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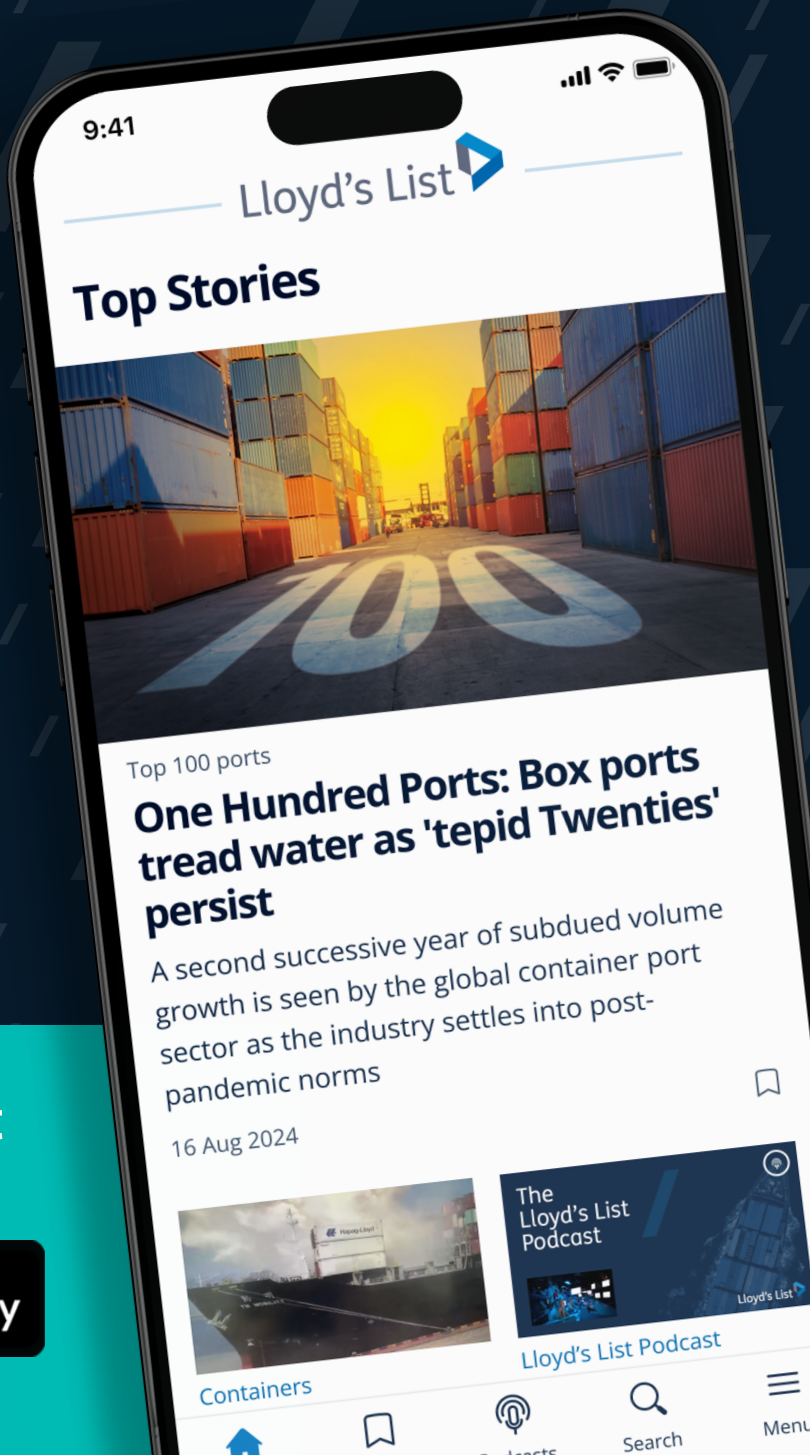

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Climate finance

The climate talks in Baku were dubbed the "finance COP" but for that to have any meaning, the next round in Belém will need to be the "joining-the-dots COP". This requires a more collaborative global financial architecture or ecosystem designed to tackle climate risk.

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Climate finance cannot flow into a policy vacuum: UNEP FI

Vladimir Zuev/Alamy Stock Photo

UNEP FI chief, Eric Usher, outlines how the new climate action plans that countries submit to the UN Framework Convention on Climate Change can unlock the finance and insurance needed

Nothing encourages climate finance like good climate policy, according to the head of the UN Environment Programme Finance Initiative (UNEP FI), Eric Usher, *writes Louise Isted*.

In an interview with *Insurance Day*, Usher says investors will be watching closely the "next generation of commitments" countries release in the lead up to COP30.

The Paris Agreement, signed 10 years ago by 196 countries, embodied the idea of nations making their own commitments, in phases, to net zero. These Nationally Determined Contributions (NDCs) have this year entered the third phase. They are the latest climate action plans nations will put forward to reduce greenhouse gas emissions and adapt to climate change by 2035.

Usher quotes the executive secretary of the UN Framework Convention on Climate Change, Simon Stiell, when he says the alternative name for the NDCs, often termed national climate plans, should be "national climate *investment* plans".

Usher says: "The question is, how can you go from making a policy commitment of what the country intends to do in terms of addressing the different aspects of the climate challenge to something that is more concrete? The finance community needs countries to move from ambition-setting to clear policy priorities embedded in legislation. Then the private sector will be able to play its value-added role of deploying the investment solutions that are needed."

The hope is to make progress from last year's "finance COP" in Baku, to the "enabling conditions COP" in Belém, Usher says.

"The private sector, including the finance community, has made a lot of progress in recent years on setting net-zero targets, but there is the feeling governments haven't kept up," he says.

"Ultimately, finance won't fill a policy void, so there is an expectation governments must step up their ambition and make the hard decisions that involve establishing policy priorities for decarbonising specific industries. And they need to plan how exactly that's going to be done, how they are going to create the incentives the private sector needs to then help deliver on what we call a sectoral transition pathway."

The decarbonisation of industries such as steel, cement and agriculture will not happen without private sector actors, but they can do little without a credible policy framework. "The expectations leading up to COP30 are governments will have translated their 'net-zero by 2050' ambition into firm policies that

are legislated and can then create the conditions the private sector needs to operate," Usher says.

Voluntary action

UNEP FI is a partnership between the UN and the global finance sector to catalyse action across the financial system to align economies with sustainable development. The UNEP FI Secretariat works across the banking, insurance and investment industries and cross-cutting workstreams, which focus on developing and rolling out practical approaches to addressing challenges and mainstreaming solutions in areas including responding to climate change, financing nature-based solutions, tackling pollution and boosting the circular economy, financing the UN Sustainable Development Goals and promoting human rights.

"UNEP FI is about working with the finance industry to put in place the norms, approaches and best practices," Usher says. "All our programmes are voluntary and so the question is, why would a bank or an insurer take voluntary actions?"

The first motivating factor is that physical climate change is already affecting businesses and their customers. Understanding these impacts is therefore part of good risk management for every company, Usher says. Pointing to the destructive wildfires affecting the Los Angeles metropolitan area and San Diego county in California, he says there are now countless examples of how insurers are directly exposed to the impacts of a changing climate.

The second is whether financial products and services are in fact making a difficult situation worse because, if they are, the offending companies can expect to be penalised. Usher says: "There will be a call from governments, from customers and from scientists to put a price on carbon. If you're an insurer in a jurisdiction where that still isn't the case today then it's likely it will be the case tomorrow, so if your business, your customers, your investors face risks from their activity then they will become a risk to you."

UNEP FI therefore gives its members the knowledge they need to operate within a changing environment, so they can identify and then embed best practice into their companies. "What we talk about is integrating sustainability considerations into financial practice," Usher says. "We have a range of programmes to help understanding what sustainability means in terms of how they price their products and estimate the loss potential of clients in their different business activities."

UNEP FI's overarching framework for re/insurers is the Principles for Sustainable Insurance, which it launched in 2012. In addition, there is the Forum for Insurance Transition to Net Zero, which is a UN-led and convened structured dialogue and multi-stakeholder forum to support the necessary acceleration and scaling up of voluntary climate action by the insurance industry and key stakeholders.

Transition risk requires an understanding of the policies, technologies and client priorities needed for the "other dimension" beyond mitigation, Usher says. "It's also about how we need to adapt and build more resilience, which is where most of the new approaches have been focused in the past couple of years," he adds.

Science is clear

At UNEP FI's Global Roundtable, held in Geneva last December, Usher told delegates the latest climate scientific findings "leave little room for interpretation", and that what is needed is "distribution of responsibility", meaning the public and private sectors working together on climate action.

"The vast majority of scientists uniformly agree, yes, the climate is changing, and yes, it's anthropogenic, so we humans are the ones to blame and we can't be questioning the science," Usher says.

He continues: "Of course, there's a lot of questions around how fast the climate is changing, and what and where the impacts will be is still open to interpretation, but in terms of climate change being a risk to one's business, it's very hard not to agree it's something any corporate leader needs to look at carefully."

By "distribution of responsibility", Usher says every private company must "already be active in addressing the risks that are manifesting".

He says: "There is definitely a direct responsibility there in mitigating CO_2 and other greenhouse gas emissions, but without proper enabling policy conditions, it's very hard for investors or other financiers to drive capital in the direction that they need to go. And so, the public sector plays a very important, leading role in putting in place those conditions to attract more capital and more financial solutions"

On policy initiatives, democracies "seldom move in a straight line", Usher continues, and there are challenges in how these are communicated and covered by the media. The goal, he adds, is to "properly educate" the public on climate change so they support increased policy ambition. There is in fact new leadership in climate policy action coming from regions beyond Europe and North America.

Usher says: "China, certainly, still has a lot of coal generation, but it is by far the largest new deployer of renewable energy and electric vehicles. And, interestingly, after China, the next-largest new market for renewable energy, for wind and solar, is actually the Gulf region, so even countries that historically have been oil-rich are politically putting a lot of new emphasis into an energy transition and, I think, are showing great leadership that will also have influence outside the region. In fact, some of the largest investors in renewables around the world are coming from the Gulf region, so there have been interesting changes in terms of distribution of responsibilities and the actions being taken."

What about the impact on public perception of the host nations of the last two COPs – the United Arab Emirates (UAE) and Azerbaijan – using the sidelines of the climate talks to negotiate oil and gas deals? Usher replies: "There is large-scale transformation happening in petro-economies, maybe not in all of them, but there is quite a bit of leadership coming from some, and I would put the UAE out in front. On the other hand, there are some other parts of the world that could actually learn from them, whose leadership in climate policy could be improved."

Sustainability standards

At the Global Roundtable, Usher highlighted progress made by the International Sustainability Standards Board (ISSB) and the Network for Greening the Financial System (NGFS).

The ISSB was formed by the International Financial Reporting Standards Foundation (IFRS) at COP26 in Glasgow, to enable a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets. It means those who look to the IFRS for their financial accounting standards will now also look to the ISSB for sustainability accounting.

"The ISSB is an incredibly important development and has generated its first two sustainability standards. One is a general standard and the other is focused on climate," Usher says. "And now there are 20-plus jurisdictions around the world that take these global standards and deploy them nationally. That's how it becomes law in terms of how companies need to report."

These carefully developed standards have "huge implications", Usher stresses, because they require that "higher quality information is made available to the markets to understand the sustainability orientation of companies and different types of business".

He continues: "Some will complain they 'don't have the data' needed to move forward, but there's going to be an era of data formulation. Then the financial actors will be able to get much more granular data from the companies they finance to understand the impacts of different lines of business and, hopefully, based on that, they will be able to make better decisions in terms of the risks and the opportunities related to sustainability factors."

Usher describes the NGFS as a network of central bank governors and financial regulators working together on embedding climate-related risks, particularly prudential risks, so that their mandates encompass financial stability within their markets. "It looks at how climate and other sustainability issues pose risks to the financial system, and they too are making progress," he adds.

To assist financial institutions in developing their understanding of nature-related risks, UNEP FI recently launched a joint report with WWF's Greening Financial Regulation Initiative.

The report – Navigating Nature-related Regulations for Banks: Mapping the Policy Landscape – is the first of its kind in providing an overview for banks to understand the latest regulatory developments on nature-related issues, and for government policymakers to consider ways to promote coherent and effective nature-related policies for the banking sector.

It features a stock-take of nature-related initiatives across prudential regulation, taxonomies, corporate disclosures and corporate due diligence obligations and an overview of policy considerations with case studies for government policymakers when designing nature-related policy interventions.

Usher says the report builds on WWF's Sustainable Financial Regulations and Central Bank Activities (Susreg) framework, "by providing a global, detailed overview of what regulators are signalling".

