IRSG

# INSURANCE AND REINSURANCE STAKEHOLDER GROUP

## ADVICE ON NON-LIFE UNDERWRITING IN LIGHT OF CLIMATE CHANGE

EIOPA-IRSG-20-01

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European Insurance and Occupational Pensions Authority

## About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- (●) Public
- ( ) Confidential

* Stakeholder name

Insurance and Reinsurance Stakeholder Group

* Contact person (name and surname)

Tony O'Riordan

## Questions to Stakeholders

Q1: Do you agree that climate change could lead to increasing premiums and wider exclusions, potentially negatively impacting the affordability and availability of insurance covers over the long term?

- (●) Yes
- ( ) No

Please explain.

Yes.

Risk-based underwriting adjusts for changes in frequency and severity of events, whether they are random and diversifiable and depending on whether preventing measures exist to limit the costs within the insurance market capacity. As a result, the non-life insurance sector is not exposed to climate change the same way as businesses and individuals. (Re)insurers have effectively the possibility to adjust their risk exposure via the level of premiums, deductibles, exclusions, limits corresponding to their risk appetite and solvency constraints to the point where they can indeed exit the lines of business or geographies most impacted.

From a climate change adaptation standpoint and all other things being equal, where risks are deemed to increase it is fair to assume that premiums will follow a similar path.

The affordability and availability issue is real and needs to be tackled primarily via public policies in terms of prevention (e.g. flood defences) and, where relevant, building standards, tax incentives and/or subsidies  e.g scrappage scheme for high emission vehicles.

Long term impacts of climate change are very uncertain, so that the exent, duration and location of impacts cannot be predicted.  For instance, Increases could happen at a steady pace or in step changes, driven by availability and increases in cost of reinsurance following severe weather events.  To the extent that climate is ultimately a self-regulating system, then short run effects may be more devastating in certain places, until new equilibrium is reached.

Q2: Do current underwriting and pricing practices already take into account the expected impact of climate change?

- (●) Yes
- ( ) No

Please explain. If yes, please outline in which manner.

Yes, partially.

This is particularly the case where insurance covers perils where climate change is already causing changes in the underlying risks, especially tail risks.

Underwriting practices primarily focus on the current risk profile, with less regard for future expected effects materially beyond a 1 year time horizon. Commercially it is for each insurer to decide if it makes sense to avoid writing business or to charge higher premiums in areas that are expected to be higher risk in the future. Setting plans and strategies for the evolution of risks and portfolio exposures is within the scope of the ORSA and wider strategy setting. Premium levels are unlikely to move in exact step with rising risk levels as the pace of increase in risk may not be fully anticipated.

Despite a number of data and methodological constraints, forward-looking analysis is also increasingly used in combination with historical assessments based on up-to-date data. This is focused on expected changes in frequency and severity of certain events which are relevant for pricing yearly guarantees and adjust periodically their conditions.

One important element of underwriting and pricing involves imposing certain conditions on contracts, such as prevention measures. These conditions are not necessarily based on past events but can also be the result of trends forecasting, and increasingly over the longer term. This is clearly an example of the future /expected impact of climate change being incorporated in the underwriting/pricing process.

The effect of adjustments in reinsurer pricing will impact on prices to insurance customers. Reinsurers use Nat Cat Models which are continuously updated to allow for emerging climate trends. Over time certain risks are excluded and policy terms and conditions are tightened in response to climate events.

As explained in the general comments, It is inaccurate to say that the models supporting the repricing cycle are backward-looking. Model calibration uses past events to identify the pattern of variability and the distribution of severity but it is also adjusted to capture trends when the signals are clear and evidenced. However, for several perils it is the science itself rather than (re)insurer's modelling which has not settled on the impact of climate change on hazard parameters relevant to non-life underwriting. Insurers take a holistic view of risk management across their processes and core business, and the monitoring of past climate change related events and losses is just one of the instruments used in the underwriting and pricing process.

EIOPA should refrain from setting expectations in terms of pricing which would not be supported by scientific literature. On the other hand, EIOPA promote the role that open source loss modelling tools can have to better integrate climate-related risks in insurance underwriting. There are many perils in Europe not covered by traditional vendor models for lack of commercial incentives. Open platforms, such as OASIS, can fill these gaps and provide transparent modelling capacities available to re/insurers, academics or supervisors. Pooling resources and sharing insights via a European integrated open source loss modelling platform can make a real difference in the understanding of climate change impacts for insurance underwriting. It could also serve other purposes such as updating the NAT CAT parameters of the standard formula or calibrating supervisory stress tests in a transparent and evidence-based manner.

