WEATHERING THE CLIMATE CHANGE STORM

HOW INSURERS ARE MOVING TOWARDS RISK RESILIENCY

Content

Today, no global region is safe from climate change. For example, storms in the United States drove losses of more than USD 60 billion in 2021. Floods in Germany caused insured losses of more than USD 9 billion. Meanwhile, China's insured losses hit nearly USD 2 billion, and wildfires in Australia caused insured losses of USD 63 million.

World Property & Casualty Report 2022, Walking the Talk

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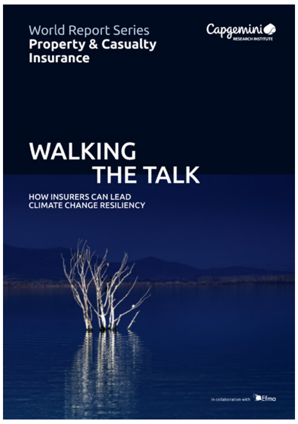
Introduction

As climate change impact and natural catastrophe events escalate, Property & Casualty insurers can champion sustainable resilience solutions

Slowly yet steadily, insurers are committing to sustainability initiatives to bolster financial performance, ensure policyholders' and market trust and navigate insurability concerns.



For example, 36% of the insurance executives who participated in our [World Property and Casualty Insurance Report 2022](#) - Walking the Talk, How insurers can lead climate change resiliency – said their firm restricts investments in unsustainable companies; and 27% said they restrict coverage to unsustainable companies.

Our report encouraged insurers to take the lead in climate change and become **resilience champions** by doing more than simply saying "no" to and divesting away from questionable investment portfolio assets while tightening environmental, social, and governance (ESG) underwriting criteria. Our May 2022 report launched as the COVID-19 pandemic was waning, and natural catastrophe (NatCat) events - such as wildfires and severe flooding - were affecting broad swaths of the world.

We captured the sentiments of around 5,000 policyholders worldwide, and climate change emerged as their second-highest concern, behind COVID-19. Additionally, we surveyed 270 insurance executives globally, and climate risk emerged as the top risk faced by these insurers. However, our analysis indicated that only 8% of these insurers globally were **climate resilience champions** actively taking steps to counter climate-risk effects. These resilience champions had better governance mechanisms than the industry average, leveraged advanced data and insights across their operations, provided better customer outcomes with a strong focus on risk prevention, and embedded ESG data at scale in their investments and underwriting.

56%

of the surveyed executives in 2023 say climate events are among their top three concerns.

So, have property and casualty (p&c) insurers followed through? Have they walked the talk to become resilience champions?

According to our 2023 survey, climate risk urgency escalated, with 56% of the senior executives we surveyed saying climate events were among their top three concerns, up from 44% in 2022.

The importance executives place on climate risk is rising because extreme climate events have wide-ranging implications for the global economy, biodiversity, natural resources, and health and public safety. For example, earlier this year, air quality in New York City was perilous, with the air quality index (AQI) rising above 480, as smoke from Canadian wildfires wafted across the North Atlantic coast.[1]* The air was acrid, the skylines orange and city officials directed residents indoors.

According to a 2023 Swiss Re study, 285 catastrophic events led to the deaths or disappearance of more than 35,000 victims worldwide in 2022,[2] up dramatically from about 11,881 victims in 2021.[3] For P&C insurers, the impact of the resultant increase in claims volumes will be significant. For example, a France Assureurs study predicts that cumulative 30-year NatCat claims volumes will grow by 93% from EUR 74 billion in 1989-2019 to EUR 143 billion in 2020-2050.[4]

Conversations around climate change have extended to broader environmental discussions because ecosystem biodiversity is at risk, according to the World Economic Forum's (WEF) 2023 global risk report. In addition, the WEF estimates that in 2022, USD 44 trillion of global economic value generation (about half the world's gross domestic product) was highly or moderately dependent on nature. The result? Businesses are susceptible to the risk of nature loss.[5]

* An AQI > 300 is considered to be hazardous

Will climate-change events force an existential challenge for P&C insurance?

Global economic losses from natural disasters grew to USD 275 billion in 2022.[2] Insured losses covered 45% of the damage, which at USD 125 billion, was the fourth-highest annual total reported by Swiss Re. In 2023, global yearly NatCat insured losses of more than USD 100 billion are likely to be the status quo.[2]

With climate change spurring more natural catastrophe events — and loss costs up due to inflation, supply chain issues and regulatory constraints — insurers are struggling to underwrite profitably, resulting in a rapid rise in insurability concerns. For example, State Farm, California's largest homeowner insurance company, announced in May 2023 that it would stop selling coverage in the state. Allstate, another leading California insurer, followed suit and no longer sells property insurance to new customers in the state. Most big insurers have already pulled out of Florida, sending homeowners to smaller private companies straining to stay in the market.[6]

