



## Position paper on climate adaptation and mitigation

Climate risk has long been on the insurance industry's agenda and it continues to evolve and pose new challenges and opportunities for the industry.

In terms of the impact of climate change, the trend in weather-related loss events is of great concern to many. The number of these events globally has tripled since the 1980s and this trend is exposing increased risks. Globally, losses continue a generally upward trajectory created by catastrophes and patterns of development and population concentrations in areas subject to natural catastrophes. In addition, temperatures are rising more rapidly than many expected and alarming biodiversity loss is being witnessed across the world.

Climate change also presents a unique and long-term risk to public health. For example, a longer and more severe season of forest fires can contribute to increased rates of respiratory illnesses and hotter summers can increase the risk of heat-related health problems in the elderly. Research has also shown that severe weather events, such as flooding, can result in mental health issues. Environmental issues are now ranked as top concerns by global risk analysts. For the first time, environmental issues dominated the [2020 Global Risk Report](#) released by the World Economic Forum. Climate change is a global issue that must be jointly addressed by policymakers and all sectors of the economy.

The insurance industry plays a critical role in addressing climate risk through its expertise in effectively managing risk and identifying opportunities to enhance adaptation. Insurers directly contribute to adaptation through their underwriting activities. By covering economic losses due to natural events and natural catastrophes, they help to manage the economic impacts of climate change. Insurers have an important role in measuring and pricing climate risk to inform risk management, developing innovative adaptation solutions, and providing economic support when disasters strike. Insurers are also committed to contributing to mitigation efforts through their own corporate targets, helping foster new mitigation technologies through their assumption of risk, as well as through their investments in sustainable assets.

Building on these observations, the Global Federation of Insurance Associations (GFIA) is committed to demonstrating the constructive role of the global insurance industry in addressing climate risk and implementing effective and efficient adaptation and mitigation strategies. As the world recovers from a health and economic crisis, decision-makers must take measures to address the climate crisis.

### **Definitions: Adaptation and mitigation**

When designing climate strategies, the global insurance community represented by GFIA refers to the terms adaptation and mitigation as defined by the Intergovernmental Panel on Climate Change (IPCC).

Adaptation is defined as “the process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate harm or exploit beneficial opportunities... In natural systems, human intervention may facilitate adjustment to expected climate and its effects” (IPCC, 2014). Adaptation strategies refer to the action taken to manage the impacts of climate change by reducing vulnerability and exposure to its harmful effects.

Mitigation is defined as “a human intervention to reduce the sources or enhance the sinks of greenhouse gases” (IPCC, 2014). Mitigation strategies mostly refer to the action taken to reduce or prevent greenhouse gas emissions.

The ultimate goal of both strategies is to “stabilize greenhouse gas levels in a timeframe sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner” (IPCC, 2014).

### **Key messages on adaptation and mitigation**

1. Insurance has played an important role globally in managing economic losses caused by intensifying weather-related disasters. Insurers across the world are already integrating climate risk into their risk modelling and are developing innovative solutions to enhance adaptation and mitigation.
2. Insurers have decades of experience in risk modelling and in managing claims that are made as a result of climatic or weather-related impacts. This claims data yields tremendous insights and also equips insurers with valuable expertise that can guide climate risk management. Therefore, insurers should be involved in public authorities' discussions when designing adaptation and mitigation policies at local, national and international level.
3. By diversifying risks geographically through international reinsurance markets, insurers are able to cover local risks that may not be insurable locally. This international dimension is crucial, so public authorities should promote open international markets. To this end, dialogue undertaken on the international stage should seek to engage with the insurance community for input and guidance. These fora include discussions at the G7, the G20, the International Association of Insurance Supervisors (IAIS), and in relation to the United Nations Framework Convention on Climate Change.
4. As underlined in the IAIS Issues Paper on Climate Change Risks, climate risks have a large and varied impact on societies and insurers. Public authorities should bear this in mind when addressing climate risk in order to enable insurers to efficiently assume risk and spread it in a globally diversified risk pool.
5. Public authorities should implement necessary and appropriate measures (such as, for example, proper land-use planning or building codes) to foster insurers' capabilities to manage and cover risks as well as to effectively support adaptation and mitigation strategies and the building of climate-resilient societies.
6. Insurers can play a significant role in raising their clients' awareness of climate risks and help them implement preventive actions. Insurers are also committed to working closely with public authorities to improve public understanding of climate risks in order to foster more sustainable behaviour throughout societies as well as to steer adaptation and mitigation measures.
7. The year 2020 has been declared the global year of action by the UN Global Commission on Adaptation. The industry is well positioned to continue to actively engage with and assist with adaptation efforts.

8. Insurers have an inherent interest and expertise in pursuing solutions that adapt to a changing climate and build resilience. As governments begin to rebuild economies, the insurance industry can bring its expertise to bear on opportunities for resilient recovery — such opportunities are found, for example, in issues ranging from infrastructure to disaster-relief spending.
9. A constant dialogue should be maintained between insurance supervisors, insurers and insurers' representatives on climate risk. Mandates that add to costs as well as suppressing risk-based rates should be avoided and supervisors should act to enhance insurers' ability to serve their policyholders and society at large, so that insurers can maximise their positive role in connection with adaptation and mitigation.

### Key principles to guide effective and efficient adaptation and mitigation

- **Principle 1:** To increase societies' resilience requires society-wide action on adaptation to and mitigation of climate risks. Our industry will continue to demonstrate leadership in addressing climate risk, and will look for further opportunities to do so. The industry will pursue these opportunities alongside governments, international organisations and other stakeholders around the world.
- **Principle 2:** Insurers will continue to play an essential role in enhancing the economic resilience of societies as providers of risk transfer solutions.
- **Principle 3:** Where possible, insurers will continue to pursue opportunities to improve the understanding of climate risk so they may more efficiently advise customers on adaptation measures.
- **Principle 4:** As world economies recover, the insurance industry is positioned to provide guidance and best practices to achieve goals of resilience in connection with rebuilding economies to mitigate problems caused by climate risks.

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#### About GFIA

Through its 41 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 64 countries. These companies account for around 89% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.



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