He says: "Financial regulators, not only are they looking at the climate, but also at nature-related risks, and so this report really identifies this type of financially material risks. For example, if pollinators like bees are dying off in a region, what impact does that have on agriculture there? And what does that mean for food supply in different markets, from a health, economic and financial per-

"The finance community needs countries to move from ambition-setting to clear policy priorities embedded in legislation. Then the private sector will be able to play its value-added role of deploying the investment solutions that are needed"

Eric Usher
UN Environment Programme Finance Initiative

spective? Essentially, this report for the first time provides a comprehensive view of the nature risks central banks need to be very aware of."

Facilitating climate finance

Usher has advice on how to approach the climate finance conundrum.

"We work with banks and insurers in voluntary programmes. The question is, why would they do it? Because they need to understand the risks, but also because the expectation is policymakers will start to address these issues. This will be done at different speeds in different regions, but it's in the interest of, let's say, an insurer, to show what they are doing in a way policymakers and regulators can see and build on. That's very relevant to climate finance.

"By identifying and disclosing to the market where there are material risks to businesses an insurer underwrites, an insurance company needs to transparently monitor where those risks are. That starts to facilitate better pricing and therefore climate finance to move in a certain direction."

The opportunity in front of re/insurers from green technology solutions cannot be overstated, Usher says. "Last year, we saw $2trn go into the energy transition alone and most of it involved technologies that were not around even a decade ago, so the insurance industry has had a very important role in helping with technological innovation and deployment at scale."

He adds: "Certainly, there's a lot to be done and it starts from being fully aware of what the implications are to your own business and where, essentially, you could be assisting your customers to adjust to take full opportunity of the transition that's under way."

On the reputational risk to re/insurance clients that fail to meet their transition plans, Usher points out there has been a "toning down of big statements".

"But I think, under the hood, mostly the work continues and in terms of the dollar flows going into areas like renewables and electric vehicles, that keeps setting records year on year," he says.

"The opportunity is definitely there and it poses the question for any company: are you going to lead and take advantage of the transition or are you going to sit back and have your business model upended?"

One challenge often discussed at the UN is financial capital mobilisation is not currently flowing equally to all regions. "I'm often referring to the least developed countries the multilateral instruments that could assist them in building the resilience to climate change that they need," he adds.

Nevertheless, Usher expects there will be "more clarity" ahead of COP30 in terms of climate investment planning from governments, so "capital can increasingly go to the places putting the enabling conditions in place".

UNEP FI's call to action from the finance community is to analyse their responses to climate change holistically. "The expectation is not that your entire business turns green overnight but that you need to look at your entire business to understand where the risks and opportunities are," Usher says.

"It's not about your latest green bond issuance, but it is about your entire bond portfolio; and it's not about your new green insurance policy, but your entire insurance underwriting business. How much of it is green, what are your projections about how to green that over time and what are the actions you're going to be taking?

"What we care about for our members at UNEP FI is for them to be credible, which means being holistic in their approach."

Greenwashing needs to be tackled, he stresses. "There is no point having green, shiny investments at the margins and meanwhile continue to operate largely with business-as-usual approaches."

Enabling policies

Over the past five years there has been an "incredible amount of activity" in the financial sector to understand and act upon the risks, opportunities and roles of the transition to net zero, Usher says.

"Obviously there's some frustration different jurisdictions are moving at different speeds and a global insurer or reinsurer who operates across all markets wants to see more interoperability so the standards they meet are not so different as they move from one market to another. The same is true with policies," he says.

One of the advantages of being a global or multi-regional business is being able to focus efforts in the places where the transition is under way and working well.

"If you're a national or sub-national business then you're very reliant on the enabling conditions and the physical attributes of that market, including the physical climate risks of a market. A big part of insurance is spreading the risk and so it's important to be able to work across multiple jurisdictions from a risk mitigation perspective," he adds.

It is also crucial to understand that policy ambitions "come and go".

He concludes: "Every four or five years there's a new government and sometimes there can be changes, and that's frustrating to the industry, so, typically, the message we hear from our members in the finance sector is they need policymakers and regulators to give them investment signals that enable them to do their planning across business cycles. In that way, financiers and insurers will know their investments won't constantly be changing according to revised policy priorities and will instead deliver on their expectations." ■

From Paris 2015 to Belém 2025: climate finance explained

UN negotiations and commitments on scaling up international funding for climate action face a critical turning point ahead of the next climate negotiations in the Amazon

"Climate finance" generally refers to financial resources devoted to tackling climate change, both in terms of mitigation and adaptation, *writes Germana Canzi*.

Mitigation means reducing emissions through investments in renewable energy, energy efficiency, sustainable agriculture or reducing deforestation or emissions in other sectors. Adaptation is about adjusting and preparing for the effects of climate change – such as building flood defences, adapting agricultural practices to the possibility of drought, creating alert systems or generally being prepared for a variety of extreme events.

Sometimes the term climate finance is used to refer to broader financial flows towards investments in the energy and climate transition, such as sustainable finance or green finance. However, in the UN context, climate finance has a much more specific meaning and generally refers to resources mobilised by governments or with support from governments or multilateral organisations such as the Green Climate Fund (GCF) and the Global Environmental Facility (GEF). Under the 2015 Paris Agreement on climate change, as well as under previous international agreements since 1992, developed countries are obliged to provide financial support to developing countries in order for them to reach their Nationally Determined Contributions (NDCs) – their national level plans to reduce emissions in line with the global treaty.

Funding needs

According to a 2021 review carried out for the UN Framework Convention on Climate Change (UNFCCC) on the cost of implementing NDCs in the developing world, there is a cumulative need to mobilise around $600bn a year up to 2030.

Other assessments point to much higher figures: the High Level Expert Group on Climate Finance, which has been supporting the Conference Of the Parties (COPs) to the UNFCCC for a few years with analysis and reports, says investments in all areas of climate action are needed to the tune of $6.5trn globally. This figure includes advanced economies as well as developing ones. The largest increase in investment is however needed in developing economies – excluding China – which are projected to contribute more than 50% of global emissions by 2030.

At the COP15 summit in Copenhagen in 2009, developed countries agreed to mobilise $100bn annually by 2020 – a target that has not been fully met, with efforts to boost financing continuing since then. At COP29 in Baku, Azerbaijan in 2024, which was dubbed the "finance COP", countries struggled to reach an agreement, particularly because of disputes over whether funding should only come from developed countries. These eventually said they would "lead" in mobilising $300bn annually, while calling on all countries to deliver $1.3trn by 2035. This is known as the "Baku to Belém roadmap to 1.3T".

Beyond the debate on how to mobilise funding from a variety of countries, not just from the developed world, experts agree public funding also needs to catalyse and attract private sector capital to increase the impact of the public level funding. This is even more important in the changing global context, against a backdrop of widespread budget cuts in the developed world.

Funding cuts

Under the previous US administration of Joe Biden, the US's contribution to climate finance globally had increased considerably, accounting for more than 8% of the global share by 2024. But since taking office in January 2025, the administration of Donald Trump has announced and rapidly moved forward with sweeping cuts to foreign aid, effectively suspending nearly all projects under the United States Agency for International Development. This includes a large portion that was earmarked as climate finance, although precise figures are not available.

In February, the US also cancelled a $4bn commitment to funding the GCF, the UN's largest climate fund. A few weeks later, it also withdrew from the Just Energy Transition Partnership, an initiative helping countries to move away from coal to renewable energy, which the Biden administration had helped initiate at the Glasgow COP of 2021.

The sudden absence, from now on, of US contributions to climate finance may affect the world's ability to reach the $300bn goal agreed only a few months ago.

The US situation is unique because of the administration's open hostility to climate action. Other coun-

tries have meanwhile taken steps to reduce international aid spending for other reasons. These include the UK, Germany, Sweden, Switzerland, France, Belgium and the Netherlands. The need to increase defence spending in a changing geopolitical context is partly behind some of the cuts, which are however much smaller, and far more gradual than the US context.

The extent to which these decisions will affect climate finance goals is for the moment unclear. The impact may be small if governments were to take steps to protect the climate finance portion.

Rough road to Belém

Brazil is set to host and preside over the 2025 UN climate negotiations, known as COP30, which symbolically are to be held in the Amazon city of Belém. In a recent letter to all countries (an unusual intervention at such an early stage of the negotiations cycle), COP30 president-designate, André Corrêa do Lago, suggested the negotiations in November will be an opportunity to showcase that multilateralism can still work.

To do so, Corrêa quoted a concept from Brazilian indigenous ancestral wisdom, calling on the world to adopt the concept of "mutirão", which refers to a community coming together to work on a shared task. He then also used a football analogy: the idea it is always possible to turn around a match that seems lost, thanks to a "virada" or rapid change in the game result.

More practically, on climate finance, Correa mentioned the "Baku to Belém roadmap to 1.3T" and the global commitment made at COP28 to triple renewable energy capacity, double energy efficiency and phase out fossil fuels fairly and equitably. The climate crisis is driven by the continued extraction and burning of coal, oil, and gas as well as deforestation. Many experts and campaigners suggest further funding for climate action could now be raised through international financial system reform, by using innovative tools such as levies on shipping, aviation, fossil fuels and wealth.

Scientists say global emissions need to peak by 2025 and decline around 50% by 2035 to keep the goals enshrined in the Paris Agreement within reach. The rapid growth of climate risks also has a strong impact on the insurance industry. For example, it means there are locations in the world where insurers are having to escalate premiums or pull out completely. This is happening both in the developing world and in wealthier countries.

The Amazon COP will be a critical moment and a test for the international community's commitment to climate action at a time of changing geopolitics. And the key question is where funding to reverse these trends across the world will come from and at what speed. ■

The history of climate finance

The idea financial mechanisms are needed to support developing countries in mitigation and adaptation efforts has been around since the start of international climate change-related discussions and negotiations.

1990: The 1st assessment report of the Intergovernmental Panel on Climate Change covers the need to provide funding to developing countries as part of the response to climate change.

1992: The provision of funding for the developing world is formally recognised as part of the UNFCCC, agreed at the Rio Earth Summit.

1994: The GEF starts serving as the first operating entity of the financial mechanism under the UNFCCC.

1997: The Kyoto Protocol introduces the Clean Development Mechanism, a system for developed countries to fund emission reduction projects in developing countries in exchange for carbon credits.

2001: Countries establish the Adaptation Fund under the Kyoto Protocol.

2009: At the Copenhagen COP15, developed nations pledge to mobilise $100bn a year by 2020 to support developing countries in climate action.

2010: Countries agree to the creation of the GCF as the primary global climate finance institution to channel funding for mitigation and adaptation projects. In addition, they set up the Special Climate Change Fund, the Least Developed Countries Fund, to be managed by the GEF. They also create the Standing Committee on Finance to assist coordination on climate funding.

2015: The Paris Agreement reinforces financial commitments, urging developed countries to scale up support beyond $100bn annually and encouraging private-sector involvement.

2021: COP26 in Glasgow establishes the High Level Expert Group on climate finance and the JETP.

2022: Countries establish the Loss and Damage fund at COP27.

2024: At COP29 in Baku, developed country parties agree to help raise "at least" $300bn a year by 2035 for climate action in developing countries as well as the "Baku to Belém roadmap to 1.3T".

How risk managers can support climate finance: Ferma

Closer co-operation between public authorities, financial markets and the private sector, as well as between governments across the globe, is needed to foster sustainable prosperity, Ferma's Hedemark Hancke and Beaupérin argue

There has been a paradigm shift in the EU regarding the fight against climate change, according to the leadership of the Federation of European Risk Management Associations (Ferma), *writes Louise Isted*.

In an interview with *Insurance Day*, Ferma's president, Charlotte Hedemark Hancke, and chief executive and secretary-general, Typhaine Beaupérin, outline the two main elements of that shift.

On the one hand, reducing carbon emissions and climate adaptation remain high on the list of EU priorities. Indeed, the president of the European Commission, Ursula von der Leyen, renewed her commitment to the Paris Agreement in her recent address at the World Economic Forum.

On the other hand, however, they point out the green agenda has become integrated into EU economic and industrial policies in light of the report Mario Draghi, former European Central Bank (ECB) president, issued last September on the future of European competitiveness. "The net-zero transition is now seen as a parameter of EU competitiveness," Beaupérin says, "rather than a distinct objective motivated by a fear of public backlash."

As a consequence of these developments, Beaupérin says the issue of funding the transition to net zero "has become front and centre". She says Maria Luís Albuquerque, EU commissioner for financial services, has been "explicitly tasked with scaling up sustainable finance to ensure the EU remains a global leader in this domain".

Beaupérin continues: "From Ferma's perspective, particular atten-

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tion should be given to financing climate resilience. Indeed, climate risks are becoming ever more frequent and destructive under the influence of climate change."