The risk of uninsurability is growing in other regions of the world as well, with a study by the Climate Council in Australia finding that 4% of Australian properties will be classified as "high risk" by 2030, making them uninsurable, and another 9% will be classified as "medium risk" within the same period, reducing the coverage options available to exposed homeowners and businesses.[7]

These insurability issues have led to a coverage crisis that requires reinsurers and bond market capital support. Yet in 2022, reinsurers' collective balance sheet capital dropped by 16%. Moreover, the issuance of public insurance-linked securities (ILS) catastrophe bonds fell by 81% in Q3 2022, the lowest third-quarter level in a decade.[8] However, the tide seems to have turned in 2023, with a record USD 7.1 billion of ILS catastrophe bond issuance.[9] All this is happening as regulators worldwide emphasize climate-related financial disclosures and rating agencies score companies based on their climate and ESG performance.

While total and insured NatCat losses proliferate, secondary perils, such as wildfires, are rising. The share of severe convective storms and tropical cyclones has been constant at 30% to 35% over the past four decades, whereas wildfires almost doubled to an 8% share in the past decade, up from 3% 40 years ago.[2] NatCat losses will likely increase with urbanization and population growth as more people migrate to hazard-prone areas. As these events intensify in severity, they trigger social and economic inflation. Monetary inflation erodes policyholders' buying power, resulting in limited coverage and higher repair costs — increasing claim costs for carriers. These catastrophe-induced increases, combined with regulatory constraints that prevent insurers from adjusting prices at pace, lead to more locations becoming uninsurable.

Florida and Louisiana's state-chartered insurance associations had to borrow USD 1.3 billion in 2023 to cover hurricane insurance claims and Lousiana will be paying at least USD 275 million in interest through 2038.[10] The problem is growing in other parts of the world as well. For instance, in Queensland, Australia, insurers paid out AUD 3.5 billion in claims during 2022 due to extreme weather events, while they collected just AUD 2.7 billion in premiums.[11]

Public-private partnerships will become increasingly critical to tackle these challenges. For instance, in the United Kingdom, Flood Re, a joint initiative between the government and insurers, has been in place since 2016 to make flood protection an affordable aspect of household insurance policies.[12]

In addition to public-private partnerships, in early 2023, there was a strong focus on underwriting emissions-related portfolios at the World Economic Forum (WEF) in Davos when the UN-backed Net-Zero Insurance Alliance (NZIA) reaffirmed its goal to reduce greenhouse gas (GHG) emissions to net zero by 2050.[13] Despite this positivity at the WEF, and after several years of increasing membership in NZIA-like coalitions, regulatory questions have arisen about whether insurance interest groups might move beyond traditional risk modeling issues and potentially compromise fair competition within an open insurance market - to the detriment of policyholders. As a result, 18 insurers departed NZIA (as of July 6, 2023) to avoid exposure to antitrust, regulatory, and political risks.[14] So far, despite these exits and a challenging economic climate, most insurers remain committed to achieving net-zero emissions from underwriting by 2050.

We encourage P&C insurers to defend against climate-change threats by assessing and evolving their value models, beginning with improved risk models to drive better customer outcomes, increase their sustainability focus in investments and underwriting, and build a sustainable ecosystem, which would enable them to offer new propositions like risk prevention, parametric insurance, and restoration.

So far, the focus has primarily been on reducing emissions associated with each insurer's business while decarbonizing investments and underwriting portfolios through outright exclusions. However, forward-looking carriers are assessing new options. For example, instead of excluding policyholders that lack net zero credentials, some frontrunners are ramping up renewable energy underwriting, decarbonization projects and improving global food security by extending agricultural insurance reach.[15]

Can insurers secure their bottom line and meet policyholder resiliency expectations?

Climate change affects the globe, yet efforts to respond at scale move slowly and require disciplined mobilization from insurance leaders – all this as expectations escalate from individual and commercial policyholders around sustainability and advocacy. Traditionally, P&C insurance products focused on physical damages, although the impact on people is often much broader. What's more, NatCat events affect a vast ecosystem of supply chains, creating a domino effect for policyholders and carriers.

Floods and wildfires are risks that are on the rise and are significantly affecting ecosystems. For example, in 2021, several parts of Europe, particularly Germany, Austria and Switzerland, endured heavy floods that damaged infrastructure, homes and businesses. The floods made transporting goods and services to affected areas difficult and accessing raw materials and transporting finished products challenging. Beyond floods, the impact of wildfires in Canada in 2022-2023 was devastating, forcing shutdowns in multiple industries, such as oil and gas, mining, forestry and tourism, while disrupting supply chains and impacting power supply to cities across significant distances.

Climate-change resilience requires insurers to continuously reassess and adapt their strategic posture through innovation, agility and attracting the right talent.