Q3: What are in your opinion the main obstacles to maintaining insurability and affordability in the context of climate change?

The insurability of risks can only be maintained if the occurrence of the risk remains random and the risk itself is diversifiable. Climate change raises fears of disappearance of randomness because the risk could occur systematically (the hazard would be very frequent) and with lack of diversification because it would affect a very large proportion of insurance contracts simultaneously. The overall insurance model is not designed to respond to this type of risk. The consequences would be the impossibility for insurers to price insurance coverage at an affordable level or to offer insurance covers at all.

The intensity of damage is another obstacle to insurability.

Prevention and adaptation will be instrumental to inform a workable and competitive pricing of insurance. Prevention and adaptation will mitigate the risk so that it may remain insurable at a reasonable price. This price will form the standard new normal on which add-ons could also be applied where adaptation and prevention measures fail to be in place up to the point of non-insurability (eg policyholders cannot afford the cover or insurers would not even be able to price extreme risks situations through increments). Conversely, we do not favour applying discounts to premiums as an incentive towards adaptation as these would fail to compensate the costs of adaptation and prevention measures on the one hand, and discounts would also require the ability to determine a fair non discounted premium in the first place on the other hand which may be impossible where adaption and prevention are not in place.

Without the necessary mitigation and adaptation measures promoted by public authorities, insurers can only act within the confines of the basic insurance principles and regulatory framework, including solvency rules designed themselves to protect those same consumers seeking protection from natural catastrophes.

Finally, where risks would remain too systemic or intense, shared solutions such as capital markets approaches and/or public-private nat cat schemes will be indispensable approaches by which mandatory insurance (or widely spread) will be instrumental features to avoid antiselection and enable adequate risk sharing and mutualisation (see answer under Q4).

There is a need to shift from a mainly reactive approach to (climate-change related) natural catastrophes to a more proactive approach that also prioritises prevention, risk reduction and resilience building.

While it is primarily the responsibility of public authorities to take action in this area in terms of prevention, e. g. flood defences, and, where relevant, tax incentives and/or subsidies, the insurance sector has the ability and willingness to contribute to the process of adaptation.

A significant part of non-life insurance is covered on a mandatory basis. This means that insurance contracts are needed regardless of climate change adaptation and mitigation. There is a risk of developing “off-shore” solutions if the selection from “mainstream” companies is limited as a result of too stringent public policies based on climate change adaptation or mitigation. Underwriting contracts based on climate change may imply a selection process that could become socially unfair if insurance becomes unaffordable. As a result, it is absolutely critical to maintain a significant degree of mutualization (limiting thereby the degree of selection). Against this background, we wonder whether the paper sufficiently bears in mind that for insurers the issue at stake remains the adequate pricing of risks. Risk management and pricing should remain risk based in order to be meaningful. With respect to climate change adaptation, it will increasingly be a prerequisite to render risks measurable, manageable and insurable. Prevention and adaptation will be instrumental to inform a workable and competitive pricing of insurance. If adaptation and prevention measures fail to be in place, we could reach the point of non-insurability (eg policyholders cannot afford the cover or insurers would not even be able to price extreme risks situations through increments).

Q4: Do you see a role for coordinated industry solutions or Public-Private Partnerships to maintain availability and affordability of insurance covers?

- (●) Yes
- ( ) No

Please elaborate on the pros and cons of such mechanisms in your view.

Yes.

Coordinated industry solutions and PPPs can and already do play a role in maintaining the availability and affordability of insurance in the context of climate change. Insurers participate in PPPs to build community resilience which in turn helps maintain insurance affordability and availability. Member states can also actively promote insurance in order to ensure adequate protection for their citizens. The nature of these solutions/partnerships and their roles vary according to the areas/risks they relate to. As there is no such "one size fits all" solution applicable at European level, they should be defined at national level. In any event, this will never be sufficient, and it is ultimately for governments to take the necessary and decisive actions to enhance adaptation and address the protection gap.

The primary policy focus should be on mitigating the drivers of climate change and establishing a second line of defence through harm reduction and abatement. There is a need to consider and plan for coordinated Public-Private Partnerships to address unaddressed residual risks. One Bulgarian example in that direction was the push by the general public and some insurers to have river beds corrected and the condition of dams improved after the catastrophic floods in certain parts of Bulgaria during the last couple of years. Such initiatives should also seek to broaden awareness of the issues among the public, and potentially extend to enabling community reporting on relevant issues such as car emissions.