Pointing to reinsurer Munich Re's estimate the 2024 floods in Valencia alone have caused at least €10bn ($10.42bn) in damages, Beaupérin says the cost of rebuilding for public authorities and civil society will "almost certainly be even higher, without mentioning the economic losses caused by the slowdown of economic activity following such a disaster".

Now is the time to "join the dots", Beaupérin stresses, to go from the idea of promoting sustainable finance, to implementing concrete actions to mobilise the tremendous resources needed for climate adaptation. Closer co-operation between public authorities, financial markets and the private sector, as well as between governments across the globe, is needed, she says, to develop innovative solutions to foster sustainable prosperity and safety against climate risks.

Ferma hopes COP30 – the UN's next round of climate talks, which will be held in Belém, Brazil this November – will bring about solutions to these issues. The EU Directorate-General for Climate Action's planned international symposium on managing global climate risks is "also on Ferma's radar", Beaupérin says.

This conference will aim to gather global government representatives, financiers and civil society experts on the topic of managing climate risks.

Most crucial risk

Risk managers play a key role in the overall climate resilience process of their organisation, since they are keenly aware of the threat climate change represents, Hedemark Hancke says. Indeed, risk managers perceive climate risks as "the most crucial in the long term", she says, citing Ferma's Global Risk Manager Survey Report 2024.

Moreover, climate risk assessment is becoming a "central part of a risk manager's mission".

She says: "Currently 60% of risk managers identify climate change risk with their risk maps, 38% define different climate-related scenarios and 35% quantify the financial impact of physical climate change risks on their organisation. Furthermore, the risk assessments risk managers conduct inform the climate adaptation measures that need to be financed."

Risk data collected through risk assessments is central to improving insurability by measuring and addressing climate protection gaps, Hedemark Hancke continues, while accurate climate risk assessment and effective climate adaptation measures contribute to reducing insurance premiums, thus improving climate resilience and freeing up resources to invest in the net-zero transition.

In particular, she says captives can play an instrumental role in consolidating data about climate risks, as they centralise the data from their parent organisation's various subsidiaries. "Captives can incentivise climate adaptation and foster resilience, since their quantification of the financial impact of climate risks help in building a business case for investing in risk prevention and mitigation," Hedemark Hancke says.

"In light of the challenging conditions in the insurance market – such as hard-to-insure risks, lack of coverage or high premiums – captives may serve as a stable and strategic mechanism to support the climate resilience and sustainability goals of the companies," she adds. Ferma's captives committee will look specifically into that topic this year.

According to Ferma, private insurance coverage for transition-related risks is insufficient to meet demand, forcing companies to choose between maintaining their competitiveness and meeting their climate goals.

"Insurance is a critical financial mechanism underpinning the net-zero transition. It allows enterprises to reduce the risks of investing in new green technologies or changing their business activities," Hedemark Hancke says. "Without the safety net of insurance protection, the necessary risk-taking and innovation are discouraged and climate ambitions may well become unattainable for many organisations," she adds.

Climate protection gaps are a "very concrete issue" for risk managers

"Insurance is a critical financial mechanism underpinning the net-zero transition. It allows enterprises to reduce the risks of investing in new green technologies or changing their business activities"

Charlotte Hedemark Hancke
Ferma

struggling to insure green assets or activities, Hedemark Hancke stresses, pointing to Ferma's 2022 white paper Insuring the Transition.

This report shows insurers are reticent about providing cover for some companies because of past activities – if they were involved in fossil fuels or mining, for example – even as they are attempting to diversify and transition to greener business models.

Moreover, Hedemark Hancke observes there is a lack of insurance capacity for specific technologies and material that are underpinning the energy transition, such as offshore solar panels or wind farms, hydrogen fuel or storage or new construction techniques.

A third point she makes is specific risks – such as property damage or bodily injury – may be excluded when there is a direct or indirect link with mining activities or when battery packs are stored or used in sprinkler pumps, for instance. "Even worse, climate protection gaps are widening, as specific risks are increasingly excluded from insurance policies," Hedemark Hancke says. "This leads to a concerning figure: 53% of risk managers fear part of their business locations or activities may become uninsurable in the future, according to the Global Risk Manager Survey Report 2024, with climate risks perceived at the most probable area where coverage will withdraw."

The insurance industry needs to adopt a "more proactive stance", she says, and to collaborate with risk managers and public authorities to increase the affordability and availability of climate and transition-related coverage. Building on the results of the European Commission's Climate Resilience Dialogue, which Ferma co-chaired, innovative approaches can be explored, she continues, such as parametric insurance, multi-year policies or bundling multiple hazards into a single standardised insurance policy.

Supporting policies

Beaupérin highlights how the EU policy framework supporting sustainable finance is "layered" and involves several interconnected regulations and initiatives. Of particular interest to risk managers is the sustainability reporting "triad": EU taxonomy regulation, the corporate sustainability reporting directive (CSRD) and the corporate due diligence directive (CS3D).

The taxonomy regulation defines a common classification of economic activities that are aligned with the net-zero transition, with the aim to direct investments towards them.

The CSRD requires companies, including financial entities, falling under its scope to conduct a double-materiality assessment, analysing on one hand the impact of business activities on its environment (impact materiality assessment) and on the other the impact of the environment on the company's economic value (financial materiality assessment) in the short, medium and long term. This year is the first year of reporting under the CSRD.

The CS3D will only be applicable starting in 2027 but will, among other obligations, require companies to adopt and put into effect a transition for climate change mitigation. The aim of this plan is to ensure the business model of the company is compatible with the Paris Agreement and the objective of reaching climate neutrality by 2050. The transition plan will notably include an explanation and quantification of the investments and funding necessary to implement it.

Beaupérin says all three acts are due to be revised through an "omnibus simplification package", which is due to be announced by the European Commission on February 26. "Ferma will closely monitor this initiative, and we will see how we can contribute to its objective of reducing the administrative burden for companies while maintaining a high level of ambition regarding sustainability goals," she says.

Potential solutions

Hedemark Hancke observes that at present most climate resilience investments are coming from public authorities at the EU, national or local levels. Not only does this limit the resources available for climate adaptation when it should be a priority, she says, but it also strains public finances at a difficult time for many European countries. "There needs to be a more effective way of sharing the cost of building climate

"[Climate risks] need to be addressed by sharing them across multiple actors in a way that is both effective and fair. This is what the proposal by Eiopa and the ECB for an EU public-private reinsurance scheme aims to do"

Charlotte Hedemark Hancke
Ferma

resilience across a wider range of public and private stakeholders," she stresses.

In particular, she says the EU presidency should take action to increase the share of insured natural catastrophe losses. Citing data from the European Insurance and Occupational Pensions Authority (Eiopa), she says on average only one-quarter of the losses incurred from extreme weather and climate-related events in the EU were insured, and this share is declining. "In some EU countries this gap is even wider, which has motivated governments to implement national natural catastrophe schemes – for instance Italy has recently decided to introduce mandatory insurance requirements against natural disasters and catastrophic events," she adds.

If nothing is done, Hedemark Hancke continues, the increasing cost of climate adaptation and rebuilding after natural disasters will "fall on the shoulders" of public authorities and therefore ultimately on the taxpayer. "Innovative approaches need to be explored to ensure that the private insurance markets contribute more to climate resilience, including in the form of public-private partnerships at EU level," she says. In this regard, Ferma considers the proposed EU public-private reinsurance scheme put forward by the ECB and Eiopa constitutes a "solid starting point for this discussion", she adds.

Another way the EU presidency could facilitate the green transition of the private sector would be to develop "robust and clearly signposted" strategies for companies to follow on the path towards net zero. "Many businesses – and SMEs in particular – would like to do more for their transition but need guidance on best practices in the realm of climate adaptation," Hedemark Hancke says. "These guidelines would have to rely on holistic, forward-looking climate risk assessments and consider the impact of climate change in the short, medium and long term," she adds.

The EU presidency could also explore the possibility of giving financial support for climate risk management training targeted at small and medium-sized enterprises, Hedemark Hancke says, and Ferma could contribute to such an initiative, given its expertise in professional training through the risk management certification Rimap.

Expert group

Ferma recommends setting up an expert group led by the European Commission to discuss the proposal for an EU public-private reinsurance scheme to address climate insurance gaps, as put forward by Eiopa and the ECB.

Outlining the practical steps such a group could take, Beaupérin stresses climate risks are systemic risks. "They need to be addressed by sharing them across multiple actors in a way that is both effective and fair. This is what the proposal by Eiopa and the ECB for an EU public-private reinsurance scheme aims to do. In a nutshell, it would allow national natural catastrophe schemes and private re/insurers to transfer some of their climate risks on a voluntary basis. This would in turn increase climate insurance capacity and lower the premiums for the consumer," she says.

Ferma considers this proposal a "good starting point" to address climate protection gaps, she continues, but some of its more practical aspects "need to be clarified" before it can become an official policy initiative, notably regarding its risk pricing methodology, risk modelling capabilities, initial capitalisation and conditionality requirements.

That is why Ferma is advocating for the European Commission to set up an expert group on the topic, to unite all stakeholders concerned by the proposed scheme. These stakeholders include re/insurers, business representative organisations, EU member states and, where appropriate, their national natural catastrophe schemes.

They also include the European Commission in the form of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union and/or the Directorate-General for Climate Action. "Ferma would also have its place in this expert group," Beaupérin says, "as we carry the voice of corporate insurance buyers and captive managers."

Although it is "beyond the role" of risk and insurance managers to facilitate the creation of a global architecture on climate finance, they can anticipate, identify, prevent and mitigate climate and transition-related risks, Beaupérin says. "And eventually they can encourage their partners in the insurance industry to be more ambitious and proactive to achieve their sustainability goals." ■

Risk professionals must confer on climate finance: Airmic

Association of Insurance and Risk Managers in Industry and Commerce calls for collaboration between insurers, brokers, insurance buyers and risk professionals on climate initiatives

More dialogue is needed between insurers, brokers, insurance buyers and risk professionals to ensure climate initiatives have the right intended consequences on the global economy and that progress towards net zero can be made, according to the chief executive of the Association of Insurance and Risk Managers in Industry and Commerce (Airmic), *writes Louise Isted*.

In an interview with *Insurance Day*, Julia Graham says risk professionals have been helping to steer their organisations through the myriad of risks and opportunities related to climate change and the green economy.

"Airmic has been able to tap on its unique convening power in the risk and insurance industry to foster more collaboration in the insurance industry on how to deal with climate risks and on the measurement, management and financing of those risks – such as through dialogue, roundtables and collaborative projects," Graham says.

The UK-based, not-for-profit organisation advocates for the interests of corporate insurance buyers and risk managers. It conducted a survey last year in which 65% of respondents said they are involved in their organisation's climate transition plans, something Graham says underscores "the growing role risk professionals are playing in ensuring the comprehensive success of the climate transition".

At the same time, she adds, climate change is probably the biggest challenge for the insurance industry. "Without radical change, insurance may become unaffordable for many and parts of the planet uninsurable or uninhabitable," she says.

Climate goals compromise

Insurance coverage for transition-related risks is insufficient at present to meet demand, forcing firms to choose between maintaining competitiveness and meeting their climate goals. Graham suggests how to overcome this challenge.

"By declining to insure carbon-intensive industries, insurers could be offloading the coverage of those industries to smaller insurers that

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may be less well equipped to address any fallout from climate risks. The result is record-breaking natural catastrophe losses, which are climate change-induced, are now impacting insurers," she says.

What is needed, she adds, is a more coherent strategy of "greening" the whole economy involving all industries, where carbon-intensive industries are offered more support in managing the transition risks to a green economy.

Graham continues: "Governments could do more to set the tone here and make use of economic incentives. Meanwhile, the insurance industry needs urgently to seek new or alternative sources of capital, especially as a form of reinsurance in catastrophe bonds and other lines, and through private equity investments in life and annuities businesses."

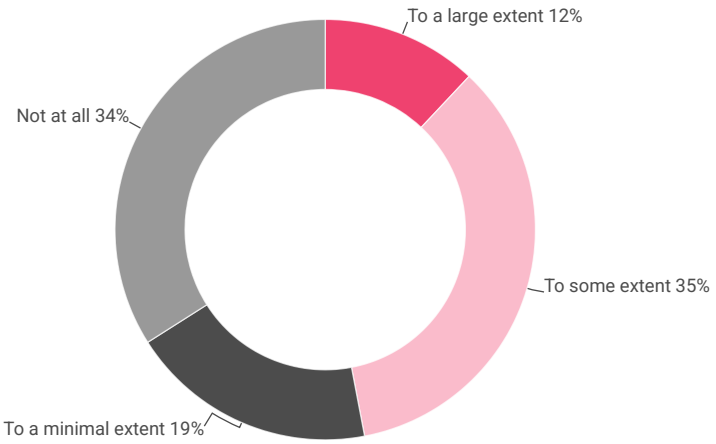
Nearly 40% of respondents to the 2024 Airmic survey said air pollution is a protection gap for their organisations in terms of insurance coverage for climate risks, up from 21% in May 2023 when Airmic members were last polled on the same question.