By 2028 the global parametric insurance market is poised to reach

USD 21.4B

We believe insurance business models must adapt around three areas to support the green transition proactively:

- **Risk prevention:** More than 65% of customers interviewed as part of our 2022 World Property & Casualty Insurance Report said they are interested in climate-risk prevention and mitigation services, with 53% willing to pay insurers for the guidance. For example, the Insurance Institute for Business & Home Safety (IBHS) developed the *Fortified Homes* program — a construction standard nationally recognized across the United States — to ensure homes are prepared to withstand hurricanes, thunderstorms and low-level tornadoes.[16] The program offers insurers a way to incentivize policyholders with homes that adhere to the standard and reduce exposure before an event occurs.
- **Parametric insurance**: This covers policyholders against the occurrence of a specific event by paying a set amount based on the magnitude of the event, as opposed to the extent of the losses in a traditional indemnity policy. The global parametric insurance market is poised to reach USD 21.4 billion by 2028, rising at a CAGR of 9.6% from 2022–2028.[17] This product model enables increased efficiency across sales, claims and service, as well as improved and data-driven risk management and pricing and greater certainty for policyholders and insurers alike. For example, Generali offers its clients a parametric insurance solution to provide speedy and hassle-free settlements when unexpected events such as NatCats threaten to hamper their clients' business.[18]
- **Restoration**: NatCat events impact industries, supply chains and ecosystems. Insurers can play a pivotal role in enabling community restoration by embracing circular economy initiatives and promoting reducing, reusing and recycling practices to redefine underwriting and offer new types of protection. Restoration coverage is nascent, with some trend-setting insurers offering policies that address ecosystem losses and help restore communities. For example, Australia-based insurer QBE Insurance Group is committed to helping communities become more resilient and prepare for climate change impacts. They actively participate in biodiversity restoration by funding organizations like Trees for Life to support habitat restoration projects by planting

native vegetation and creating wildlife corridors.[19] They have also developed an Environmental and Social Risk Framework considering biodiversity and ecosystem services to manage environmental risks across underwriting and investment activities.[20]

Ecological risk affects both the asset and liability side of risk underwriting. To successfully accelerate the move to a sustainable future, insurers must identify key ESG risks and incorporate them into their pricing through data collection, risk assessment and underwriting guidelines. The identified risks are the base for pricing adjustments, with higher risks leading to higher premiums and incentives offered for sustainable practices. Regular monitoring and collaboration with industry experts are needed to ensure ongoing refinement. Therefore, strategies incorporating environmental loss into underwriting and pricing, dynamic insurance products and services, and moving beyond simple asset exclusion — are the way forward for resilience champions.

What experts are saying

Repurpose the insurance value proposition to protect policyholders amid escalating sustainability concerns

Insurers can deploy forward-looking operational practices and play a foundational role in the global transition to a more sustainable economy. As carriers scramble to articulate sound underwriting, pricing and investment strategies that include a comprehensive view of environmental impact, new ideas emerge around innovative value propositions that support green initiatives and reduce the protection gap. Critical components include risk prevention, the circular economy, and cutting-edge data and technologies such as bushfire coverage in Australia, hurricane coverage in Florida, and flood coverage in various flood-prone regions of Europe.

Capgemini spoke with insurance industry leaders to learn how they will develop and execute these new-age sustainability strategies. Key contributors include:

Aurélie Fallon Saint-Lo

Global Head of P&C Underwriting & Business Strategy for Climate & Sustainability - AXA Group

Since undertaking the role in 2021 she has focused on integrating sustainability and climate strategy in P&C underwriting aiming at ESG policies integrating climate, biodiversity and human rights, green business development, and net-zero underwriting strategies including carbon reduction, client engagement, and insuring the transition solutions. Previously she has led environmental risks insurance business during more than 13 years with strong commitment to develop prevention solutions. An environmental engineer by trade, Aurélie has worked with industrial groups as an Environment, health, and safety manager before specializing in environmental insurance and sustainability underwriting.

Nigel Walsh

Managing Director, Insurance at Google Cloud

He is responsible for leading the firm's approach to insurance, leveraging the best in market capability from Google's Cloud proposition, addressing mission-critical insurance challenges, from claims and underwriting to leveraging Generative AI (GenAI) and machine learning (ML) know-how, driving better business outcomes. Nigel also works with the broader Alphabet companies to bring their experience and insights to partner with existing insurance customers and serves as a go-to-market advisor for CapitalG. Previously, Nigel was a partner in Deloitte Digital where he led on a number of areas for the firm, including Global Future of Insurance and Global InsurTech.

Liza Garay- de Vaubernier

Global Head Sustainable Insurance, Capgemini Invent

She leads the Sustainable Insurance strategy and Offer Development at Capgemini Invent. Liza has over 13 years of experience, driving large-scale projects across different functions. She has strong expertise in ESG strategy, green business & inclusive offers, and managing transversal projects in an international environment.