Public-Private Partnerships (PPPs) to maintain availability and affordability of insurance covers are also critical, e.g. when a risk because of its intensity or frequency becomes beyond the capacities of private insurance, e.g. Flood Re in the UK. Such entities can enable monitoring of changes in risk over time and provide information on mitigation strategies to reduce insurance gaps caused by climate change. Based on our experience to date, such private-public partnerships also bring the benefit of fostering alignment of action and interest between the parties.

Such PPPs would have the advantages of
- Providing a mechanism for the socialisation of losses above a threshold
- Leveraging established insurance industry mechanisms, and
- Leveraging existing ability to discern risk at a granular level

There are some cons which need to be considered. PPPs would be complex to establish and monitor and the costs involved are likely to be high. Underwriting standards may be loosened in order to accommodate public demands. Also, (re)insurers could become over reliant on the public authorities and the state in general.

Q5: Do you think that insurers developing impact underwriting would impact positively or negatively the availability and affordability of insurance?

- ( ) Yes
- (●) No

Please explain.

No.

As noted above, we consider the term “impact underwriting” to be too loosely defined to be specifically addressed.

How the non-life insurance sector can meet the adaptation objective is defined and specified by the Taxonomy regulation. EIOPA should acknowledge this at the start of its paper to avoid confusion with the separate definition of “impact underwriting”. Furthermore, we would suggest to refer to “ESG” or “sustainability” phrasing, instead of “impact underwriting”, as there are globally shared concepts which are also embedded in the EU regulation.

As regards climate change adaptation, insurers already play a positive role in ensuring that the insurance market remains available and affordable. They carry out prevention and awareness campaigns to prevent damage from occurring or to limit the damage once occurred. For commercial lines on site risk control visits are developed. In the event of a total loss, they provide advice on reconstruction to make buildings more resilient. Insurers are very present in organizations setting building standards. They actively contribute to the knowledge of risks and provide data, models and studies. They are facilitators for their policyholders to help them get access to national mechanisms or initiatives to finance preventive adaptation of housing to enhance resilience.

But there are limits. Insurers cannot indemnify the costs of repair or reconstruction based on new standards. This would lead to additional costs being taken into account in the pricing and would lead to an explosion in premium levels.

The (re)insurance industry is contributing through its activities from a societal standpoint in respect of education, sustainability, and overall higher environmental awareness of the policyholders.

Q6: Are you aware of other measures such as tax rules or local GAAP which could improve the availability of insurance cover for climate risks[1]?

[1] In particular, some authors have suggested that governments could incentivise the building up of equalisation provisions to improve the availability of insurance cover for climate risks (Paudel, 2012 "A Comparative Study of Public—Private Catastrophe Insurance Systems: Lessons from Current Practices. ")

- (●) Yes
- ( ) No

If so, please list the countries and if possible the relevant references to national law.

Yes

Equalization reserves may provide a means to factor longer term increases in claims and costs, hence contributing to climate change adaptation. We note that while these would apply for tax or GAAP rules, they are not currently a feature of the Solvency II regime.

For countries where premiums are subject to insurance taxes, taxes could be dramatically decreased or suppressed to help dampen increases in premiums because of climate change. Alternatively the amounts of insurance taxes that could be released may be redirected to deal directly with climate issues.

In the Netherlands, agricultural insurance cover for weather-related perils (lato sensu) is exempt from insurance tax as well as subsidised by the government.

Q7: Should underwriting and pricing practices make allowance for wider climate change considerations that go beyond direct impacts on the insured risk[1]?

[1] Direct and indirect impact of insurer's contribution to climate change adaptation or mitigation on the insured risk: (a) direct - insurers contribute to climate change adaptation and mitigation and the insured risk is directly decreased (for example incentivise policyholder to take prevention measures against flood risk contributes to climate change adaptation and also directly reduces the insured risk) (b) indirect - insurers contribute to climate change adaptation and mitigation but it does not directly decrease the insured risk; it is expected to have an impact at long-medium term on the overall climate related risks exposure of the insurer (for example offering insurance coverage for photovoltaic panels does contribute to climate change mitigation but the insured risk is not directly impacted. The impact on the insured risk could be materialised in the future as GHG emissions are reduced on a longer term).

