

## CLIMATE CHANGE INSURANCE NEEDS



### PETRA HIELKEMA

Chairperson - European Insurance and Occupational Pensions Authority (EIOPA)

## Policy measures to reduce climate-related insurance protection gaps

Climate-related extreme events can cause significant economic disruption. Direct aggregate catastrophe losses in the EU amounted to approximately €500 billion in the period between 1980 and 2020.[1] It has been estimated that even in a 1.5°C global warming scenario, related losses across the EU will nearly double by 2050, with costs being significantly higher under a 2°C or 3°C average temperature increase.[2]

Catastrophe insurance helps to mitigate the negative macroeconomic effects of disasters. First, it enables the economy to recover faster by promptly providing the necessary funds for reconstruction and limiting the period of lower output. Second, catastrophe insurance can increase resilience by improving the understanding and assessment of climate change risks and promoting risk reduction measures. Third, it allows the

mutualisation of risks and their transfer to private insurance companies, which can provide incentives for resilience.

EIOPA's dashboard shows that in the EU, only one quarter of natural catastrophe losses were insured in the past.[3] The insurability and affordability of climate-related risks is becoming a critical concern for insurers and policymakers, and if no countermeasures are taken, the insurance protection gap is expected to widen.

As a key strategic area of activity, EIOPA aims to address protection gaps by improving risk assessment, risk prevention and adaptation measures, as well as incentivizing appropriate product design and risk transfer for climate change risks. For example, EIOPA developed a dashboard on the insurance protection gap focused on identifying key drivers and improving risk awareness. Access to data and models are essential for this work: to build prevention measures, it is necessary to be able to understand and model the risk. EIOPA therefore released the CLIMADA-app to facilitate the use of an open-source catastrophe model.[4]

**We must act now to address extreme weather event insurance gaps to minimise future taxpayer costs.**

EIOPA has also been working to identify possible solutions to address protection gaps along three key dimensions. First, the supply side, with a focus on pricing and product design: how can we reduce losses through preventive measures, which are reflected in insurance pricing? This is what we call 'impact underwriting'.

While progress is being made in how insurance undertakings are adapting their non-life underwriting practices to climate change, EIOPA's report on insurers' use of climate-related adaptation measures in non-life underwriting practices[5] shows that the EU insurance market overall appears to be at a relatively early stage. EIOPA sees further room for improvement, especially in terms of standardising the implementation of climate-related

adaptation measures in insurance contracts, for instance through dedicated risk-based certificates and programs.

Second, the demand side: EIOPA published a report on consumers' preferences to understand why they do not purchase insurance coverage.[6] This work, which draws on consumer research and behavioural studies carried out by EIOPA, has revealed several demand-side barriers and drivers that impact the willingness of people and businesses to buy NatCat insurance. These for example include income levels and the perceived unaffordability of coverage, a lack of clarity in terms and conditions, previous negative experiences with insurance claims or the misperception of the risks of a NatCat event. Potential solution could be to increase risk awareness, greater standardization of insurance products or simpler and more consumer-friendly purchasing processes.

Finally, the macro aspect: EIOPA has been studying the macro-economic implications of protection gaps together with the European Central Bank. This macro-related work outlines basic principles to which policy actions should adhere in order to reduce insurance protection gaps. Alignment on risk prevention measures and sharing of costs and responsibilities across the relevant stakeholders is required to ensure "skin in the game" and reduce moral hazard. Ex-ante risk assessment and risk prevention are crucial to the well-functioning of private insurance markets and for lowering the costs for the public sector in the longer run.

1. *Economic losses from climate-related extremes in Europe (8th EAP) (europa.eu).*
2. *Gagliardi, N., Arévalo, P. and Pamies, S. (2022), "The Fiscal Impact of Extreme Weather and Climate Events: Evidence for EU Countries", Discussion Paper, No 168, European Commission, July.*
3. *Dashboard on insurance protection gap for natural catastrophes (europa.eu).*
4. *Open-source tools for the modelling and management of climate change risks (europa.eu).*
5. *Impact underwriting: EIOPA reports on insurers' use of climate-related adaptation measures in non-life underwriting practices (europa.eu).*
6. *EIOPA research sheds light on why households and businesses are reluctant to take out NatCat insurance (europa.eu).*



## ROMAIN PASEROT

Deputy Secretary General -  
International Association of  
Insurance Supervisors (IAIS)

### Embedding climate risk into supervisory practices

The record temperatures felt across Europe this summer serve as a stark reminder of the escalating risks from climate change. Extreme weather events like heatwaves, storms and droughts are already having societal and economic impacts, by increasing excess mortality,<sup>1</sup> reducing agricultural productivity and causing property damages. Extreme weather incidents will become increasingly common as average temperatures continue to rise.