1. What roles can P&C insurers play in support of a more sustainable economy? Can P&C business models profitably accommodate earth-friendly imperatives?

Aurélie: When you think of P&C insurers, climate change is automatically brought to mind as it supports economic resilience facing the physical impacts of climate change.

A sustainable economy is more important than ever today since, according to the journal Nature, at the beginning of June, humans crossed the safe limit for eight of the nine earth system boundaries that ensure that the earth remains hospitable to civilization.

The focus of a sustainable economy is not limited to climate change, as issues like biodiversity loss, land system change, drought, and freshwater scarcity are also on the rise. The urgency to address these concerns is evident and collaboration is essential.

P&C insurers play a crucial role in supporting a more sustainable economy. They must collaborate with diverse customers and stakeholders — from individuals to large corporate entities — offering a wide range of coverage, including home, motor and property insurance.

Broad collaboration allows insurers to engage with nearly all segments of society on various issues, not just climate change. They can support and integrate environmentally friendly solutions throughout the value chain, from risk consulting to product offerings and claims handling. Insurers can support low-carbon technologies like carbon capture and storage (CCS) and renewable energy while offering nature-based solutions that protect vulnerable regions such as coral reefs and wetlands. They can even help policyholders detect leaks to preserve water resources and promote a circular economy in claims handling.

At AXA, we are addressing a wide range of issues with support from our ecosystem of numerous specialists and customers.

Nigel: The role of P&C insurers can boil down to a simple choice: insure or don't insure. If they choose not to insure fossil fuels, then it can significantly impact a more sustainable future.

However, overnight action is not feasible. Instead, we should prioritize incentives and establish partnerships among the private sector, insurers and governments to facilitate a gradual transition.

Additionally, we can explore green insurance products and services. The transition to electric vehicles (EVs) is illustrative as auto insurers must now consider traditional internal combustion (ICE) vehicles, EVs and hybrids. We're still learning what EVs are and how they may affect fleets, how we will recycle batteries, and how to determine other issues that may develop over time. Although EV repairs may be expensive as the pendulum swings from traditional ICE vehicles to EVs, price, accessibility and availability will level out, mirroring the patterns in other industries.

Consider the UK energy market. A simple click on a price comparison website can display green policies or policies that derive a significant portion of their energy from renewable sources such as wind or solar. We could adopt a similar level of transparency in the insurance sector.

Education is similarly critical. We must enthusiastically coach clients, consumers and the entire value chain about sustainability's importance in everything we do. We've discussed goal setting and targets for 2030, 2040 or 2050. If the ideal time to begin was yesterday, the next best time is now.

2. How can P&C insurers leverage technology to enhance risk modeling capabilities and mitigate environmental risks?

Nigel: Data is a primary output in the financial services world. It is all about the insights derived from the data and the capabilities created to mitigate climate risks, protect the state of the planet or ensure value chain resiliency. Insurers do a tremendous job collecting, aggregating and bringing all this information together. However, there is scope to improve the understanding of the data, derive actionable insights and drive impact at scale.

There's not a single insurer without pockets of excellence here. Yet the challenge is to make these practices the default across all organizations.

Technology is the key to enabling every organization to understand the impact of each piece of information and its relevance in the decision-making process. By leveraging technology, insurers can have almost real-time visibility into the factors influencing claim adjudication, risk assessment, underwriting, and other aspects.

So, whether we are talking about big data, leveraging third-party information from sources like maps, or using artificial intelligence to provide additional insights, it's about bringing all those pieces together.

Liza: Technology offers tremendous opportunities. Today we have access to vast amounts of data, allowing us to simulate environmental risks on different portfolios. As technology evolves, insurers can consider a more comprehensive set of climate scenarios.

The advent of ML and advanced analytics enables us to analyze how climate change and environmental factors affect insurers. We can assess the potential financial implications and develop strategies to mitigate those risks. Data analysis also helps us adjust coverage, adapt pricing and implement risk transfer mechanisms, enabling tailored coverage solutions.

Today, insurers can easily access remote sensing equipment for real-time data gathering and field staff support. For example, drones significantly help claims management by allowing quick on-site assessment without jeopardizing safety. Insurers can leverage these technologies further by using sensors on rivers and oceans to obtain data that supports adaptation to climate and environmental risks.

And finally, telematics is another aspect to consider. By implementing telematics in vehicles, we can assess driving behaviors, vehicle conditions and weather patterns, allowing insurers to offer policyholders tailored advice and tips.

A diverse ecosystem, including environmental scientists and technology providers, keeps insurers at the cutting edge of technology to quickly adapt products and services.

3. How can P&C insurers reduce the NatCat protection gap many policyholders face? What innovative insurance products and services are emerging to cover at-risk individuals and businesses?

Aurélie: Increasing volatility and exposure to extreme events put considerable pressure on P&C policyholders. Insurers must work with their clients to assess their vulnerability and share the best resilience plan before an event happens.

