

INSTITUT LOUIS BACHELIER'S ROLE IN ADVANCING INSURANCE INDUSTRY ADAPTATION TO CLIMATE CHANGE

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As global temperatures rise, the insurance industry faces increasing challenges that threaten traditional business models and the insurability of assets worldwide. Recognizing the urgent need for strategic action, the Institut Louis Bachelier (ILB) has joined the Forum for Insurance Transition to Net Zero (FIT) as a founding member.

The insurance industry's expertise in risk management positions it as a crucial player in the global response to climate change. Statements from insurance leaders like AXA highlight a critical future risk: **scenarios of increased temperatures by 3°C or more could lead to various activities and areas becoming uninsurable.**



Insurers' extensive experience in physical and biological risk assessments is indispensable in developing informed, data-driven financial strategies across various sectors. The data available at the disposal of insurers are complementary to those at the disposal of other financial institutions (FI) – for example, **the crop insurance database in France includes data on metrics not found elsewhere by FIs.**

Beyond their price signal making role on adaptation, insurers also **play a key role on mitigation** by facilitating significant amount of economic activities, for example credit issuance. Consequently, they are enablers to high emission outputs. This role carries the inherent responsibility to actively manage and mitigate the impact of these emissions. Acknowledging and quantifying facilitated emissions are crucial, allowing insurers to assess and reduce their climate impact effectively.

Moreover, insurers must ensure that their adaptation strategies are fully integrated with efforts to mitigate climate change, utilizing their influence responsibly and not allowing limitations to justify inaction.

Insurers are integral to the economic value chain, particularly through their role in claims management, where they can influence market structure. Furthermore, accurately priced insurance premiums that reflect the true risks associated with financed assets and activities may influence decision makers and investment toward more sustainable practices. Insurers also have direct interactions with clients, **offering unique opportunities to educate and promote awareness about climate risks and opportunities.**

Europe's Corporate Sustainability Reporting Directive (CSRD) is reshaping how insurers report and manage business, particularly concerning scope 3 emissions from insured activities. This regulation is aimed at ensuring all corporate actors (insurers included) are equipped with the necessary information to facilitate a transition to a low-carbon economy and manage the risks associated with the consequences of global warming (double materiality).

ILB's participation in FIT reflects a commitment to **collaborative problem-solving alongside a diverse array of stakeholders, including practitioners, academics, and regulators.** The recent launch of the **Paris Agreement Research Commons (PARC)** foundation materializes this commitment. The multi-stakeholder engagement approach of the FIT is vital for developing innovative methodologies that address the unique challenges of climate mitigation in a commensurate way with insurers scope of influence. Furthermore, the ILB sees it as an opportunity to develop methods that facilitate the scalability of adaptation measures in tandem with mitigation objectives.

Institut Louis Bachelier's involvement in FIT underscores its dedication to contributing to a collective effort aimed at making the insurance industry more resilient in the face of a changing climate. By participating in this initiative, **ILB supports the industry's navigation through emerging challenges, ensuring that insurers continue to fulfil their crucial role in economic activity effectively and sustainably.**