- (●) Yes
- ( ) No

Please provide examples in your answer and indicate what are the challenges to including such considerations, in particular how to comply with risk-based actuarial principles.

Yes, subject to appropriate business practices.

The IRSG believes underwriting and pricing practices could in theory make allowance for wider climate change considerations that go beyond direct impacts on the insured risk but only to the extent public authorities have set rules to make this compulsory at market level. By way of illustration, a motor vehicle policy can stipulate that replacement car after a crash can only be an electric vehicles. Such policy could accelerate dramatically the exit of internal combustion engines. However to be viable in a competitive market, this replacement rule must be either embedded in the regulation or tax incentivised.

Again, these actions need to be carefully considered. As indicated in the consultation, modulating insurance premiums to favour policyholders who have invested in so-called "green" houses, in construction techniques that are more resilient in the face of various natural perils or in vehicles with low GHG emissions is:

- On the one hand little incentive because the reduction that can be granted on the premium in relation to the underlying investment is too small; we don't believe it will make policyholders change their behaviours
- On the other hand, potentially too remote from the actuarial considerations necessary for a good measure of risk. In the context of climate mitigation premium discounts are not related to reduced risks (contrary to pricing in the context of climate adaptation as explained under answers to Q3 & Q5)
- While in the meantime there is a risk of greenwashing, consisting in using those price reductions as a marketing tool while their impact on the climate is limited. Proposing premium reductions based on green criteria associated with the insurable matter may appear to be a commercial argument in line with the insurer's strategy, while being a marginal measure favouring adaptation to climate change.

Insurance could have a role to play in accelerating transition to lower carbon technologies where the behaviour of the insured can be influenced (e.g. offering a discount for electric vehicles where that discount is subsidised by petrol vehicles). However, competitive forces and the need for society to transition at certain pace may limit the extent to which this is possible. Ultimately a rush to reduce availability of insurance cover for traditional activities could be detrimental to society.

Extreme care should be taken in going beyond direct impacts in this way. It would be important not to move away from the fundamental tenet of pooling risk, and charging appropriate risk-based prices for these risks, which characterises insurance.

As a result of the above and of the IRSG answers to other questions of this consultation, notably under Q3, Q5, Q13 and Q14, it is clear that non-life pricing and underwriting mainly has an adaptation role by which prevention is effectively a key operational topic. The environmental objective of climate change mitigation cannot be the focus of non-life pricing and underwriting which must remain risk based, and supportive of good risk management and supervision.

Q8: What role do you see for direct risk prevention measures (at policy level) in insurance underwriting within the context of climate change?

Risk prevention at policy level is already a feature of non-life underwriting, irrespective of climate change. Risk prevention in the underwriting process is relevant for every risk covered. However, there are limitations in what can be achieved at policy level, notably if consumers' preference is for cheaper insurance. on the other hand, the role of governments and local authorities in prevention measures at local and national level is even more critical in a climate change context.

This question is also addressed in the response to Q5 above.

Q9: Do you think that considering long-term insurance contracts (similarly to what is done for life insurance) could help insurers maintain availability and affordability of insurance in light of climate change?

- ○ Yes
- ◉ No

Please elaborate on the main pros and the cons for developing multi-year non-life insurance covers.

No.

As mentioned in the general comments, the IRSG appreciates that EIOPA pros and cons analysis of multi-year non-life covers shows that annual contracts are generally better suited to the needs of consumers, re /insurers and supervisors. It also clearly shows that the affordability issue is not linked to the duration of the contract. Making non-life covers affordable in spite of climate change is firstly a matter of good public policy in terms of prevention and subsidization. Furthermore, multi-year contracts require more capital than one year policies, as they generate more risk and uncertainty for the writer, and this capital needs remunerating, leading to higher premiums.

The IRSG highlights that the annual repricing of non-life contracts allows to adjust premiums to the current level of climate-related risks and to keep pace with the evolution of climate. It is inaccurate to say that the models supporting the repricing cycle are backward-looking. Model calibration uses past events to identify the pattern of variability and the distribution of severity but it is also adjusted to capture trends when the signals are clear and evidenced. However, for several perils it is the science itself rather than (re)insurer's modelling which has not settled on the impact of climate change on hazard parameters relevant to non-life underwriting. EIOPA should refrain from setting expectations in terms of pricing which would not be supported by scientific literature.