The bigger question is about exposure. For instance, individuals who live near the ocean may be more vulnerable than landlocked populations. Insurers need to help policyholders understand the threat so they can adapt effectively. It is also essential for insurers to work with public authorities to address climate peril as part of land planning since urbanization drives events such as floods.

Insurers also need to develop innovative offerings. For instance, AXA Climate offers parametric insurance solutions that provide rapid support after a covered event to help the insured rebound quickly, which helps lower overall losses. The goal is to reduce the overall loss experience for AXA thanks to measures pre- and post-loss, which contribute to maintaining affordable and accessible coverage solutions.

Another innovative initiative is the AXA Prevention platform offering free services to sensibilize and educate the elected and their teams in French towns with fewer than 10,000 people on climate perils prevention, climate change mitigation and adaptation. This platform helps the towns initiate their ecological transition. The goal is to build sustainable cities by 2050.

Nigel: The important question is: Why isn't climate coverage embedded into everything we do? For instance, why doesn't a homeowner in California get wildfire coverage by default?

Some countries, such as the UK, tackle the challenge through public-private schemes. For example, home insurance in vulnerable parts of the country includes flood protection, with the risk element covered by Flood Re, a government scheme established in 2016.

Education is critical to reducing the protection gap. Policyholders must understand what their policies cover and what is not protected. In the United States, Europe and Australia, threats have escalated in recent years — whether earthquakes, hurricanes, floods, or wildfires. Most standard policies don't cover these events because today's risk is too high.

Innovative products, such as a mix of parametric and microinsurance, are gaining global ground to offer different types of coverage, including, for example, crop insurance.

In Africa, we have seen very innovative solutions. For instance, Pula – a Kenya-based insurance and technology company – designs and delivers innovative agricultural insurance and digital products to help farmers endure yield risks, improve practices and bolster their income. Pula removes the fear of planting because policyholders can recover their losses or plant replacement seeds. Data provides insights on what to plant, when and the risks faced.

Indexed-based insurance is another innovative solution, where an agreed-upon baseline acts as an index to set levels for different payouts against various global climate phenomena.

The opportunity for insurers is to identify worldwide lessons learned, including those from developing countries, to counter NatCat events in developed regions. This strategy can be deployed in large-scale volumes and micro terms. The key is innovative new business models based on technology insights.

4. As insurers attempt to create more business-resilient underwriting and claims, how can they maintain adequate coverage for policyholders in vulnerable regions - especially as reinsurance capital becomes scarce?

Nigel: This goes back to how insights and data can drive personalization around various weather and climate perils. Each property or risk is unique. And just because one is high-risk doesn't mean the next one will be the same. It's crucial to have accurate insights and data readily available to underwriters and risk assessors.

It is equally important to move from post-loss to prevention by leveraging technology by considering how to increase the resiliency of different asset classes — for example, adding structural fire coatings and using new construction techniques like stilts.

These efforts would help create a more resilient future and can be done by collaborating with regulatory bodies and governments.

It will take a medium- to long-term policy change to tackle the challenges of property construction in a wildfire or flood zone, so governments and carriers must tackle insurability criteria now.

Aurélie: The insurance industry plays a critical part in managing climate-related risks. The insurer's role is to assess, handle and carry risk.

The challenge is maintaining a fair, safe and stable insurance market by mitigating and preventing climate risk. But first, a shift is needed in business models from pure transactional risk models and indemnity payments to scaling risk engineering and mitigation.

For instance, AXA property engineers consider on-site fire risks, such as whether policyholders have installed sprinklers.

In addition, a holistic assessment of whether structures are resilient to regional climate perils is essential. Insurers can transition by bringing in relevant expertise across the value chain. Better collaboration with land planners, for instance, and providing incentives for resilient construction materials would help in this process.

Insurers must contribute to fighting climate change by supporting the transition to a low-carbon economy. This means more than simply excluding high emitters. It means a commitment to fight climate change impact and to mitigate risk.

5. What criteria can P&C insurers use to assess the impact of their green offerings, and what are the elements they should consider as they evaluate this impact?

Aurélie: To effectively assess the positive impact of our solutions, we must establish metrics, including on carbon. This starts by measuring the carbon footprint of our book of businesses or what we call insurance-associated emissions.

Moving forward, we can monitor our positive actions and the impact of introducing new solutions and initiatives, such as Build Back Better, which supports the transition to a low-carbon economy and promotes energy efficiency together with climate change adaptation.

These solutions will help customers reduce their carbon emissions, ultimately reducing our insurance-associated emissions. While we have been monitoring Scope 1[A] and Scope 2[B] emissions for some time, it is also crucial for insurers to understand and address Scope 3[C] emissions.

Liza: We need to assess the carbon footprint, but it's crucial to adopt a more holistic perspective that goes beyond carbon and includes the assessment of biodiversity impacts.

