

Position Paper on Insurance for a Sustainable Society

The ability to measure and value climate risk is key to the development of a sustainable economy. These insights also extend investment horizons and strengthen governance. Insurers are major investors who need investments to secure pensions and savings over the long term. They mitigate risks in society, and efficient risk mitigation is based on the insurers' ability to identify, measure and value risks. The ongoing development of methodology that accounts for decisive factors for pricing of risk and allocation of resources is crucial to the insurance industry fulfilling its important role.

Development of a sustainable society

With the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development, governments around the world have agreed to enter a sustainable path to save our economy and our planet. As we are faced with the catastrophic and unpredictable consequences of climate change and resource depletion, urgent action is needed to adapt public policies to this new reality. Regulation of sustainable finance will be a part of this.

The insurance industry in the Nordic countries – Denmark, Finland, Iceland, Norway and Sweden – is committed to supporting the development of a more sustainable society. By gathering evidence on emerging risks, sharing our knowledge with society, pushing for increased accountability and committing to increased transparency, the Nordic insurance industry's business models evolve to ascertain profitability and sustainability going forward. This ongoing transformation is necessary to secure pensions and the possibility to provide insurance protection in the future. As the constant ability to mitigate the effects of non-financial risks is the core function of insurance and essential to the modern society, protecting it must be the common goal of the industry, supervisors, regulators and legislators.

Sustainability includes environmental, social and governance aspects. This policy paper sets out the insurance industry's position with focus on climate related issues.

Industry position

Better, easier and faster access to climate-related data enables the insurance industry to offer climate-smart products and services, both by developing brand-new solutions and by improving the existing portfolio. Such

products encourage more sustainable choices and behaviours and can be tailored and marketed to the individual customer.

Nordic insurers welcome the framework for an EU taxonomy on sustainability as an important move forward. Climate change mitigation and adaptation are the first steps in the taxonomy that needs to be completed by 2020. This work must be followed by the other four environmental objectives, as well as social and governance measures as soon as methodologically possible.

Nordic insurers welcome the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations. We strongly support the work on non-financial disclosures that is being undertaken to start implementation of these recommendations on a voluntary basis, as data-gathering and reporting are fundamental to assessment and pricing of risk, and will seek prompt implementation of the measures. Nordic insurers are committed to promoting the TCFD recommendations by expressing clear expectations for the application of the TCFD framework in active ownership and incorporating requirements into external asset management mandates.

Climate competence needs to be developed further in the core processes of insurance companies. Insurers will develop the skill set, but climate-related risks should also be included in higher education programmes that prepare students for employment in the insurance industry. Supervisors and regulators also need this skill set. Research into sustainable asset management and green finance is required to safeguard the quality of long-term investment for pensions and savings in the future.

Proposal for solutions

Insurers are investors

A number of Nordic insurers have been at the forefront in sustainable investment over the last fifteen years. However, momentum has been held back by the great variation in how the integration of climate and sustainability has been accomplished.

- Clear rules and long-term policies are essential for the society and industry to transform consumption and production towards greater sustainability. They are also fundamental for investors to be able to contribute to this transformation.
- Insurers need a good, objective taxonomy; a measuring tool. Application of the taxonomy must be objective, as the integration of sustainability risk must be tailored to each manager's strategies.
- Insurers need high quality climate data to be able to identify, measure and value climate risk. The development of reporting standards is central to this. Special attention to small companies and emerging markets is needed.
- New types of risk does not equal more risk, and Nordic insurers are strong supporters of the risk-based Solvency II system. Just like the other risks reflected in the prudential system, any climate-risk related regulatory adjustment must be based on correct measurement and valuation, combined with an understanding of how these risks interact with other risks.

Insurers underwrite risk and adjust claims

Climate change affects the physical world. In view of the larger and more frequent damages caused by extreme weather conditions, work on resilience is essential to ascertain access to affordable insurance in the future.

- Insurance is based on the principle that the occurrence of the insured event is sudden and accidental. For insurers to be able to provide insurance cover for property, this requires that municipalities, for example, carefully analyse the risk of flooding and other similar phenomena and take relevant action to protect existing property and avoid new construction in vulnerable areas.
- The guidelines and incentives for rebuilding after flooding, fire or other damage must focus on sustainable solutions. This calls for the re-evaluation of building sites and building methods in the future.
- Adequate access to data can reduce the costs associated with climate change, resilience and adaptation, and accelerate necessary changes. Nordic insurers are working on solutions for insurance data exchange that would maintain healthy competition between insurers and also enable local and national authorities to make use of the data.
- The repair of damages is more expensive than effective loss prevention, yet the authorities and non-life insurers both spend most of their money on repairs and restoration rather than resilience. Accurate pricing of risk and pricing new types of risk in a way that encourages reduced emissions and adaptation to climate change is key – and access to data is key in achieving this.

Nordic insurers need to work together with local, national and European authorities to further this agenda.