Multi-year premiums would also deprive insurers of a critical ability to continuously adapt to risks and exposures in a sound, meaningful and safe manner. Without the possibility to annually review the premiums, mispricing becomes more probable and could even lead to insolvency.

Q10: Do you think that the development of long-term insurance contracts to deal with climate change would require specific regulatory treatment, for example for future premiums?

- ◉ Yes
- ○ No

Please explain.

Yes.

See above for consideration of this issue.

Q11: Do you see potential solutions to the lower flexibility for the insurer and less efficient use of capital as a consequence of long-term non-life insurance contracts? Please explain.

No.

See above for consideration of this issue.

Q12: In your view, what would be the pros and cons for policyholders if they were offered multi-year contracts?

Sections 3.17-3.22 of the discussion paper cover a number of these pros and cons.

We would add the following additional considerations:

Multi-year contracts could link customers to insurance companies for a long period and potentially provide them with a false sense of security that their insurance problems have gone away for a number of years. They could also cause customers to be inactive, and not to protect their own interests by being open to alternatives.

Over the course of, say, a 5-year policy new risks or coverages could emerge, which become market standard, but existing multi-year policyholders would not be covered. Similarly, new exclusions or restrictions in cover could also emerge over time. Such changes could affect the propensity for policyholders to selectively cancel their contracts, further increasing the premium required for multi-year contracts.

Normally intermediaries would receive commission at the beginning of multi-year contract. There is then a risk that, after the first year has expired, intermediaries would incentivize cancelations if there are not effective commission clawback arrangements.

In some markets policy holders are now allowed to cancel policies any time after the first year of insurance or even during the first year for some (motor, housing and health insurance). Long term contracts would go a long way against this flexibility and certainly spark resistance and disbelief. In order to increase competition in the insurance sector, consumer associations have been asking the right to change insurer at any time.

In general, we do not believe that majority of policyholders would opt for long-term cover for climate risk, although some segments could be encouraged by appropriate marketing and promotion. There is a risk that those opting for longer term cover would be self-selecting.

Introducing multi-year insurance would not solve the problems of climate change or of the affordability of insurance. Instead, multi-year contracts could distort the market, creating longer renewal cycles, prolonging the problems and deferring application of real solutions.

Q13: How could insurers quantify in their underwriting and pricing practices the incentives on the risks insured, and any wider incentives to reduce greenhouse gas emissions?

Several industry bodies and initiatives are addressing the issue of quantifying scope 3 emissions. The CRO Forum in particular has published in April 2020 a paper on carbon footprinting for underwriting portfolios.

Pricing, underwriting, reserving and more generally risk management should remain “risk based” in order to be meaningful. In that context, one has to be careful therefore in the quantification process (see answer to Q3).

For instance, pricing discounts as such could fail to compensate the costs of new technology and adaptation and prevention measures (see answer to Q7).

Premium discounts for low mileage policies, for clients holding an annual public transportation pass, for drivers having an eco-responsible driving style, etc are useful, as long as the level of the reduction is in line with the claims behavior of the policies. Insurance of new technology in favor of the climate (photovoltaic energy facilities, geothermal installations,…) should be clearly covered in the insurance policies.

Each insurer could design its own version of impact underwriting and could design ways to measure its effectiveness. However, an aggregate quantification of impact underwriting would require a common approach to defining, and measuring the extent and effectiveness of impact underwriting across the market.

Any insurance incentives aiming to reduce greenhouse gases need to be very carefully designed so as to have an authentic and measurably positive effect and not to have unintended consequences on the existing insurance market.

Besides underwriting and pricing, non-life insurers contribute to a higher awareness of climate risks through their claims handling process. For instance by proposing repair solutions instead of replacement solutions in case of a claim, by proposing eco-friendly car paints, by contracting with glass breakage repairers that respect green charts, by proposing car wreck disposal solutions respecting strict ecological norms, etc.

Q14: In which ways could indemnification promote climate resilience by going beyond simple ‘like-for-like’ replacement of vulnerable properties? Please provide examples (either from real experience or as potential product ideas) and elaborate on the pros and cons to going in this direction.

See also response to Q7. Replacements and repairs after damages can go a long way in adapting to and mitigating climate change as it can enable energy-efficient choices. However, this would mean incorporating public policy (either rules or incentives or both) into insurance contracts.

Compensation for loss needs to remain based on loss effectively encountered and cannot finance the entire costs under new technologies or building norms, since this could lead to price increases. Yet the compensation can be used by the policyholders to partially finance reconstruction under new norms, the remaining gap being borne by the policyholder and or state aids/subsidies.