This involves considering how insurance can contribute to resource conservation and limit pollution. Understanding the impact of products and coverage on these aspects is essential. Additionally, the value-added services, particularly in terms of prevention, need to be evaluated for their effectiveness in mitigating risks and reducing vulnerability to climate-related events like floods and wildfires.

Regulation plays a significant role. In Europe and beyond, evaluating how insurers' green offerings align with relevant mandates and standards is essential. Compliance can indicate the extent to which insurers are meeting their sustainability goals.

Furthermore, assessing our products' impact should also extend to customer satisfaction. Evaluating the satisfaction of both retail and commercial clients can provide insights into the impact of green offerings. Gathering feedback on how environmental consulting services have helped corporations with risk mitigation practices can serve as a criterion for assessing impact.

A-**Scope 1** - refers to direct GHG emissions that occur from sources controlled or owned by an organization.

B-**Scope 2** - refers to indirect emissions as GHG emissions not directly produced by the entity or activity in question but resulting from their actions or operations.

C-**Scope 3** - refers to the result of activities from assets not owned or controlled by the reporting organization but that the organization indirectly affects in its value chain.

6. How can P&C insurers embed the circular economy concept in their value propositions to differentiate from competitors?

Aurélie: When discussing the circular economy, application in claims handling, particularly in motor insurance, comes to everyone's mind. Promoting using recycled parts or repairs instead of replacing them is an important option that demonstrates how carriers can contribute to the circular economy within claims management.

However, supporting the circular economy goes beyond claims handling. For example, recycling facilities face significant challenges, including increased fire risks due to using batteries, and often are difficult to insure. But now risk consultants and engineers can help mitigate these risks to keep these facilities insurable while increasing their sustainability.

Another example is AXA's polluted site remediation coverage for old industrial sites that have been closed and are known to be contaminated. There are thousands of such sites in France alone, and instead of urbanizing natural areas or converting agricultural land, we should recycle and repurpose these areas. To facilitate this, we have developed specific environmental policies to help the construction sector redevelop these brownfields. Through our environmental risk policies and the expertise of our engineers, we help assess the risks associated with past activities on these sites, including the potential impact of specific pollutants. By understanding these risks, we can effectively address them and contribute to sustainable redevelopment efforts.

So, the circular economy extends beyond just claims. Insurers that embrace a holistic approach can support an entire value chain.

Liza: Claims management is a pain point for insurers when integrating a circular economy model. Insurers can gain competitive differentiation by taking a holistic view of the circular economy, not just limited to claims management but focusing on environmental impact assessment.

Insurers should be able to evaluate their carbon footprint, resource consumption and waste generation resulting from claims settlement. This holistic view not only gives insurers insights into their environmental footprint but will enable them to help policyholders make informed choices. For instance, when a repair option is chosen instead of a replacement, insurers can provide a granular view of the environmental impact of that decision.

As the circular economy trend begins to go mainstream, education becomes vital. Insurers can raise awareness about the stakes involved and the environmental benefits of conscientious circular economy choices.

As a result, insurers can contribute to lowering their environmental footprint while empowering others to do the same.

Nigel: Education plays a crucial role here. Insurers have a part to play in re-educating society and promoting the idea of recycling and refurbishing. For example, it's essential to make people understand that having a phone that has been repaired or refurbished is acceptable, especially if it comes with a warranty.

We need to shift our attitudes towards expecting something new all the time. When my car breaks down or gets into an accident, replacing parts with recycled ones would likely suffice if they come with a warranty or similar assurances. Discarding and replacing rather than repairing existing items has become too convenient. This mentality is prevalent across generations. We need to learn from what is done for articles that are considered valuable. They are repaired and restored — not replaced.

For example, if the Mona Lisa were damaged, it wouldn't be replaced with a new painting. It is irreplaceable.

Instead, efforts would be made to restore it to its original state. The challenge is adopting the same mindset across different assets. Insurers have a role to play by advocating for repair conditions in their policies and leveraging risk insights to help manufacturers and customers shift their attitude in this direction.

7. With sustainability in mind, how would you advise P&C insurers to build short- and long-term business resilience?

Aurélie: In the short term, insurers should work to make the current economic system greener. We can find ways to effectively underwrite EVs, renewable energy facilities and low-carbon technologies. Insurers need to understand all the new risks brought about by the transformation of society and the transition to a low-carbon economy.

In the long term, insurers must prepare for a sweeping transformation of economies. Energy efficiency is essential, and reducing waste will help more than recycling. For instance, insurers can incentivize an economy without vehicles and promote sustainable or shared mobility by providing attractive coverage options and value-added services that make this transition attractive to individuals.

Insurers need to think about aligning with a total shift and transition of economies. While measuring the impact of carbon is relatively easy, if we consider biodiversity as a whole, it is complicated to monitor the effects of various activities on nature.