Graham highlights that, while the respondents reported pollution is a standard exclusion under most policies, they were not fully aware of liability policies that would respond to allegations of or actual air pollution caused by their organisations, other than if made directly against their directors and officers.

"The issue also is buyers think they have cover but there may be caps, or insurers may not always be clear on the exceptions. This is where we need to educate ourselves and our organisations, so everyone is clear on what is covered," she says.

Close to two-thirds of risk managers are involved in climate transition planning

Graph: How involved are you in developing your organisation's climate transition plan?



Source: Airmic July 2024 survey

Graham refers to the estimate that transforming the global economy to achieve net-zero emissions by 2050 will cost $9.2trn in annual average spending on physical assets. That works out to be $3.5trn more than present levels of spending, she says, or half of global corporate profits and one-quarter of total tax revenue.

Lack of clarity

"Yet a majority of respondents to Airmic's surveys since 2023 say they lack clarity about the budget their organisations have set aside for their transition plans," Graham stresses.

In this regard, she continues, the guidance from the Taskforce on Climate-related Financial Disclosures recommending the transition plans of organisations describe the supporting financial plans, budgets and related financial targets, such as the amount of capital and other expenditures supporting decarbonisation strategy, has provided a "very relevant steer" for risk professionals and their organisations.

Graham concludes: "Risk professionals are well placed to bring synergy between insurers – large corporations that are making some of the most consequential climate commitments in the world today – and the businesses and organisations they help to steer. The profession can play a significant role on behalf of the businesses they serve to facilitate the creation of a global architecture on climate finance." ■

"Governments could do more to set the tone and make use of economic incentives. Meanwhile, the insurance industry needs urgently to seek new or alternative sources of capital, especially as a form of reinsurance in catastrophe bonds and other lines, and through private equity investments in life and annuities businesses"

Julia Graham
Airmic

Contingent risk capital will drive climate finance: Howden's Douglas

'Insurability will be seen as the sharp end of the spear in terms of financial viability and long-term value,' Howden's chief executive of climate risk and resilience, Rowan Douglas, says

To accelerate the transition to net zero, insurers and reinsurers should spread the word about the role of contingent risk capital throughout the finance community, according to Howden's chief executive of climate risk and resilience, Rowan Douglas, *writes Louise Isted*.

Insurance is contingent capital that is available when a defined risk event – such as a flood, a legal dispute or a technology failure – occurs. Therefore, insurance can be viewed as a contingent asset that can be matched with selected contingent liabilities related to climate risks and the industrial transition to a low-carbon economy.

In an interview with *Insurance Day*, Douglas stresses climate finance requires a new architecture, with credit and investment on one side being enabled by insurance and supportive regulation on the other.

These four groups must then work together to evaluate and account for the contingent liabilities of climate hazards or clean energy technologies (from their development to operation) and fully recognise insurance as contingent finance to derisk these liabilities and enable investment and credit to flow at optimum levels.

Douglas also highlights how the insurance sector has developed key risk metrics and methodologies that could be used more widely to support the management of climate risks between insurers, lenders and investors.

"At the moment some climate risks are evaluated but not accounted for, while others are neither evaluated nor accounted for and many are only vaguely measured," Douglas says. "There needs to be a much more coherent understanding of what the risks are and how they have financial materiality upon which insurance protection can then be focused."

Marriage with engineers

Howden was a sponsor of *International Energy Week*, hosted in February by the Energy Institute. Douglas spoke to delegates at the conference about how to manage the uncertainties of derisking the energy transition.

To illustrate his message – that engineers and insurers should work together on solutions to climate change – Douglas referred to the origins of the Hartford Steam Boiler Inspection and Insurance Company (HSB) as an example from an earlier industrial transition.

Founded in 1866, HSB was the brainchild of the Polytechnic Club of Hartford, which had formed to find a solution to catastrophic boiler explosions, which were common events at the time.

"They studied the causes and financial materiality of the risk of boilers and how improvement in design, construction and operation could reduce risks to make boilers insurable, investible and ultimately profitable to underpin the industrial revolution," Douglas says, "and we now need the same marriage between insurers and engineers to derisk the energy transition, to help get the money where it needs to go."

Today, HSB is the largest provider of equipment breakdown insurance and related inspection services in North America and is owned by Munich Re.

Even more important than quanti-

"We're the only sector that has translated many types of risk, including natural catastrophes, into metrics and methodologies that can be consolidated into contingent liabilities that can inform capital requirements, which is an incredible achievement"

Rowan Douglas
Howden

fying climate risk is knowing how to express it. "We're the only sector that has translated many types of risk, including natural catastrophes, into metrics and methodologies that can be consolidated into contingent liabilities that can inform capital requirements, which is an incredible achievement," Douglas says.

Insurers should thus work with supervisory authorities to consider how to evaluate the contingent liabilities of climate and how these can be matched against the contingent assets provided through insurance.

"If a bank hedges its mortgage portfolio against wildfire risk by taking out parametric insurance then that contingent capital should be recognised appropriately as a matching contingent asset by regulators and credit rating agencies," he adds.

Before joining Howden nearly two years ago, Douglas held senior climate roles at WTW, founded the Insurance Development Forum and served on the UK prime minister's Council for Science & Technology.

"As a reinsurance broker, I became accustomed to the way insurance regulators and supervisors recognised reinsurance as a source of regulatory capital when stress testing the solvency of insurance companies against potential loss events. This enables companies to hold less capital in their own reserves and allows the insurance sector to operate much more efficiently," he says.

"When I began working beyond the insurance sector, I naively assumed this was how all of finance worked, so if a bank took out insurance from climate risk, it would receive the appropriate relief. It does for some risks and in some circumstances but not all and not necessarily for natural catastrophe risk or low-carbon investment. This is a fundamental piece of our financial architecture we need to fix if insurance is to play its full part in the transition."

This situation must be corrected by linking consistent risk metrics with regulation across all areas of finance. "We all need to be speaking the same language so insurance and wider capital is appropriately fungible," Douglas says.

He continues: "It would be highly appropriate now for banks and other financial institutions to quantify these risks using the same metrics as reinsurers, with catastrophe models adapted to demonstrate the materiality banks and investors have, which is around liquidity risk and valuation risk, rather than just physical damage risk."

By sharing the same "spine" of analytics but catering to their individual needs, every type of finance entity will be able to recognise the "remarkable resource" available from re/insurers and thus be able to "properly value" the contingent capital it represents. "I've been working on this convergence for 12 years now and finally it's starting to happen," Douglas says, "because there's a burning need for the financial sector to quantify, manage and supervise natural disaster risk."

Upstream of investment

The Energy Institute has therefore shown good instincts in collaborating with Howden, Douglas says, because insurers ought to be at the start and no longer at the end of planning an energy engineering project. "Howden's slogan this year is 'insurance is upstream of investment' because, if you can derisk properly, investment should flow," he adds.

He continues: "The theme of 'insurability' can seem nebulous, but we think it will be seen as the sharp end of the spear in terms of financial viability and long-term value." Signs of this progress will be twofold. "First, project developers will start their meetings about financing with the question 'Is it insurable?' and second, 'average annual loss' will have become lingua franca across the finance community."

To reach that destination, however, the myth catastrophe modelling only looks to the past must be debunked, Douglas stresses. "The way insurers model risk is an incredibly powerful gearbox you can put in forward gear to the future, backward to the past or in neutral for the current risk. The gearbox hasn't been significantly forward-looking so far because there hasn't been the commercial or regulatory requirement for that. The point is a forward gear can be added by incorporating inputs from climate models to help our clients understand their exposure to physical climate risk."

Another myth is catastrophe risk models only deal with extreme events. "The fact is, you have to model all the potential years, including those when nothing happens, so that you can calculate the risks that can be expected from a one-in-100-year event," Douglas says. To debunk that myth, he adds, insurers themselves must change some of the language they have been using since their use of catastrophe models took off in the early 1990s.

Nevertheless, historical data remains key to understanding what re/insurers call a "vulnerability function", he stresses, "and the current one-in-200-year maximum probability event is still going to be well beyond average for most places over the next 25 years."

Douglas points to a 2023 report from the University of Cambridge Institute for Sustainability Leadership (CISL), which outlines a loss and damage action plan to scale up protection for the global south through to 2050. Howden assisted with the report as a member of CISL's ClimateWise initiative.

Catastrophe modelling indicates, for example, tropical cyclones are likely to change in distribution and form over the next 25 years. "You can agree or disagree with the finer details of these types of assessments," Douglas says, "but climate-conditioned catastrophe risk modelling gives enough information to come up

with some pretty good calculations to simulate what the changes could be over a relatively short timescale and I struggle to find better approaches out there to quantify these risks."

During his time with the UK's Council for Science & Technology between 2011 and 2016, Douglas came to appreciate catastrophe modelling as an "enormous intellectual and economic achievement" compared to other approaches. Only now, however, does he feel it is "beginning to be discovered outside our industry". Being equipped to quantify risk will not only lead to greater demand for risk sharing and insurance, he adds, but will drive the economics of resilience to climate risk, helping to close the protection gap.

"Once the wider world can evaluate and disclose these risks using the methods and metrics our industry uses, it will be transformational for the value of insurance," Douglas says. "Just as the advent of catastrophe modelling transformed the role of reinsurance for insurance companies, I see the same thing happening again, but across a far wider and indeed deeper ocean."

Breakthrough products

Douglas was among speakers at the Federation of European Risk Management Associations' forum in Madrid last year, where delegates said they faced a difficult choice between maintaining competitiveness and meeting climate goals. Howden has been flagging the importance of insurance across the buying community, Douglas says, because it is mindful of the need and opportunity for insurers to develop new products.

"The work we've just started with the Energy Institute enables us to integrate with the engineering sector, which will accelerate our work on new insurance products," he says, pointing to two "breakthroughs" for the broker last year. One is the carbon capture and storage leakage policy, designed by Howden and led by Scor's syndicate at Lloyd's. The other is the warranty and indemnity insurance policy placed by Howden and sold by Mere Plantations, a UK-based company that owns and operates a teak plantation in Ghana.

Both products are adaptations of existing forms of insurance, Douglas stresses, and so illustrate how insurers can and must select from their "beautiful mosaic" of innovations from the past 50 years. However, what is needed now is to break any "conditioned" thinking a certain product can only apply to a specific type of risk. "If one steps back to see what needs to be protected against what and then translates that into climate risk, it can lead to an 'Aha!' moment, when you realise you can repurpose existing lines of business," Douglas says.

The advantage of this approach is risk codes and underwriting capital are already in place. "Climate change isn't usually delivering new risks per se," he stresses, "but it is a new flavour in the portfolio." Climate risk protection should be integrated and "sprinkled" over all relevant lines of re/insurance, he continues, which is why Howden's climate team engages directly with other parts of its business, such as the directors' and officers' insurance.

"There have been lead underwriters who've told us their climate business could be all of their business because climate risk touches almost everything," Douglas says. "The culture at Howden allows the climate team to operate right across the group and it's proving to be one of our collective superpowers."

Conversely, good climate policy and legislation looks through the risk lens. "When there are special buckets for climate, it often seems confected and invites a backlash. Instead, we need to retrain the invisible hand of regulation so climate is presented and understood as a function of risk and return," Douglas says. It was exactly this approach that transformed the re/insurance industry of the early 1990s "from ruin to resilience", he adds.

Re/insurers have an opportunity to accelerate progress with climate finance at COP30 in Brazil, Douglas says.

Howden worked with the High-Level Climate Champions, the Atlantic Council and the Boston Consulting Group, among others, to ensure insurance is no longer sidelined at UN climate talks but is seen as a core component of climate action. Ahead of COP29 in Azerbaijan, they launched a report on how insurance could power $10trn of climate solutions.

"Insurance played the overture to the finance symphony in Baku," Douglas says, "and I have a feeling it will play a leading role in Belém, where there is set to be a much bigger and louder choir from our industry than ever before." ■

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The unsolved puzzle of climate finance: Munich Re Specialty

'There is the need to work together with partners across industries on the practical questions of who is going to allocate the required capital,' Julian Richardson, the chief underwriting officer of Green Solutions at Munich Re Specialty, says

Climate finance is one of the most important yet still unsolved aspects of the climate challenge, according to the chief underwriting officer (CUO) of Green Solutions at Munich Re Specialty, Julian Richardson, *writes Louise Isted*.