Despite these mounting risks, the international community is failing to reach the agreed climate targets. While tackling climate change and establishing a clear policy framework is clearly the domain of governments, insurance supervisors are considering how a lack of progress may impact their prudential and market conduct objectives. Consequently, supervisors are focused on ensuring growing climate risks are integrated into our sectoral risk assessments and are engaging in collaborative efforts to evaluate and address the risks from climate change to the financial system and the societal challenges arising from growing climate-related protection gaps.

The physical consequences of climate change influence underwriting across a range of business lines and impact insurer assets. Furthermore, growing physical risks may trigger a delayed but swift policy response, with insurers having to cope with both increased physical risks and the consequences of transition measures taken to catch up on lost ground.

As the global standard setter for insurance supervision, the International Association of Insurance Supervisors (IAIS), has undertaken substantial work in this area. Three areas of ongoing work are particularly relevant for our discussions in Santiago de Compostela: scenario analysis, disclosure and protection gaps.

Climate-related scenario analysis is still in its early stages but is rapidly evolving as a risk assessment tool. The ultimate goal is to have a clear understanding of the possible range of financial impacts of climate risks on insurers' balance sheets. Such exercises will support supervisors and insurers in developing better strategies to address these risks. For this reason, the IAIS will publish for consultation an Application Paper later this year, guiding members and insurers on conducting these exercises effectively and consistently.

We welcome the recent publication of the climate disclosure standard by the International Sustainability Standards Board (ISSB). Effective disclosure is essential for insurers to understand the risks to which they are exposed through their underwriting business and their investment assets; likewise it is important for insurers to effectively disclose their risks to market participants and stakeholders.

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**Supervisors are focused on ensuring growing climate risks are integrated into our risks assessments.**

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The most recent status report by the Task Force on Climate-related Disclosures (TCFD) shows slow progress with insurer implementation of the TCFD disclosures. Since the ISSB builds on the TCFD framework, hopefully this will provide fresh impetus to the widespread adoption of consistent climate disclosures by insurers. In the coming months, the IAIS will consider whether additional insurance specific guidance on disclosures, to complement the ISSB's efforts, may be needed.

Continued improvements in public disclosures and scenario analysis are needed to build on the existing (often qualitative) approaches, to have a more comprehensive, granular, forward-looking and consistent understanding at a global level. We appreciate the complexity of this task and will continue to work closely with the insurance sector as we take this work forward. However, there is no time to waste. Insurance supervisors are clear that insurers should be taking steps now to embed these risks into their enterprise risk management.

From a supervisory standpoint, we look at these issues not only from a microprudential (financial soundness) perspective, but also consider the impact on objectives of financial stability, fair market conduct and financial inclusion. From a macroprudential perspective, the aim is to understand the impact of growing climate risks on the sector as a whole, as well as the possible transmission of climate risks from the insurance sector to other parts of the financial sector and the real economy.

From a financial inclusion and societal resilience perspective, climate change poses a collective action problem; for example, logical risk-based actions by individual insurers could lead to increasing insurance protection gaps, which have a negative impact on consumers and the economy and society as a whole. In November, we will publish a report that considers the role supervisors can play in helping to address natural catastrophe protection gaps.

In light of these growing risks, we remain resolutely focused on agreeing supervisory practices that effectively integrate climate risk considerations into actions taken by supervisors and insurers alike.

1. *Heat-related mortality in Europe during the summer of 2022* | Nature Medicine



## EVA WIMMER

Director General - Federal  
Ministry of Finance, Germany

### Tackling the climate insurance protection gap

Climate-related disasters have increased manifold in recent decades. Climate change poses significant risks to individuals, businesses, and communities worldwide. The escalating frequency and intensity of extreme weather events, rising sea levels, and other climate-related phenomena have highlighted the urgent need to effectively manage these risks.