Insurers need to tackle this challenge head on by leveraging data to assess the impact of nature more broadly into risk models and thus making informed decisions on the way forward.

Nigel: The short term and long term are consistent since no short-term fix exists. That doesn't mean we shouldn't start now; it is essential to act on this immediately. There is an internal perspective and an external perspective. Internally, employees need to align with the values of their firm. Therefore, the mission and values of an organization and how they impact society are very important, whether they include sustainability, charitable giving or doing societal good.

In the medium term, collaboration is vital. No one person or group can build business resilience on their own. It returns to the old saying, "Together, we go far."

Google is fully invested in this vision. We support sustainability startup programs and have several initiatives, such as Earth Engine and Google Maps, that enable this collaboration approach.

It then comes down to how we work with all the participants across the value chain. The most crucial point is how we demonstrate success. There are many cases in the press around greenwashing. Thus, it is vital to explain our impact and the outcome of all we do, from small nudges to reduce water waste, to giant leaps forward, such as the complete exclusion of fossil fuels from insurance.

To sum up, an insurer's role is to support the economy in the transition, and there is a lot that we can do internally and externally, which involves every player in the marketplace.

Liza: To build short- and long-term resilience, insurers must comprehensively assess environmental risks and available solutions. Product innovation and providing green offerings will help carriers build resilience.

Stakeholder engagement is also essential, not just with customers to whom insurers can provide education, support and client engagement, but also with the broader ecosystem to better understand pain points and remedies, which reciprocally would inform other stakeholders about insurers' pain points they might handle collectively.

These topics are not easy and we don't have all the answers yet. We can achieve success only through disciplined collaboration.

In conclusion

Insurers can strategically transition from risk bearers to climate resilience champions - and remain profitable

Insurers around the world are confronting a climate event conundrum. Should they continue participating in vulnerable marketplaces to serve their societal purpose and protect customers, maintain viable pricing or reach bottom-line goals? Front-runners are taking preemptive steps beyond green investments and underwriting exclusions to build climate resilience capabilities for their firms and policyholders. They are implementing innovative processes like risk prevention and restoration and embracing novel business models such as parametric insurance, microinsurance and indexed-based insurance to support the transition while boosting operational efficiency and supporting bottom-line ambitions.

Future-focused insurers actively work to deliver broadly-accessible sustainability solutions — including to policyholders in vulnerable regions — while easing the protection gap and remaining profitable. Carriers can begin by incorporating sustainable practices and metrics throughout underwriting, pricing and claims processes. Then, they can mitigate climate change impact by investing in success strategies and novel tools. The most visionary will adopt predictive analytics based on near real-time data to strengthen risk management and loss-control practices. They will work to develop innovative solutions that embed sustainability within the core of their business models. Insurers that partner with policyholders and educate them about potential risks equip them with risk prevention recommendations and appropriate coverage. As a result, customers will be encouraged to weave sustainability practices into their regular activities and insurers can incentivize good sustainability behaviors with reduced premiums and by offering value-added services.

Integrate granular, data-driven insights into risk assessment strategies to bolster profitability

Advanced data analysis and risk modeling give P&C insurers a multilayered perspective on sustainability threats, including geographic and property-specific risks, claim management challenges, underwriting and pricing considerations, and business interruptions. This capability is critical because an increasingly large swathe of risk will become uninsurable if carriers don't begin to leverage data-driven insights to tackle these challenges by offering innovative value propositions.

Insurers can act today by utilizing parametric risk modeling to predict and develop coverage options for high-risk markets and provide predetermined payouts based on specific triggers. Secondly, they can engage in proactive risk prevention by accessing accurate data such as satellite imagery and IoT to enhance risk assessment and effectively price policies. Finally, insurers must embrace tailored programs to reach customers exposed to risks by offering education and coverage for asset repair or replacement.

Data and predictive analytics can help P&C insurers bolster processes around loss prevention, claims management, regulatory compliance, industry benchmarking, and more. Carriers deploying a centralized platform to consolidate data at the enterprise level can identify trends, patterns and early sustainability risk indicators. A centralized platform enables insurers to formulate actionable insights by understanding environmental risks and immediate and long-term business implications — revealing potential policyholder impact. Efficient impact monitoring and sustainability goals tracking can pre-empt financial exposure and optimize operations to mitigate monetary losses and ensure long-term business viability.

Empowered by incisive technology-powered propositions, P&C insurers can navigate environmental risks by identifying vulnerable geographies, quantifying potential losses, working with reinsurers to secure adequate capital criteria, and enhancing overall risk-management strategies. Those that do will become market leaders, profitably serving different customer profiles — including in regions considered high-risk today — through unique, technology-powered solutions.

Redesign the claims and restoration process to support policyholders' sustainability journey

Armed with better propositions and unique insights, we believe P&C insurers can strengthen environmental resilience by embracing a circular economy value chain that drives sustainability versus consumption of finite resources. Incisive risk management and fast, efficient claims support circular economics.