In an interview with *Insurance Day*, Richardson says in theory climate finance encompasses a broad range of financial instruments, mechanisms and strategies that aim to mobilise and allocate funds to climate-related projects and programmes.

"There is a good understanding of the climate science and much of the community engaged in this scientific field understand and hold a broad consensus on our societal goals. These goals are to decarbonise our energy systems, coupled with the need to make human and ecological systems more resilient to the effects of climate change," Richardson says.

In practice, climate finance can take various forms, including the requirement of large-scale capital deployment and reallocation into renewable energy or energy transition projects.

"To make those projects investible, the insurance industry has an important role to play and must continue evolving to effectively cover those projects and enable sustainable growth," Richardson says. "For the practitioners engaged in this important work, there is the need to work together with partners across industries on the practical questions of who is going to allocate the required capital on such a scale to counter this part of the climate challenge."

"We see an opportunity for Munich Re Specialty to deploy capital, resources and expertise across our core markets, so our aim has been to establish our proposition by building strong, leading products and services in the energy transition space"

Julian Richardson
Munich Re Specialty

Green Solutions' goals

Munich Re Specialty launched its Green Solutions division in May 2023, a portfolio of insurance products and services aimed at supporting the net-zero ambitions of its clients, particularly in the renewables market, with the goal of becoming a leading provider of commercial specialty and primary green insurance risks by 2030.

Richardson joined the re/insurer a few months later from Parhelion Underwriting, an energy and climate risk finance company he founded in 2006, which specialises in non-traditional risk issues affecting investment in clean energy and climate finance markets.

He has also worked for Marsh and GE Insurance Solutions and was an adviser to the UK's Department for International Trade on insurance and resilience finance.

"I've seen the role of the re/insurance industry evolve from being a passive and reactive holder of climate risk, through to becoming an informed commentor and information supplier on climate risk through using data and assessing its impacts," Richardson says. "Today, we can see re/insurers as active participants in the climate finance conversation."

That transition was driven by taking a much more informed and sophisticated approach to assessing the impacts of climate change. As this trend continued, the industry became an important source of information and communication on climate risk.

Richardson highlights Munich Re's work from the 1970s onwards as one of the first modellers of global climate change impacts as a "paragon" of that evolution, saying it remains a recognised industry voice with its regular reports on natural catastrophes.

He says: "It's pleasing to see our insights still provide critical details for how businesses are impacted, allowing them to more proactively manage their climate-related risk and volatility. We have been focused on developing new and innovative derisking solutions, reallocating capital to renewable projects and adjusting our underwriting decisions, such as when Munich Re Specialty pivoted towards setting up the Green Solutions portfolio. Taking this step has enabled us to access and work with exciting, growing industries that have a substantial opportunity to harness our expertise and product offering."

Policy roadmaps

Richardson says Nationally Determined Contributions (NDCs) are an important roadmap detailing each country's aims and ambitions to reduce their greenhouse gas emissions and mitigate the impacts of climate change.

"Having this roadmap and framework in place allows investors to identify investment opportunities by having clear, strategic priorities and actions to follow, outlining how individual countries aim to adapt to climate change impacts," he says.

"The NDCs also prompt the consideration of the financial support this action requires and may help with capital allocation and deployment. The NDCs also can act as a 'guide', which represents the country's contribution to the global effort to address climate change, acknowledging this is a global challenge that needs international collaboration," he adds.

Richardson stresses the transition to a low-carbon economy includes significant investment in renewable energy assets, which will need insurance solutions.

Similarly, new technologies are being developed and deployed, which presents an opportunity for Munich Re Specialty, he adds, such as offering new performance guarantees and product warranty solutions to accelerate the uptake of new technologies.

He continues: "Fundamentally, we see an opportunity for Munich Re Specialty to deploy capital, resources and expertise across our core markets, so our aim has been to establish our proposition by building strong, leading products and services in the energy transition space. Core to this is positioning our underwriters and claims handlers as market experts and thought leaders."

Furthermore, as new markets emerge, such as carbon trading markets and natural capital, new products are similarly required. The Green Solutions portfolio aims to provide tailored solutions for these areas.

In terms of challenges, Richardson highlights the protection gap.

"We believe we can further engage with the private sector, which has an important role to play for disaster risk finance solutions," he says. "The insurance industry has been active in its thinking and we have been looking at new ways to incorporate elements of blended finance concepts that can add greater depth and value to the role insurance can play in building resilient communities," he adds.

CUO in a climate context

Richardson spent the first 10 years of his career working on oil and gas insurance, which he says positioned him to help establish one of the world's first boutique climate finance businesses – Climate Change Capital (CCC) – in 2003.

As part of this work, CCC set up a carbon investment fund and provided investment advice on climate-related opportunities and threats.

In 2006 he set up Parhelion, supporting clients to venture into renewable energy, carbon markets and climate compatible investment opportunities.

In 2023, he brought part of his team to join him at Munich Re Specialty, combining Parhelion's thought leadership with the leading insurance capabilities offered by Munich Re Specialty. As CUO for Green Solutions at Munich Re Specialty – Global Markets, Richardson says he has maintained his focus on increasing awareness of the insurance industry's vital role in enabling the energy transition.

"It is critical the team ensures the continuous development of a profitable portfolio of renewable energy business," he stresses. "In addition, I work with my team to identify and strive to roll out new, innovative products and services. These need to be both scalable and profitable."

There is also an important communication role. Richardson says: "Internally, as CUO I need to retain the support of senior management and ensure we are investing appropriately in the resources necessary to foster profitable growth. Externally, it is vital Munich Re Specialty communicates the role insurance can play within the climate context to investors and policymakers.

"Insurers should be bolder on presenting the tools it has at its disposal to have an impact in this work and we need to keep conversing with these important stakeholders to remind them. As businesses with large pools of capital, we have the potential to enable large-scale deployment to protect businesses." ■

Insurers must help secure financing for clean energy: Ariel Green's Napiorkowski

'Re/insurers need to provide more capacity for covering clean energy technology risk so we can achieve our climate goals more quickly,' Ariel Green's managing director says

Ariel Green, a division of re/insurer Ariel Re, offers investment-grade technology performance insurance (TPI) that is designed to ensure clean energy projects secure financing at competitive rates to facilitate their construction and derisk their operation, *writes Louise Isted*.

The firm focuses on named perils and aims to eliminate low-probability, high-impact technology risks. This insurance product allows low-cost capital providers, such as banks, to participate in projects without a risk premium applied.

In an interview with *Insurance Day*, Ariel Green's managing director, Jan Napiorkowski, says the company launched Lloyd's first-ever TPI consortium in 2023 by attracting a number of insurance capacity markets that wanted to contribute within clean energy but did not have in-house capabilities.

"They relied on Ariel Green's experience and expertise to lead the technical underwriting and insurance structuring," he says. "To support financiers, Ariel Green works with equity investors, debt providers and investment funds to cover risks to their projects and/or portfolios that aren't typically covered by the project owners."

TPI also supports clean energy technology suppliers, such as manufacturers of photovoltaic modules, batteries and fuel cells, by backstopping their warranties and helping recover losses arising from "inevitable failures", Napiorkowski says.

Stark choice

With regard to companies facing a stark choice between maintaining their competitiveness and meeting their climate goals, he points to weather-related insurance premiums climbing fast, whereas technology-related insurance premiums are not.

"This is because weather-related climate disasters are becoming more costly due to human-caused climate change. However, if the clean energy market continues to innovate and commercialise more weather-resilient technologies that also reduce our carbon footprint, we can achieve our climate goals," Napiorkowski says.

Ariel Green offers TPI policies with up to $150m in aggregate per risk (and more in special circumstances), allowing the major cleantech projects and stakeholders to benefit from meaningful risk transfer.

Among existing policies and legislation that support climate finance, Napiorkowski highlights the Inflation Reduction Act in the US. "This provides significant federal incentives that support climate finance and a framework for accelerating the clean energy transition," he says. "These include the investment tax credit, production tax credit and carbon reduction targets that benefit many clean energy technologies."

Re/insurers can facilitate climate finance by offering more capacity to cover clean energy technology risk, he stresses.

"The world is striving to reduce carbon emissions to sustainable levels to help achieve our climate goals. This will require financing in the order of trillions of dollars to make the transition to clean energy," he says.

Unproven technologies

"A substantial portion of this funding will be directed towards innovative technologies, which by their nature are commercially unproven," he continues.

"These present considerable 'technology risk' due to their potential for underperformance. This risk often acts as a barrier, preventing the access to affordable capital necessary to scale-up clean energy projects. Re/insurers need to provide more capacity for covering this technology risk so that we can achieve our climate goals more quickly."

Napiorkowski has high hopes for the UN's next round of climate talks. "Why not have Belém be the Insurance COP? Real estate, healthcare and automobile markets have all been transformed by insurance, which has allowed banks to lend to tens of millions of people who otherwise would not have been able to repay their debt if they had a significant loss/expense," he says.

He concludes: "This same concept can be applied to clean energy technologies on a large scale to help combat the largest issue of our time: human-caused climate change." ■

Insurance should be the keystone of climate finance strategies: Aon

Broker's global head of Climate Risk Advisory outlines why the UN climate talks in Belém could prove to be 'the insurance COP'

Re/insurers should place the climate finance lens over every line of business they underwrite, according to Aon's global head of Climate Risk Advisory, *writes Louise Isted*.

In an interview with *Insurance Day*, Liz Henderson says the theme of climate finance appears in almost every conversation with Aon clients, not just during events such as the UN climate talks or *New York Climate Week*.

"It's about how we leverage the financial system and gear it towards solutions that are going to capture the opportunity that the climate transition creates. And what this really comes down to is the basics of insurance," Henderson says.

The "basics" are understanding a risk to price it correctly by using the best quality data and models and the highest level of underwriting and engineering expertise. A significant layer building upon those fundamentals is the new technology needed to mitigate CO_2 emissions or to monetise nature through carbon offsets.

Henderson says: "A totally new infrastructure is being built and it requires a widespread reskilling of the labour force, the investment community and the insurance industry to make sure we really understand the risks."

A prominent theme for Aon in its conversations at COP29 in Baku last year was how to make decisions on funding the transition "happen in one room", she continues. This is the only way to ensure the development of insurance products that unlock capital and enable new technology projects to get off the ground, she adds.

"One thing we're working on – and this is being driven by a lot of our clients in the sustainable finance space – is how to apply the risk lens to a project as a set of guidelines"

Liz Henderson
Aon

"No one should take for granted insurance will just be there," she stresses. "If your project uses totally new building materials or new fuels then the underwriter can't just look in their energy portfolio and say, 'Oh, this is just another oil and gas plant' or, 'This infrastructure project is the same as the one we insured five years ago'. It's new, so you can't have conversations with insurers assuming the processes they followed on previous occasions will be the same."

As recently as a few years ago, a project developer would sit with their potential investors and work through the risks of a project to secure the financing, and insurance would be nothing more than a "tick the box", Henderson says.

Early broker involvement

That traditional attitude to insurance is being replaced, she adds, by an awareness insurance brokers ought to be engaged from the outset of planning a project. An insurance broker can provide both project developers and financial institutions with the list of details insurers will ask for. "It's why our clients are taking us with them to investor roadshows, to be able to educate both sides on the risk mitigation features the market is going to require," Henderson says.

It is a truism that insurance makes a project bankable, but innovative technologies require insurers to be ever more creative, she continues. A notable example is technology performance guarantees to give investors confidence they can expect at least a baseline return on projects that are so new they have elevated risk.

Henderson says: "While we might innovate around parametric solutions for solar, for example, does that answer the full spectrum of issues the investors are seeing to make that project bankable? I always like to say, 'It's the spreadsheet, right?'"

There may be ways to copy and paste between the spreadsheets of a project developer, investor and insurer, but new technologies require a much more "tactical" approach, Henderson says, especially if projects are going to achieve the scale needed

to be a credible climate solution. Collective stakeholder engagement and co-ordination is the only way to achieve the scale and speed needed, she says, and this approach should be the "rhythm of an underwriter's day-to-day work".

Nevertheless, a tactical approach to a newer project does not prevent an insurer from providing its clients with an insurability "template". "One thing we're working on – and this is being driven by a lot of our clients in the sustainable finance space – is how to apply the risk lens to a project as a set of guidelines," Henderson says.

A new offshore wind business will come with hundreds of pages of technical documentation, but what a project needs is a definitive list of questions an insurer will ask. Beyond that, Henderson says, direction will be needed on what to do if any of those answers means a different type of coverage than what was originally expected.