Effective risk management can be achieved in two ways: making the risks bearable by distributing them among multiple stakeholders (collective risk-bearing) and reducing the losses when these risks manifest (prevention).

Insurance against climate-related disasters is a key instrument of collective risk-bearing. However, as EIOPA's recent data on insurance gaps illustrates, only a quarter of the losses caused by extreme weather events and climate-related events in the EU are currently insured. Reducing this climate insurance protection gap is an important and necessary step in adapting to intensifying climate change. But this is only one part of effective risk management. In order to be truly effective, collective risk-bearing must be accompanied by preventive measures that reduce losses.

The private insurance sector has a threefold role to play in the face of

climate change. First, it can help address the climate insurance protection gap by providing insurance capacity. Second, it can contribute to financing the green transition to slow climate change. Third, it can enhance resilience by demanding preventive measures from policyholders.

First, the private sector can insure against climate-related risks as long as insurance premiums are calculated on the basis of risk. As public sector actors, we should refrain from any attempts to prevent a proper accounting of risks. Premiums must be high enough to cover the insured losses and other associated costs in order to ensure that there will be sufficient private insurance capacity in the market. Then it is up to the private sector to reach prospective policyholders through information campaigns and financial education. The private sector could also design insurance products to include climate-related risks by default, thus requiring policyholders to make an active decision to opt-out of climate-related risks.

The second, but no less important, role of the private insurance sector is its contribution to financing the green transition to slow climate change. Private insurers manage vast investment portfolios, and their investment decisions can shape the transition to a low-carbon economy. Allocating capital towards sustainable businesses, renewable energy projects, and climate-friendly initiatives can have a significant positive impact on mitigating climate change. At the same time, we should adhere to our risk-based framework and the risk-based consideration of investments in solvency capital requirements, which ensure that insurance companies have enough own funds available to cover potential losses.

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**Closing the climate  
insurance protection  
gap and incentivizing  
preventive measures go  
hand in hand.**

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Finally, private insurers also play a pivotal role in incentivizing risk reduction and resilience measures. By offering lower premiums or additional coverage benefits to policyholders who undertake climate mitigation and adaptation efforts, insurers encourage individuals and businesses to invest in measures that reduce their vulnerability to climate risks. Insurers can collaborate with risk engineering firms to provide tailored advice on measures such as

improving building codes, strengthening infrastructure, and implementing disaster resilience strategies.

As public sector actors, we must support these important incentives for further preventive measures by establishing the appropriate political and legal framework for combating climate change and adapting to its effects. This should encompass, among other things, the promotion and enforcement of preventive measures such as adequate building codes prescribing climate-related adaptation measures for buildings in high-risk areas or the general refusal to grant permits to develop high-risk areas. We should also continue to support further efforts to collect data and develop climate models, so that the insurance industry can set appropriate prices for climate risks and the right incentives for corrective action.

Addressing the climate insurance protection gap requires (a) a concerted effort from the private insurance sector accompanied by (b) an appropriate policy framework set by the public sector.

By offering insurance products that include climate-related risks by default, helping to finance the green transition, and incentivizing risk reduction measures, the insurance sector can make substantial progress in bridging this gap. These measures will enhance financial resilience, promote sustainable practices, and contribute to a more climate-resilient future for individuals, businesses, and communities alike.



## DEAN CAMERON

Director - Idaho  
Department of Insurance

### US state insurance supervisors: engaging the industry – closing the gaps

Identifying and closing coverage gaps is a top priority for US state insurance supervisors and the National Association of Insurance Commissioners (NAIC). Inflation has been a factor in driving up premium costs, and some jurisdictions are experiencing larger, more frequent, and even new climate events for which they are not adequately prepared. Those, coupled with a hardening of the reinsurance market, which has left some insurers wary of writing new policies, may result in consumers and communities without a safety net should they need it.

Closing coverage gaps requires a holistic outlook engaging consumers, supervisors, and industry. There are no silver bullets. No single action, report, or rule will provide everyone with a eureka moment to close the gaps. However, with creative efforts from consumers, supervisors, and industry, we can generate potential solutions, especially for vulnerable communities and low-to-moderate income individuals that would otherwise be difficult to insure.

Work has been underway on addressing climate coverage gaps through the NAIC's Climate Risk and Resiliency Task Force, specifically, its Pre-Disaster Mitigation, Innovation and Technology, and Consumer Education workstreams.