An alternative approach could involve the insurer indemnifying to the value of like-for-like replacement but only on condition that the insured applies a climate resilient repair and covers the additional cost of that repair. In turn the insurer could offer a discount on the standard rate at each subsequent renewal so that the insured gets a pay-back for the additional repair costs over time and continues to have insurance coverage. This would work for the insurer as they create a long-term relationship with the insured while avoiding the guarantees and capital requirements of multi-year insurance contracts. The insured is able to retain insurance cover after a climate event, with the prospect of pay-back for the additional cost of the climate resilient improvements they have funded.

Q15: Are you aware of other insurance products not mentioned in this paper and which would fit with the definition of impact underwriting?

- ○ Yes
- ◉ No

Please describe the products.

Q16: Are you aware of other insurance services not mentioned in this paper and which could contribute to climate change adaptation or mitigation?

- ◉ Yes
- ○ No

Please describe the services.

Yes

Other insurance services contributing to climate change adaptation or mitigation include:

- Providing advice and support to policyholders on risk engineering, environmental liability, sustainable building, CO2 reduction, heat isolation, sensor technology, smart meters etc.;
- Installation of green roofs, solar panels, insulation and even vouchers for climate-adaptative gardens as a service (eg replacing asbestos-containing roofs with solar panels-equipped roofs);
- Advising municipalities and real estate investors on the risk of (pluvial) flood and heat stress, as well as early warning system for extreme weather events.

* Q17: Do you have any other comments on the draft Opinion?

- ◉ Yes
- ○ No

If yes, please provide these other comments.

General comments

The IRSG supports the EU's Green Deal agenda and believes the insurance sector plays an important role in its achievement. The IRSG appreciates that EIOPA's paper tries to address the issues of protection gap and affordability of non-life insurance if an increase in severity and frequency of climate-related perils entails higher premiums and deductibles or lower limits and exclusions.

The IRSG stresses that the instrumental role as regards climate change remains that of governments (European, national, local) towards setting adequate measures such as aids, subventions, tax reliefs as well as regulatory requirements, potentially including requirements for public reporting, e.g. for car emissions, and penalties for non-conformance with standards.

Public policies regarding risk prevention - not necessarily linked with insurance - can also remove limitations and provide the base for increasing insurance underwriting by, for instance, encouraging investment in sustainable assets (such as green houses, electric vehicles equipped with sensors to prevent various hazards), by enhancing financial literacy and risk awareness, through the dissemination of risk information, and creating stable and effective legislative regimes and consumer protection.

The IRSG questions the need for bringing a new concept, "impact underwriting", into the discussion. The important issue, which we support, is to promote and develop sustainable underwriting. EIOPA has not explained why a new name is required and how "impact underwriting" would articulate with the Taxonomy regulation. The new concept would bring confusion, e.g. as to whether a non-life underwriting activity deemed taxonomy-compliant is mechanistically in the scope of impact underwriting.

The IRSG would also appreciate a clarification of the objectives pursued by EIOPA with the concept of "impact underwriting". It is currently unclear whether this paper aims at stewarding the insurance market (in which case EIOPA should elaborate on how this fits into its mandate), setting supervisory expectations in terms of pricing and market conduct (in which case understanding the legal basis would be useful), or any other goals to be specified. The IRSG highlights that several initiatives identifying and promoting industry best practices with respect to ESG goals, including on underwriting, are on-going and that the EU insurance sector is effectively engaged in a market-driven transition.

Beyond the adaptation objective, the EIOPA paper also addresses the mitigation objective. It would be useful that the paper makes a clearer distinction between those two objectives in terms of issues at stake and options available to tackle them. While the IRSG believes that there is a role for sustainable underwriting to mitigate climate change in the same manner as sustainable finance on the other side of insurers' balance sheet, there are clear limitations in what can be achieved at individual (re)insurer level. In other words, among the actions that may be considered beneficial to limit climate risk, it is crucial to clearly distinguish between those for which insurers may have a role to play as insurers and those that are not in the direct remit of their activities and responsibilities. Hence the focus of the paper may appear to try to achieve targets beyond its reach.

Aside underwriting and pricing, insurers can play a significant role in incentivising policyholders towards climate adaptation through adequate communication to raise risk awareness, foster resilient and responsible behaviour and eventually adapted behaviour in the midst of an accident or of a disaster event.