Proper preparation

It is this preparation that will make the difference in a project developer's conversations with investors, Henderson stresses. It gives tools to the finance community that help them either to engage with the project or to tell the project developer the coverages and the limits they need to receive the funding. In addition, guidance will be needed on tax liability and tax credit so a project can be derisked as much as possible, she adds.

For example, an energy project in the US that is being financed partially by tax credits through the Inflation Reduction Act can be derisked by buying liability coverage. "That's a perfect example of how you tie a product directly to the factor that's driving a lot of the risk from the return-on-investment perspective," Henderson says.

The Inflation Reduction Act is "such an important piece of legislation" in the US and the benefits of its tax credits are already apparent, she adds. The Trump administration may be attempting to pause some of the funding and alter the act, but the business opportunity of the transition to net zero will continue to exist, she stresses.

"We're really focused on helping our clients recognise that opportunity and making sure we articulate it in financial terms, so it isn't just about doing good for the sake of doing good," she says. "Instead, it's about a massive economic boom. If we can quantify it, if we can articulate it, then we'll be able to achieve it."

Another example is US solar projects, which can be an unprofitable line of business from an insurance perspective because of hail losses, particularly in Texas, that drive up the cost of insurance.

Henderson says: "The solar developer thinks it has to increase its prices to make its project profitable and the investors look at that increase in price and argue the hail created downtime and they didn't achieve the return they expected because the developer didn't buy sufficient insurance. The investors then demand the developer buys a higher level of insurance for their projects. The result is the developer faces an increase in price from its insurers and also an increase in demands from its investors."

Such a situation can be prevented, she says, by improving the developer's and investors' view of risk from a solar project's exposure to hail. "Do they have the models they need to properly quantify that and are they embedding that engineering expertise for a technology that is evolving? By engaging with insurers and brokers that have access to such models and expertise, developers can educate their investors on the actual risk. And not only that, but they can also relate the amount of insurance that's appropriate for their risk."

Managing clients' transition risk

Although there is a "patchwork of approaches" companies are taking to manage their transition plans, most of Aon's insurance clients see, that to manage their own transition risk, they need to help their clients manage theirs.

"One of our values at Aon is we're not going to walk away from a country or a company that is trying to transition," Henderson says. "We want to find solutions that help them derisk their transition plans because we believe that will have a much bigger impact than withholding capacity entirely," she adds.

For example, Indonesia may have a significant dependence on coal for its energy security, but it does want to transition away from fossil fuels. "We are helping it achieve a just transition by making sure it isn't left without the financing it needs to do so," Henderson says.

At the other extreme, even highly profitable Western companies are fearful of making bold transition plans public, in case they are held accountable for falling short of them. "There are some companies that are ahead of the game, that have been provocative, and that's great, but there's plenty of organisations that are worried about the backlash if they are too optimistic and then they miss their transition targets," Henderson says.

That fear came up in Aon's discussions at COP29, but Henderson is confident 2025 will be about "solidifying" confidence in the transition.

"There are products that already exist, in directors' and officers' and in general liability, which we can apply through a 'derisking the transition' lens. In that way, and in conjunction with data and analytics, we'll be able to provide companies with the clarity and confidence to be bold," she says.

A risk to that boldness, however, comes from merger and acquisition (M&A) activity. "Companies that are entering an M&A agreement may suddenly have a new footprint and a new transition plan," Henderson

says. "We don't want to discourage M&A activity and so we look to create products that, at least financially, give a company some recovery from such a situation."

Chief sustainability officers' role

This comes back to having the insurer present at an early stage and the best person to accommodate this is a company's chief sustainability officer.

Henderson says: "Chief sustainability officers generally used to think about their recycling plan, their building footprints, their carbon offset strategy. They previously did not think about insurance as something that is part of those discussions, so we need to be present in those rooms and relate how insurance can have a tangible impact on their sustainability objectives."

The significance of COP30 in Belém is the publication this year of updated Nationally Determined Contributions.

Henderson says: "It's the first time we'll see countries' very specific, detailed plans on how they're going to achieve their net-zero ambitions. Some countries will be prepared and some countries won't, but a detailed plan is valuable because it gives investors and insurers an understanding of how and to what timelines countries are going to decommission coal and move away from oil and gas.

"That information is critical to the investors that want to make decisions on where they should deploy their capital, in what parts of the world they should allocate capital dedicated to green technologies. Those plans are super important and they'll take some of the regulatory uncertainty out of the equation and create a more orderly transition."

Aon co-authored a report with Deloitte last year on how the insurance industry is being perceived in the transition.

Henderson cites a quote from this report by a risk manager who said his insurance companies never asked him about his transition plan. "The C-suite talks about it, but when it comes down to the day-to-day relationships an underwriter has with their clients, it isn't part of the conversation. It can't just be another thing an underwriter has to do; it must become relevant to the risk conversation because the climate mindset has to be in every layer of an organisation," she says.

Prioritising insurance

There are many inventors of new technologies whose projects need to be derisked but who try to tackle the engineering and financing first and leave insurance to last.

This needs to change, Henderson stresses, urging her peers to find ways to bring this new type of buyer "under our umbrella".

She continues: "At COP29, I was talking to the owner of a company that specialises in floating wind plants. He understands the engineering, the technology, the energy system and the grid infrastructure needed to make floating wind work. He knows there's a return to be made there, although it's very risky. And yet he didn't understand the type of insurance product he would need. As a broker, I was able to arrange all the conversations he needed to be having."

Climate finance might seem to be a complicated process but actually the most important first step is simple, Henderson says. That is for re/insurers and their brokers to attend COPs and *New York Climate Week*.

"We need to ensure there is an underwriting lens across every organisation, and not only over their energy transition unit," she says. "We're seeing green solutions coming through our traditional oil and gas clients, standalone climate tech companies, construction and infrastructure companies, finance institutions. These projects are across the board and show the energy transition needs to be part of an underwriter's daily work. It isn't a niche area anymore; it's actually the new normal."

Underused solutions

At COP30, Aon plans to highlight how, as a broker, it can "scale-up underused insurance solutions and bring capital in", particularly in relation to nature and food security.

"If you focus capital into those areas, it helps to address not just supporting the voluntary carbon market – which we still believe is a critical part of the net-zero ambition – but also how to direct money into the developing world and, in particular, smallholding farmers and family-owned farms that have not received much benefit from global insurance in the past," Henderson says, adding Aon will announce details of the scheme this summer.

The UN's climate talks will evolve, she adds, as insurance clients demand more integration and collaboration. "All climate initiatives globally tend to be siloed into finance, nature, insurance and energy. Finance tends to go across a lot of different industries, and I think insurance needs to follow alongside finance."

She continues: "Any organisation with nature solutions or energy solutions has a finance expert focused on each of those and you need an insurance person as well, but I haven't seen this cross-sector collaboration yet. Aon and other organisations have been advocating for this, and I do think we will see Belém being the insurance COP, whereas Baku was the finance COP."

Brazil is the perfect location for this evolution, given its nature-based, carbon credit and energy transition initiatives. "It's a part of the world where you see all the solutions on the ground come to fruition, so I think insurers have an incentive to be there," Henderson says.

She concludes: "And we at Aon will be there in a big way, to show this is the insurance COP." ■

Climate change poses existential risk to property insurance

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All players in the property insurance ecosystem must help clients and communities harness property insurance as a tool for climate adaptation, or they risk becoming irrelevant, write Ed Day and Kate Stein

During the daily 8-5 grind in the Square Mile, it can be easy to forget how much insurance matters, not just to individuals and businesses, but to entire communities, economies and countries, *write Ed Day and Kate Stein, WTW.*

This is especially true in the face of climate change.

The Los Angeles wildfires are just the latest prominent example of how the ability to recover from disasters depends on insurance and how a lack of affordable property insurance will have long-lasting implications for individuals, businesses and economies.

It is against this backdrop we as an industry need to carefully consider our approach to property insurance in the face of mounting extreme weather losses.

The decisions the industry makes about what is insurable have begun to dictate whether people and companies can harness private property insurance as a tool for adapting to extreme weather and climate change.

Without greater awareness and engagement, the risk is that private property insurance will become irrelevant to all but the wealthiest homeowners and the most profitable and best-capitalised companies.

There is also the risk government intervention in property insurance will transform markets in ways the industry is ill prepared to cope with – with significant implications for our books of business and profitability.

Whose responsibility for risk?

Local, regional and national governments care deeply about the availability and affordability of property insurance.

A lack of affordable insurance can mean greater government spending on recovery in the aftermath of disasters. It can also affect where investors decide to invest and lenders decide to lend, and on what terms.

It is entwined not only with disaster preparedness and recovery, but also with housing affordability and economic development on local, regional and national levels.

Governments also care because property risk is an increasingly political issue. Insurers worldwide have been responding to more frequent and severe extreme weather events by increasing the cost of property insurance or withdrawing from vulnerable geographies entirely.

As we have recently seen in California, governments often respond to these issues by imposing new regulations, especially in relation to data, rate making and pricing.

In some cases, quasi-governmental entities step in as re/insurers themselves. For instance, Canada is setting up a flood insurer of last resort, Italy recently launched a multi-peril reinsurer of last resort and the US state of Colorado is creating an insurer of last resort for individuals and businesses facing elevated wildfire and hail risk.

At the heart of these efforts is a question of responsibility. As climate change intensifies extreme weather hazards, who will bear the risk? What roles should the insurance industry and government each play in addressing property insurance affordability and risk challenges?

With the answers to these questions being worked out in real time at local, regional and national levels, it would be dangerously short-sighted if we as an industry did not meaningfully engage in these conversations as a partner for the long haul and in good faith.

Resilience and insurability

The insurance industry must urgently work to reduce the emissions that cause climate change, by encouraging and supporting fossil fuel clients in their transition to zero emissions.

Insurers are key to bringing lower-emissions energy sources to market, through investments and by underwriting technologies such as wind, solar and nuclear power.

But climate change is not just about decarbonisation and fossil fuels. It is also about physical risk and helping homeowners, businesses, communities and economies become more resilient to extreme weather and natural hazards.

As an industry, we stand to benefit from reduced losses when homes and businesses have been fortified against floods, wildfires and hurricanes.

Insurers need to do more to encourage risk mitigation, through bursaries and other incentives that foster investments in adaptation and resilience.

The industry can push governments to include funding for risk reduction as a priority alongside other regulatory reforms designed to bring down insurance costs, as well as ensure their models properly account for investments homeowners, businesses and governments have already made, at both individual and community scales.

Most of all, insurers need to recognise resilience and insurability are critically interlinked. Helping insureds and communities become more resilient will help mitigate their risk, increasing the likelihood the industry can sensibly continue to underwrite them for years to come.

Simultaneously, when insurers choose to continue underwriting (within reason) in places where climate change is intensifying natural hazards, those communities can continue to attract the investment they need to adapt to climate risk.

Insurance is a for-profit industry and no one is suggesting that is likely to change anytime soon. But it is illogical to focus solely on short-term financial value when insureds and governments are desperate for assistance protecting multiple different forms of value – embodied in homes, neighbourhoods, communities and ecosystems – over multiple time scales.

Property insurance's existential question

For hundreds of years, the insurance industry has been able to make a profit by providing a social good: the funds homeowners and businesses need to recover, rebuild or relocate after disasters.

However, climate change and extreme weather, insufficient investment in adaptation and risk reduction, alongside continued development in areas vulnerable to natural hazards, make it unlikely property insurance as we know it will continue indefinitely.

The balance of responsibility for property risk is shifting, with governments, businesses and individuals each having a new role to play.

For the insurance industry, the question is whether we want to be a supportive partner in deciding what the future of property insurance looks like or stand by while others make the choice for us. ■

Ed Day is head of international property broking and Kate Stein is carrier relationship manager at WTW. Stein is co-founder of the Climate-Resilient Insurance Strategy Project

At the heart of these efforts is a question of responsibility. As climate change intensifies extreme weather hazards, who will bear the risk? What roles should the insurance industry and government each play in addressing property insurance affordability and risk challenges

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Banks have plenty of room for growth as climate financers

Commercial financial institutions provide about $245bn in climate finance each year, according to the Climate Policy Initiative, but net-zero targets may encourage larger outlays

Most of the money we use is created not by governments, but by commercial financial institutions – for centuries, banks have been crucial to the supply of credit and mobilisation of capital, *writes Ben Margulies*.

Banks and other commercial credit institutions are also important in the field of climate finance. However, they do not dominate the sector: as of 2021/22, they provided something less than one-fifth of the capital invested in green finance, according to the Climate Policy Initiative (CPI) think tank.