Through our Pre-Disaster Mitigation workstream, the NAIC created a list of pre-event mitigation measures that policyholders might take to reduce their risk of loss. The NAIC will use that information to continue the dialogue on consumer risk awareness and education. Combining that information with state-specific information, the NAIC has developed a web-based resource with relevant materials and information regarding mitigation.

The Task Force's Innovation and Technology workstream examines what innovative insurance products are being developed to respond to climate related risks and what technology is used to better understand and evaluate climate risk exposures.

The Innovation and Technology Workstream also examines how parametric products and community-based coverage might help resolve issues with coverage gaps created due to natural disasters. The Workstream will continue to explore different innovative insurance products such as catastrophe bonds and community-based coverage which can assist in improving inclusive insurance.

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The Catastrophe Modeling Center of Excellence was developed under the Technology Workstream last year. It provides state insurance supervisors with the necessary technical expertise, tools, and information regarding catastrophe-related risks relevant for their region. A formal education program for state insurance supervisors has been rolled out this year. The training will cover how models are developed, how insurers and reinsurers interact with them and what opportunities exist for supervisors to utilize model outputs.

Consumer education, outreach and advocacy are a key pillar of the NAIC's strategic plan and remains an ongoing challenge. This comes down to helping consumers understand the need to

purchase insurance that will adequately cover their exposure to risk and educate them on the resources available to help mitigate risks. This is especially important as surveys show that some consumers do not fully perceive their risks. The NAIC has developed consumer awareness campaigns to address floods, earthquakes, wind, and other perils, as well as a list of actions policyholders can take to reduce their risk of property loss.

State insurance supervisors have also been sharing best practices and mutual learning among each other as part of the NAIC's "laboratory of the states" approach to devise solutions to shared problems – including protection gaps and climate resiliency. Some states have developed successful templates for risk mitigation incentives, such as the Strengthen Alabama Homes Program that provides grants to residents to retrofit properties based on the Insurance Institute for Business and Home Safety Fortified standard.

The South Carolina Safe Home program provides matching and non-matching grant funds to help property owners retrofit their homes to make them more resistant to damage from hurricanes and high winds.

The California and Oregon insurance departments are working on wildfire risk mitigation strategies that include premium incentives for reducing wildfire risk through home hardening.

Other states are taking notice of such initiatives, and we see increased demand for creative public private partnerships on resiliency initiatives.

All these initiatives demonstrate that while there are no silver bullets to closing the gaps, collaboration, communication, education will help. As supervisors face increasingly challenging circumstances and newer gaps emerge, it will remain imperative to think creatively to develop the necessary tools to close them.



## CLAIRE SOUCH

Vice President Global Models  
and Climate Risks -  
Moody's Analytics RMS

### Insurability in a changing climate

Increasing weather and climate risk losses are being driven by a complex cocktail; population growth, urbanization, development in exposed areas, rising asset values and higher repair costs. While efforts are being made globally to reduce CO<sub>2</sub> emissions, the scientific consensus is that any warming pathway will result in changes in frequency and/or severity of weather and climate risks.

As a result, concerns are rising about the future insurability of these risks. Whilst there is uncertainty due to the complexity of extreme weather events, coastal flooding risks are increasing as sea levels rise, rainfall is becoming more intense, and droughts are longer and more severe.

Against this backdrop, insurance plays a critical role in disaster recovery and climate risk adaptation. Every percentage point increase in insurance penetration reduces disaster recovery times by almost 12 months, according to a report by AXA. In addition, the risk signal provided by insurance can provide incentives for investments that reduce risks. For example, the benefits of investing in flood defenses or property-level hardening may outweigh the costs when you consider the potential losses that could be avoided. However, according to Swiss Re, in

2022, less than half of global economic losses of USD 275 billion were insured, and that gap is widening.

Recently some high-profile carriers have announced their withdrawal from providing insurance against wildfires in California and hurricanes in U.S. coastal states such as Florida. A trend of increased cost of claims as the price of building materials and repairs escalate, and substantial numbers of claims going through litigation are contributing to insurance cover becoming more expensive. New legislation and reforms have been passed in states like Florida to address problems in the legal system, and the early signals from the June 2023 reinsurance renewals are that catastrophe reinsurance capacity is returning, albeit at a cost.