On the risk management side, insurers can utilize data and technology to evaluate the impact of the circular economy and potentially adapt their current retail and commercial policyholder coverage.

The opportunity in claims management is to encourage recycling and reuse by promoting repair and refurbishment over replacing policyholders' damaged assets. Predictive solutions and underwriting tools that reward repair over replacement practices are essential.

In short, P&C insurers can focus on restoration initiatives, best practices and policyholder adoption of sustainability practices that protect assets and reduce the likelihood of future claims while encouraging and enabling resilient communities.

Guide resilience efforts that help individuals and businesses adapt to climate change

From floods to wildfires, we are experiencing widespread climate change consequences. Although insurers offer NatCat coverage, today's urgency requires innovative products and services featuring resilience and preventive measures.

Resilience and prevention practices include:

- **Granular/tailored value propositions:** Develop customized coverage that offers policyholders relevant protection and ways to be more resilient to current risks (e.g., building resilient structures)
- **Integrating advisory/ preventive measures:** Consider making infrastructures more resistant to floods, wildfires, etc.
- **Inclusive insurance:** Offer affordable coverage to take on the protection gaps of vulnerable customers and reduce severe consequences, particularly in climate-sensitive regions
- **Retail and commercial policyholder engagement:** Incentivize customers to adopt consequence-reducing green behaviors
- **Risk assessment:** Assess proactively and underwrite new types of risk to speed up adaptation

Insurers that offer relevant value-added services and preventive solutions to reduce the protection gap can improve their brand's environmental footprint. Initiatives might include working with building associations to develop more resilient infrastructure, implementing early-warning systems or offering insurer-sponsored education initiatives to inform policyholders' decision-making.

We believe P&C insurers that weave these regenerative and risk mitigation mechanisms into their business model can evolve their role from risk bearers to forward-thinking climate resilience champions that distinguish their brand by driving positive change on a global scale by increasing customer intimacy, driving customer engagement and enhancing customer loyalty.

To summarize, insurers worldwide struggle to balance their societal purpose and financial goals in the face of climate change. However, forward-thinking insurers will proactively build climate resilience capabilities and innovative business models. By incorporating sustainable practices, leveraging data-driven insights and adopting systematic risk management, insurers can deliver sustainable solutions, bridge the protection gap and remain profitable and relevant over the long run to transition from risk bearers to climate resilience champions.

Partner with Capgemini

Define. Commit. Act.

Accelerate your sustainability journey - from commitment to supportable results. Capgemini's sustainability framework enables you to **define** and **commit** to a sustainability strategy, including design-related transformation and business model adaptation. Next, we help you act by designing sustainable operations, products and services. And finally, we assist you in monitoring and reporting to generate insights that allow a continuously adjustable strategy.

Business for planet modeling

We offer a strategy development tool that leverages the digital-twin approach to help enterprises build a sustainable business model by evaluating the impact of strategic decisions. First, we support the organization in developing a **sustainability strategic twin** to replicate business interactions. Next, the different options resulting from a decision are stress-tested and plugged into the future dynamics of the economy, climate, energy, resource boundaries, and policies. Optimized options enable the business to mitigate the transition risk, resulting in higher profitability with minimal environmental repercussions.

Risk resilience

We can help you reduce premium leakage, increase risk selection and underwriting efficiency, decrease protection gaps, and quickly spark product and business model innovation.

Secondary-loss peril from catastrophic events will continue with greater frequency and severity as climate risks increase. Our **Intelligent Property** and **ESG Lens** offerings enable better underwriting and pricing decisions on relevant portfolio risks.

Intelligent Property centralizes all location insights with currently insured properties and historical information, enabling insurers to select the risks, make strategic portfolio decisions quickly thereby enhancing long-term profitability. This involves updating underwriting guidelines swiftly, fostering better agency engagement, and loss control for end users.

Data and reporting

As insurers face daunting climate-change challenges, it is time to evaluate the organizational impact and adjust net-zero strategies and initiatives. It may have taken financial accounting 100 years to be shared and applied, but we do not have the luxury of time regarding carbon accounting. Data is essential to gaining resilience and reducing climate and business risks when used to **anticipate**, **measure** and **improve**.

Capgemini can help you seamlessly collect and leverage data to support sustainability initiatives through the following:

1. **Data integration** - Incorporate your firm's data into your sustainability plan to yield actionable insights.
2. **Sustainable data hub** - Weave your data vision into the firm's overall net-zero trajectory.
3. **ESG data performance** - Industrialize and automate internal environmental, social, and corporate governance reporting within existing and upcoming frameworks.

We activate unique accelerators to help you assess and analyse your data for sustainability actions. We have experience supporting multiple data-powered sustainability journeys across various industries.

Ask the experts

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End notes

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