This is in part because climate finance includes both commercial projects and the creation of public goods like flood control works. This latter category includes infrastructure and services that are socially necessary, but banks generally struggle to fund because of heavy capital outlays and insufficient revenue potential.

That said, commercial financial institutions do form the largest share of private climate finance, according to CPI figures. Valerio Micale, an associate director at the CPI, stresses "the banks are really involved in the front line of climate financing".

Banks have plenty of reasons to expand their climate financing efforts, whether to meet international standards, comply with their own net-zero targets or protect themselves from climate risks. However, attempts at collaboration towards these goals may face hostility from Republican politicians in Washington DC and many US states.

How much to green the world?

The CPI estimates between $1.5trn and $1.6trn in capital was devoted to climate finance projects in 2023, compared with $755bn in 2019, according to its Global Landscape of Climate Finance 2024 report. Private and public sector sources provided roughly equal shares of the overall climate finance figure, Baysa Naran, senior manager for the CPI's Climate Finance Tracking Programme, says.

The CPI stresses this is far from adequate. To avoid warming beyond the 1.5°C threshold, the institute es-

timates the green transition would require $7.4trn in annual investment between 2024 and 2030. The CPI report, citing external data, says in 2023 there was $1.1trn in new fossil fuel finance and $1.4trn in "consumer fossil fuel subsidies" in 2022.

CPI data attributed $244bn a year on average in climate finance to commercial financial institutions, or almost 19% of the $1.3trn in funding available for green projects in 2021/22. Most of this went to funding specific projects. The vast majority of this commercial bank funding flows within advanced economies – in 2022, commercial financial institutions provided $204bn in domestic funding for climate projects in these jurisdictions. This was 39% of the domestic finance for the climate transition in advanced economies in that year, more than twice the share provided by corporations.

Other studies produce different figures. A January 2025 *BloombergNEF* report says commercial credit institutions provided $776bn in "low-carbon energy supply" funding in 2023, of which $648bn was debt finance and $79bn project finance.

Naran points out the public-private mix varies greatly by region and sector and it has changed over time. Public sector financing predominated in Europe's green energy sector a decade ago, but now it is profitable enough for private capital to provide the larger share of funding. In China, the public sector also plays a large role in financing as a reflection of that country's more statist economic model, Naran continues.

Michael Wilkins, executive director and professor of practice at the Centre For Climate Finance & Investment at Imperial College Business School, tells *Insurance Day* private finance tends to pool in advanced economies and most often goes towards energy, transport and infrastructure.

Private lenders provide little capital for projects to green agriculture,

"[Parametric insurance products] allow credit to flow from banks to smallholders in agriculture by allowing these kind of products from insurers to actually provide credit mitigation to the banks, hence releasing capital"

Michael Wilkins
Imperial College Business School

forests or water, or "natural capital", as these sectors are less likely to produce consistent returns, Wilkins says. He adds private finance is also less likely to invest in adaptation – for example, flood control programmes – for much the same reason. These are public goods, which governments generally provide because they cannot generate sufficient profit to attract private investment.

However, Wilkins adds public-private partnerships could encourage private capital to enter spheres of activity it avoids at present. He points out this approach has been used for other social infrastructure like schools and hospitals.

In the developing world, most capital public sector funding often comes from development banks, as there are few commercial opportunities for green investment. Basan highlights in developing regions like the African continent, there is too much risk for banks to invest profitably and too little demand for commercial credit.

Daan Wentholt, a spokesman for Dutch multinational bank ING, says the bank has adopted more ambitious climate financing targets. The bank aims to provide €7.5bn ($7.75bn) in financing for renewable energy infrastructure by this year and Wentholt adds: "We have increased our target for volume of sustainable finance mobilised to €150bn a year by 2027." This figure includes lending, but also ING's other activities as an underwriter, securities marketer and adviser.

ING is also withdrawing finance from fossil fuels, stopping credit for coal power this year and "aiming for full phase-out and zero exposure by 2040".

Barclays says it will "facilitate $1trn of sustainable and transition financing for clients between 2023 and the end of 2030" and directly as much as £500m in "global climate tech start-ups by the end of 2027".

Bettina Storck, chief sustainability officer at Frankfurt-based Commerzbank, says it will "permanently allocate at least 10% of our new lending business as sustainable loans, of which green and social loans are used to finance sustainable projects and business models directly". Commerzbank is providing €11.5bn in credit through its Centre of Competence Green Infrastructure Finance, she adds.

Regulatory standard-setters

Regulations play an important, if sometimes indirect, role in climate finance. Central banks and other regulators urge or require banks to calculate and manage their exposure to climate change risk. This may take the form of physical risk to assets or "transition risks" – the danger that regulatory changes will make polluting assets less valuable.

Central banks and regulators do not allocate capital directly, aside from the investment of their own reserves. However, by encouraging or obliging credit institutions to focus on climate risks, they can indirectly discourage fossil fuel exposure. Central banks can also encourage green investments by providing taxonomies of green assets.

For example, in 2020 the European Central Bank (ECB) began requiring banks to consider climate and environmental risks, including in credit and investment decisions. "Institutions are expected to consider climate-related and environmental risks at all relevant stages of the credit-granting process and to monitor the risks in their portfolios," the ECB said. The Federal Reserve Board created a supervision climate committee in December 2020. The Reserve Bank of New Zealand (RBNZ), for example, tells *Insurance Day* it has provided supervisory directives to banks for managing climate risks.

However, there may be limits to what central banks can do. The Swiss National Bank says its sole mandate is the preservation of stable prices. "Thus, it may not influence economic, political or social developments through its investment policy" and cannot adopt "a plan to reduce the greenhouse gas emissions related to its investments, for example", it says.

The RBNZ says: "Reserves management is a matter determined by a central bank's mandate and therefore provides limited flexibility for purposes beyond those required of them under their enabling legislation."

Storck says supervisors should craft "an independent and lean framework for transition finance" that would release more lending, which would simplify the rules for transition plans and establish such plans for individual sectors.

International and multilateral agencies can also influence finance through their net-zero planning. A *Bloomberg* report published in 2022 analyses decarbonisation scenarios issued by the International Energy Agency, the Intergovernmental Panel on Climate Change and the Network for Greening the Financial System. To meet these goals, the *Bloomberg* report suggests public and private funders would, over the course of this decade (2021 to 2030), need to provide four times the investment to renewable energy as they do to fossil fuels. In the 2030s, this ratio would rise to six to one and 10 to one in the 2040s.

In a January 2025 report, *Bloomberg* found banks were actually providing somewhat more funding for fossil fuels: "Among banks, the low-carbon to fossil fuel Energy Supply Banking Ratio increased from 0.74:1 in 2022 to 0.89:1 in 2023," *Bloomberg* reports.

Funding specifically for "low-carbon energy" did exceed that for fossil fuels by 10% in 2023, the first time this has happened. A 2023 ECB survey found that banks offered a "climate discount" to green projects, while making credit scarcer for fossil fuel projects.

"The impact of climate change on bank lending conditions is likely to increase over time, as banks have to further adjust their risk management with a view to climate risks," the ECB concludes.

Ákos Hajagos-Tóth, policy officer at the Transition Pathway Initiative Centre at the London School of Economics, says meeting these targets will be accomplished both by increasing clean energy investments and reducing capital flow into fossil fuels.

Storck says Commerzbank is not planning to cut off credit for the fossil fuel sector but is restricting credit specifically to companies that derive more than 20% of their profits from coal-related activities. "We follow the approach that the exclusion of a specific sector is only the last option because it doesn't help accelerate the transformation of respective sectors," she says.

Commercial financial institutions have adopted their own net-zero targets, whether in line with regulators or on their own account.

Hajagos-Tóth points out many of the banks his centre covers mainly apply net-zero targets to their lending , which covers only 50% to 60% of an average bank's income. They could extend these policies to their other activities, such as underwriting, portfolio investment, marketing securities or financial advisory services.

Promises and perils

Public institutions, commercial financial institutions and insurers have all formed international networks and alliances to promote decarbonisation and establish their own targets and goals. However, these have come under increasing

"[Commerzbank's leaders] don't see any reason for adjustments within our sustainability strategy in light of the new US government. For us, there is no alternative to a consistent and sustainable transformation of the economy"

Bettina Storck
Commerzbank

stress from US policymakers in recent years.

The UN Environment Programme created its Finance Initiative in 1992. It creates guidelines for green finance and investment and has issued frameworks for green banking, insurance and investment. More than 300 banks adhere to the initiative's Principles for Responsible Banking, published in 2019, and the initiative says one-quarter of the insurance sector has adopted its 2012 Principles for Sustainable Insurance.

The Finance Initiative created the Net Zero Banking Alliance (NZBA) in 2021. Its members are "committed to aligning their lending, investment and capital markets activities with net-zero greenhouse gas emissions by 2050".

Bloomberg found in 2023, banks in the alliance funded slightly more low-carbon than fossil fuel energy (1.09:1 ratio), excluding those North American institutions that had recently departed.

The Glasgow Financial Alliance for Net Zero (GFANZ) also emerged in 2021 at the initiative of former Bank of England governor Mark Carney, following the COP26 summit in Glasgow. It describes itself as "a standalone, private sector group that focuses on supporting efforts within the financial services sector to achieve the Paris Agreement objectives". GFANZ develops new methods for climate finance and helps direct capital to countries in the global south, as well as advocating for green public policies.

There is also the Global Capacity Building Coalition (GCBC), which aims to mobilise finance for emerging and developing economies. The GCBC grew out of COP28 in late 2023 and includes multilateral development banks and private finance alliances like GFANZ.

The Trump administration, and the Republican Party more generally, may pose a risk to these alliances. In May 2023, Republican attorneys-general warned the Net Zero Insurance Alliance (NZIA) its plans for binding climate targets would fall foul of US antitrust law, which helped precipitate the NZIA's collapse (but subsequent replacement with the Forum for Insurance Transition to Net Zero).

In July 2023, three Republicans in the US House of Representatives, including judiciary committee chair, Jim Jordan, alleged GFANZ and the Net Zero Asset Managers initiative were "potentially violating US antitrust law by coordinating their members' agreements to 'decarbonise' their assets under management and reduce emissions to net zero".

Shortly before Donald Trump returned to office in January 2025 half a dozen major US banks pulled out of the NZBA, followed by five leading Canadian banks.

However, Hajagos-Tóth stresses this does not mean they will stop their own efforts to promote decarbonisation, and that banks that have left the NZBA have explicitly said they will continue to pursue green policies.

The RBNZ tells *Insurance Day* "global efforts to address climate change cannot be solely advanced or hindered by any single jurisdiction or state administration". The spokesperson added: "It is a long-term issue that calls for sustained perspectives and perseverance."

Wentholt points out ING, which is based in the Netherlands, is part of the NZBA, but adds: "We think the discussion should focus on the actions a company takes instead of alliances they are in."

Storck says its leaders "don't see any reason for adjustments within our sustainability strategy in light of the new US government. For us, there is no alternative to a consistent and sustainable transformation of the economy". She adds Commerzbank, like ING, would "remain committed to becoming a net-zero bank by 2050" regardless of how the NZBA fares.

Algirdas Brochard, also a policy officer at the Transition Pathway Initiative Centre, says the Trump administration could destroy some climate funding channels through policy changes. He gives the example of the Inflation Reduction Act, a 2022 US law that created a system of tradable clean energy tax credits.

The great facilitator

Insurers play a vital role in financing and implementing decarbonisation and other green projects. Insurance is of course necessary for virtually every form of production, transport or distribution activity, whether environmentally friendly or not – which is why net-zero alliances and climate campaigners pressure insurers to decline to underwrite fossil fuel projects.

Wilkins points out insurers play a major indirect role in connecting green projects to capital. By providing insurance cover, carriers make banks and other potential financiers more willing to commit funding, thus expanding the overall volume of capital available. "They provide contingent capital by allowing some of these schemes and projects to go ahead, because capital is then released in the event that some of these risks actually emerge," Wilkins says.

As insurers improve their policy options, Wilkins says their role as a facilitator of contingent capital will increase. He points out insurers have the best risk modelling capabilities. He gives the example of parametric crop insurance products in Africa, which "allow credit to flow from banks to smallholders in agriculture by allowing these kind of products from insurers to actually provide credit mitigation to the banks, hence releasing capital". He concludes: "That is a classic way insurance can help with providing not only risk modelling, but also unlocking capital." ■

How to build a climate finance ecosystem

Managing director and head of climate, diversity and advisory at the UK's development finance institution outlines how DFIs are innovating to fund the transition to net zero

Development finance institutions (DFIs) may be small relative to other parts of the finance community, but this enables an agile response to climate investing, according to the managing director and head of climate, diversity and advisory at British International Investment (BII), Amal-Lee Amin, *writes Louise Isted*.