The private re/insurance market has committed to providing capital to close the insurance protection gap, but knowledge gaps can be a barrier to increased private sector investment. If risk is to be priced accurately and transferred, it must be quantified. While private sector capital is available, it can be expensive where there is high uncertainty in risk levels. And given the changing climate, historical claims data is insufficient to understand risks today and in the future.

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**To understand the future  
impact of climate change  
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need new tools and data.**

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Catastrophe models developed by independent expert teams of scientists and engineers, such as those at Moody's RMS, have been used extensively by the re/insurance industry for the past 30 years. However, to understand the future impact of climate change on damage and loss, we need new tools and data which provide a forward-looking view of the risk under different climate change scenarios to help the industry plan for the future, design new products and manage their portfolios effectively. Moody's RMS was the first to bring climate conditioned catastrophe models to market in 2021, and these models are now available worldwide.

Equally, public-private partnerships with holistic risk management strategies have a clear role to play. This includes investment in risk reduction and adaptation, within which climate risk insurance can play a critical role for the transfer of residual risks.

For example, Flood Re is a joint initiative between the Government and insurers in the U.K. intended to make flood cover in household insurance policies more affordable. Flood Re incentivizes policyholders to "build back better" after floods, to increase resilience to future floods at the property level. Moody's Analytics modeling is being used by Flood Re to study the cost-benefit of increased investment in larger-scale flood defenses over the next 20 years, as it works with local authorities to ensure the long-term sustainability of the UK flood insurance market.

Moody's RMS flood models analyze the cost of property damage for the present day with existing defenses, along with projected damages in 2040 under both a high and low emissions climate pathway. The impact of increasing flood defense standards on the potential future losses can be quantified, enabling decisions to be made about public sector investment.

Although important, data on its own will not be enough to close the insurance gap amid a changing climate. A regulatory and policy framework is needed that supports the involvement of private sector capital, open markets and provides security and protection for both policy holders and insurance companies. This will enable the formation of public-private partnerships that develop holistic climate risk management strategies, and within these frameworks insurance can continue to play a vital role.



## SONIA BARRIÈRE

Head of Strategic  
Transformation, Member  
of the Executive Committee -  
CNP Assurances

### Towards a new insurance model to face climate challenge

Due to meteorological and climate-related phenomena, insurability conditions are becoming increasingly tight. Since the end of the 19th century, the global average temperature has increased by almost 1°C, 2.2°C in Europe<sup>1</sup>.

In France, we benefit from the natural disaster compensation scheme since 1982. The Cat Nat scheme is based on a public-private partnership between insurers, the CCR<sup>2</sup> as public reinsurer and the French State, which provides its unlimited guarantee as guarantor of last resort. This scheme is based on compulsory cover for the risks of natural disasters for all car and home contracts taken out in France, subject to an identical additional premium throughout the territory, reflecting a strong pooling of risks between the most exposed and least exposed towns.

Of course, insurers and regulators anticipate a sharp increase expected in claims in the years to come in flood, hailstorm, storm, severe drought in terms of frequency and intensity. They expect a distortion of the claims with a greater

weight of hazards coming under the regime of natural disasters, which raises the question of the necessary adaptation of this regime in the coming years and more generally the adaptation of mitigation measures through reinsurance.

CNP Assurances set up a climate risk committee in 2019 to monitor the progress of the subsidiaries on the management of climate risks. Actions to manage the risks associated with climate change could be structured around five topics:

- Risk assessment: update of the risk mapping, improvement of the modeling of climate risks like storm or hailstorm and the modeling of the forest fires which represent a new peril, impact on a multi trajectory years as in ORSA<sup>3</sup>.
- Regulatory monitoring: requirements regulatory growing requiring a closed text monitoring, pooling of risks with a partnership public private for a sharing of claims.
- Prevention: for policyholders in terms of warnings, information, and the development of cooperation with the French state and the local communities.
- Risk transfer: reinsurance structures in a tight market, Cat bonds.
- Investment: decarbonization of asset portfolio and investments in sustainable activities.

#### Push back the limits of insurability through renewed and holistic risk governance.

French insurers believe that long-term and large-scale environmental problems induce a financial risk for the savings and pensions of its policyholders. CNP Assurances have taken strong measures in recent years, to tackle the issue of global warming. By becoming a member in 2019 of the Net-Zero Asset Owner Alliance, we have committed to achieving carbon neutrality in its investment portfolio by 2050 and have therefore set targets for a 25% reduction between 2019 and 2024 in the carbon footprint of its portfolio.

