon management, from data collection to reduction strategies and offsetting measures.

Reach out to us to get started:
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