CNP Assurances will take part in the second climate stress test exercise dedicated to the French insurance sector that the ACPR organize again in 2023. The first one, happened in 2020, served to quantify CNP exposures on the scope of its activities in France based on three metrics: the Solvency 2 balance sheet,

the statement income, and the valuation of the investment portfolio. The test involved three transition scenarios to comply with the Paris Agreement, with different efforts to be made according to more or less short deadlines to achieve targets. These scenarios included some assumptions of heightened physical risks to anticipate an increase of claims caused by an increase in pollution and vector-borne disease.

The two highlights of this exercise can be summed up:

- The measures implemented in recent years like reducing the carbon footprint of the investment portfolio, reducing exposure to the thermal coal sector, increasing green investments, will enable CNP Assurances to display greater resilience in a transition scenario unfavorable to companies emitting the most greenhouse gases.
- The potential increase in the loss ratio caused by the occurrence of a physical risk could be offset to some extent by an increase in the pricing of death/disability and term creditor insurance policies.

In conclusion, to cope with the 'cocktail effect' of the environment, the tight economic environment, and increasingly restrictive regulations, CNP Assurances want to address the fundamental mission of insurers and their role within human societies and with individuals. The sector could address these challenges through three high-priority levers for action. The first is to rethink inclusion mechanisms to meet the needs of the most vulnerable groups. Second is to increase responsible investment and public-private partnerships to address new vulnerabilities. Finally, it is to push the limits of insurability through a renewed and holistic risk governance by strengthening the rule of risk sharing, promoting the collective intelligence approach through broader stakeholder engagement, promoting regulatory reforms to encourage social development and practical decision-making.

1. <https://www.statistiques.developpement-durable.gouv.fr/>
2. Caisse Centrale de Réassurance
3. Own Risk Solvency Assessment



## PATRICIA PLAS

Group Director of  
Public Affairs - AXA

### Bridging the climate protection gap: call to intensify the dialogue

The frequency and intensity of natural catastrophes (NatCat) are increasing. The number of NatCat losses has indeed increased by an average of 5% a year over the last 50 years and the frequency of NatCat events has been increasing by about 3% per annum over the same period (Sigma Explorer 2022).

So is the climate protection gap, i.e. the difference between economic losses and insured losses for climate-related disasters (GFIA, 2023). This worldwide issue that appears to be widening in the medium to long term needs to be at all levels and by various stakeholders: Global, European, national, and by insurers. Overall, in Europe, three quarter of losses due to natural catastrophes events are currently uncovered (EIOPA, 2023). On the 560 billion EUR NatCat losses in the EU Member States between 1980 and 2021, 390 billion EUR were uninsured losses (EEA, 2023).

At the European level, closing the climate protection gap is an important pillar of the European Commission's Strategy on adaptation to climate change (released in February 2021) and is also on the agenda of its Climate Resilience Dialogue, a forum for insurers and reinsurers, policymakers, and other stakeholders to

exchange views on climate adaptation and protection gap. EIOPA also recently released two publications on the NatCat protection gap addressing the offer (*EIOPA / ECB Policy options to reduce the climate insurance protection gap* - April 2023) and demand aspects of climate insurance protection gap (*EIOPA Staff paper on measures to address the demand side of aspects of NatCat protection gap* - July 2023).

To tackle this protection gap and mitigate catastrophe risks from climate change in the EU, EIOPA and ECB suggest several actions: insurance coverage by private (re)insurance, national measures (including public-private partnership and ex ante public backstops) but also EU-level measures, such as a public European backstop solution for climate-related natural disaster risks for EU Member States. On the demand side aspects of NatCat protection gap, EIOPA identified several solutions: increase risk-awareness and awareness about the availability of coverage, increase consumers' understanding, rethink the way in which NatCat and household insurance are sold and adapt the premium via obligations to in place risk-mitigation measures.

AXA is keen to contribute to the reflection launched by policy makers on

insurance. To that end, AXA Emerging Customers uses a tailored approach to design products and distribution channels to reach lower- and middle-income populations globally. In 2022, AXA Emerging Customers insured more than 10M customers in 15 countries around the world.

Prevention as well as the offering of innovative and inclusive insurance products are key components to contribute to reduce the climate protection gap. However, these initiatives are not sufficient to fundamentally address the protection gap. Therefore, it will be necessary to intensify the dialogue between private, academic, and public decision makers to explore and put in place solutions. Robust and transparent public-private partnerships will be the success factor to bridge the climate protection gap in the face of increasingly intense climate events.

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**Robust public-private partnerships will be the success factor to bridge the climate protection gap.**

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how to remediate the protection gap. Building resilience and assessing the best way to increase prevention are essential pillars to mitigate risks. Prevention helps empowering individuals and businesses to contribute to reducing this protection gap. Innovation is also a key pillar. On that field, AXA contributes to the work of the Insurance Development Forum (IDF), a public-private partnership led by the insurance industry with the objective to build greater resilience for people, communities, businesses, and public institutions that are vulnerable to disasters. For example, in the framework of the IDF, AXA contributed to the development of a parametric rain and drought insurance cover for smallholder corn farmers in Mexico.

AXA also aims at innovating and making insurance more inclusive by enabling populations who have traditionally had less access to



## JEAN-JACQUES BONNAUD

Treasurer - EUROFI

### Can Europe accept a significant insurance gap in the emerging world?

The growing frequency and magnitude of natural catastrophes raise a pressing issue regarding the affordability of insurance contracts and the resulting indemnities due to the escalating costs of adequate coverage. One potential solution is to incorporate public participation in the pricing of insurance policies. The French catnat system, initiated in 1983 and subsequently improved, has largely relied on public support to reduce risk-based calculations by financing the cost of reinsurance. This approach recognizes the crucial role of insurance in facilitating risk assessment, incentivizing consumers to adopt preventive measures, and aiding societies in transitioning to more sustainable practices.

However, a similar significant problem arises from the challenges faced by some insurance companies, primarily in emerging countries, when it comes to transferring their risks through conventional reinsurance mechanisms. Such a reinsurance gap is critical for emerging countries from a long-term geo-economic and geo-political standpoint. The potential shocks that this situation could inflict on the emerging world underscore its importance.

Indeed, due to the pressures imposed by the COP21 agreement and subsequent developments, many reinsurance companies, predominantly based in developed nations, are refusing to provide adequate coverage to local insurance companies whenever the proposed risks involve fossil fuel usage. This issue is particularly prominent in the majority of electrical infrastructures in the emerging world, where the transition to renewable and non-fossil fuel sources remains slow or unattainable for corresponding governments. Reports of several refusals to consider such risk transfers in Southeast Asia have surfaced, and it is likely that this problem will soon extend to Africa.

The repercussions of such refusals are twofold.

Firstly, non-insured typhoons, floods, or other natural disasters place the burden of indemnities and reconstruction of energy generation or transportation networks on relatively poor states, thereby further hindering their ability to finance essential prevention measures. In essence, this also gradually diminishes the capacity of these states to leverage insurance mechanisms for facilitating a progressive adaptation and transition to climate change.

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**Joint mechanisms for financing the additional costs of reinsurance compared to those in wealthy countries should also be established.**

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Secondly, this challenge impacts the long and short-term perspectives of emerging economies, particularly when defining their own transition pathway towards renewable energy. Local insurance companies should be able to present reinsurance programs and portfolios of risks that include a progressive replacement of existing fossil energy infrastructures with renewables. This would enable emerging economies to address expected economic, industrial, demographic, and political shocks.

Addressing these future geopolitical challenges necessitates a collaborative approach, facilitated by the “rich world,” notably Europe. In this perspective the European Insurance and Occupational Pensions Authority (EIOPA), which is already partnering with several emerging states to actively

participate in discussions and planning with UN institutions, the World Bank, and the United Nations Industrial Development Organization (UNIDO).

The goal is to harmonize a global network of scenarios and plans that facilitate the use of reinsurance and insurance. These plans should allow local insurers to temporarily present portfolios of risks that encompass fossil energy infrastructure alongside an increasing proportion of renewable projects.

Joint mechanisms for financing the additional costs of reinsurance compared to those in wealthy countries should also be established.

Additionally, considering the existing resources in individual Just Energy Transition Plans (JETPs), it may be possible to establish a dedicated catnat mechanism for the emerging world with appropriate funding. Such an initiative would require the support of Europe among other relevant stakeholders.