DFIs invest in private sector businesses, banks and projects in less economically developed countries to bring about positive economic, social and environmental change.

They are smaller, for example, than multilateral development banks (MDBs) and Amin has experience of both. Previously she was chief of climate change at the Inter-American Development Bank.

Given the scale of climate finance needed by developing countries, MDBs are attracting a lot of attention about how they can innovate to take more risk to mobilise private capital, while DFIs, which typically take more risk, operate more "under the radar", Amin says, in an interview with *Insurance Day*. "In the climate finance ecosystem, MDBs are like supertankers while DFIs are the speedboats," she adds.

An "ecosystem" that maximises differing areas of comparative advantage and fosters innovation is needed if commercial capital is to be unlocked at pace and scale. Focusing on this, Amin says, rather than on a top-down financial architecture that may overlook the influence of different actors, including DFIs, is key.

For example, the £100m ($129.4m) mobilisation facility announced by Britain's prime minister, Keir Starmer, last September, aims to unlock private investment in emerging economies, focusing on climate and sustainability. Within weeks of that announcement, BII had partnered with Mercer, the US consulting subsidiary of Marsh McLennan, to open a climate finance mobilisation call for proposals for private investors' designs for products that address the gap between the risk appetite and return thresholds of institutional investors.

"In the climate finance ecosystem, DFIs like ourselves can be a trailblazer, partnering with those who are also innovating in the private sector," Amin says. "That's definitely the case with the mobilisation facility

Jittawit Tachakanjanapong/Alamy Stock Photo

"Ensuring there is a pipeline of investable opportunities is critical and the platforms we work on are an important way of doing that, but we also need governments to put in place the right enabling context because it's the right policies and regulations that will provide the investor certainty needed to unlock capital"

Amal-Lee Amin
British International Investment

and in a relatively short time frame we've started to do some really innovative mobilisation transactions."

To illustrate the urgency of this effort in the global context, Amin points to Raising ambition and accelerating delivery of climate finance, the third report of the independent High Level Expert Group on Climate Finance, of which she is a member.

The scale of investment needs in emerging markets and developing countries (excluding China) are estimated at $2.4trn a year by 2030, with more than half of this being mobilised from domestic sources and around $1trn a year of external finance needed.

Investible opportunities

BII has been building "investable opportunities" for commercial investors, Amin says, such as the platform it "created from scratch" in 2018 for Ayana Renewable Power in India. Amin says: "Rather than put equity into a single project, we put it into a platform and worked alongside private sector sponsors to help build out the business. The financial capital is important, of course, but so too is human capital, and through these platforms we not only provide finance but build the dedicated expertise that is needed to scale in our markets."

In February this year, ONGC NTPC Green Private Ltd signed a share purchase agreement with BII, the National Investment and Infrastructure Fund and Eversource Capital to acquire a 100% equity stake in Ayana Renewable for an enterprise value of Rupee195bn ($2.3bn). Ayana has about 4.1 gigawatts of operational and under-construction assets.

This platform is a perfect example, Amin says, of how to "reinforce the circle" of a developing country's Nationally Determined Contribution (NDC) under the Paris Agreement and domestic resource mobilisation. "As the Indian government increases its own capital contribution to renewables, it recognises the importance of policy and regulation for these investments," she says.

Amin points out BII does not work directly with governments, but its collaboration with domestic financial institutions in, for example, India, is "equally important" to ensure countries "maintain ambition" with their NDCs.

Another company BII is supporting is Globeleq, Africa's leading independent power producer. BII took control of the company (70%) in 2015 alongside Norfund (30%). Since then, Globeleq has almost doubled in size, adding nine assets to its portfolio, of which eight are renewables.

A third example is Gridworks, a development and investment platform principally targeting equity investments in transmission, distribution and off-grid electricity in Africa. Building networks, including "minigrids", in the continent is "critical", Amin says, because the main challenge of rolling out renewable energy projects is not having existing grid infrastructure to absorb new electricity capacity.

A recent report by the Overseas Development Institute, a global affairs think tank, highlights the value of BII's approach to investing in new ventures and platforms like these for building out investible opportunities.

Amin highlights investors that signed up to the Glasgow Financial Alliance for Net Zero, a group that formed during COP26, are committed to having net-zero portfolios, which requires them to invest in assets that are consistent with that goal. She says: "To a large extent what we're seeing now – and some of the banks in the UK are starting to signal this – is they can only move as fast as government policy enables the investable opportunities that are consistent with net zero. In other words, they are saying their ability to deliver will depend on the level of government ambition."

The UK's updated NDC for 2035, announced this January, commits to an 81% reduction in greenhouse gas emissions compared with 1990 levels, a target deemed 1.5°C-aligned and informed by the COP28 Global Stocktake. Such ambition, Amin says, is "exactly what the financial sector wants to see". Such a commitment, backed up with relevant policy and pricing signals, provides the long-term investment security, she adds.

BII has set itself the goal of facilitating investments that are aligned with the Paris Agreement; in this way it is contributing towards delivering countries' NDCs in those markets where it invests. To further achieve this, BII also helps strengthen domestic financial sectors. This ranges from investing equity in

banks and providing green lines of credit, as well as capacity building, such as through its technical assistance facility FSG Plus, which works with financial service providers in south Asia and Africa to catalyse investment in low-carbon, climate-resilient projects and promote inclusive climate finance.

Both sides of the coin

Increasingly, commercial investors are realising they must not limit themselves to only "one side of the coin", Amin stresses, by assuming the transition to net zero is solely an exercise in "risk and disclosure". The other side is opportunity and investment, which BII helps investors explore; for example, through its venture capital vertical. BII is increasingly seeing promising early-stage companies that are harnessing artificial intelligence to deliver climatetech solutions for increasing adaptation and resilience of smallholder farmers in Africa and south Asia.

"BII is probably one of the unique DFIs in that we work with venture capital, which an MDB might consider as too risky," Amin says. "It shows there is no 'one size fits all' in climate finance, that we need different types of instruments and risk appetites," she adds.

There has been a perception among re/insurers that their role in climate finance is limited to risk transfer, but this is changing, Amin says. "We're talking to many of the insurers and we really welcome the fact they're wanting to come into the investment opportunity side more," she adds. BII last year launched an innovative fund with investment manager Blue Orchard, a member of the Schroders Group, which has so far invested in financial services companies in various countries, including Ghana, India and Vietnam.

"We're now starting to think much more intentionally about how we mobilise the institutional investors, who obviously include insurers. I think everyone's been focused heavily on pension funds, but the insurance sector itself is now starting to recognise the potential opportunities," Amin says.

"We're seeing major asset managers such as BlackRock engaging with the Insurance Development Forum to co-create a fund to mobilise insurers' capital for resilient infrastructure. That's definitely the direction of travel for BII in terms of how we partner to increasingly mobilise these really big pools of capital," she adds.

This will involve refinancing renewable energy assets on BII's balance sheets as well as the books of domestic banks to help governments and investors meet their decarbonisation targets. "There's been a big push for the development finance community to 'originate to distribute', which is what we've been doing to a large extent with our platforms," Amin says.

As BII engages more with DFIs, Amin continues, there will also be a focus on regulatory challenges to mobilising institutional capital that may be presented by Basel III and Solvency II.

These discussions will be a feature of planning for the Baku-to-Belém Roadmap that will set out the steps to be taken towards reaching the $1.3trn/year of international finance flowing into developing countries by 2035. "Governments are going to have to look at the whole ecosystem," Amin says, "including the international regulatory agenda."

Effective partnerships with "like-minded institutions" are crucial to this roadmap and there are number of UK initiatives where BII could be "the main delivery partner", Amin says, highlighting the UK-led Global Clean Power Alliance (GCPA). COP30 host, Brazil, will co-lead the GCPA's first mission on finance, which Amin says sends a strong message to countries at the climate talks of the need to work together to deliver the clean energy transformation needed.

Amin says: "Ensuring there is a pipeline of investable opportunities is critical and the platforms we work on are an important way of doing that, but we also need governments to put in place the right enabling context because it's the right policies and regulations that will provide the investor certainty needed to unlock capital. The scale of tackling the climate crisis means we need to work in a more systemic way."

An "ideal" situation at COP30, Amin says, will be recognition the transition to net zero is under way, climate finance is flowing and more ambitious NDCs are valued as drivers of investment and economic growth.

She concludes: "There has been negativity in recent years that climate ambition is anti-growth when, actually, when you look at the clean technologies that are becoming available and the socio-economic opportunities they bring, the opposite is true." ■

The rise of pre-arranged crisis financing

Pre-arranged finance, such as insurance products, can help countries better plan their response compared with more traditional funding models, Centre for Disaster Protection executive director, Daniel Clarke, says

The public often associate disaster relief with fundraising campaigns to help communities recover from crises. On an intergovernmental scale, there is the similar expectation higher-income countries and humanitarian organisations will come together to raise funds and combine resources when a disaster strikes, *writes Francis Churchill*.

This assumption is beginning to change as a number of factors – not least the impacts of climate change – have led lower-income countries to claim more control over their crisis management. A big part of this is the development of pre-arranged crisis finance: monetary relief arranged in advance of a potential event.

Unlike discretionary finance, which is tallied up and agreed after a crisis has struck, pre-arranged finance enables those responding to a crisis to know exactly when and how much finance they can expect. "It's not somebody else who gets to decide," Daniel Clarke, executive director for the Centre for Disaster Protection (CDP), says in an interview with *Insurance Day*. Either there are triggers so those responding know under what circumstances finance is released or responders such as governments have the ability to trigger the release of funds by, for example, declaring a national emergency.

This is an important shift in a country's ability to plan for an emergency. "If you know what funding you will have, you can better plan your response," Clarke says. It allows responding governments or organisations to deliver fast, targeted responses to an expected crisis, such as flooding, earthquakes or famine, without the time lag that comes with discretionary funding, which needs to be agreed after the fact.

"If you don't know whether the money will come during a crisis, investing in that system to respond could be a waste of money. Reducing uncertainty increases the benefit of investing in preparedness"

Daniel Clarke
Centre for Disaster Protection

Investing in preparedness

Pre-arranged finance also creates incentives to invest in preparedness. If a country knows there will be money to fund its social protection system during an event, it makes more sense to invest in that system year-round. "If you don't know whether the money will come during a crisis, investing in that system to respond could be a waste of money," Clarke says. "Reducing uncertainty increases the benefit of investing in preparedness."

There is evidence this works. A study by the University of California in Berkley found Mexico's Indexed Disaster Fund increased the country's post-disaster GDP by two percentage points and the health benefits alone justified the scheme. "Part of that is because the heath and transport infrastructure was rehabilitated more quickly, but part of it was around businesses having confidence government services, transportation and other services would get back online," Clarke says. This gave businesses confidence to plan better, leading to a boost in economic productivity.

He continues: "There's a real benefit for people as well if they know support is coming – they can avoid some of the costly decisions they might be forced to take if they're not sure what may be coming." These can include difficult decisions like selling assets to pay for food or pulling children out of school so they can go to work.

Despite the proven benefits, less than 2% of crisis finance is pre-arranged at present, a recent report by the CDP revealed. The organisation wants to see that increase to 20% by 2035.

The change is already starting to happen. In the past 30 years there has been a shift in the way low-income countries address disaster planning, Colin Bruce, co-chair of the CDP, says. In the 1990s this was not something that was on the minds of finance min-

isters in developing countries because these events were less frequent and, when they did happen, the international community generally stepped in. The increasing frequency of these events now makes it a normal part of business, Bruce says.

"If you're a government you have to own this. It has to be central to your development strategy. Even anecdotally people realise something is happening. It's not an abstraction anymore and you're not the exception if you have one," he says.

According to the CDP, in 1990 there were 200 of these events and by 2023 this had ballooned to 398. These crises are also intersecting with other global events, particularly conflicts, which have also proliferated since the 1990s. Alongside this there have been several large shocks to the system, including the Covid pandemic and Russia's full-scale invasion of Ukraine. "All of these things have raised awareness that, in an interconnected world, they will have ripple effects, so how do we insulate ourselves or at least try to manage them?" Bruce says. "There has been this overwhelming sense this is no longer a luxury; it is necessary."

Policy and strategy

There has also been increasing awareness in policy and strategy terms relating to disaster risk reduction. UN Development Programme (UNDP) data shows 61% of low-income countries already have disaster reduction plans. On an individual level, research by the UNDP also shows the majority (63%) of people are now making decisions about their lives based on climate change – such as where they live, work and invest. "All of that is a backdrop and explains why we felt it was the appropriate time," Bruce says. "The landscape isn't perfect, but we are not where we were 10 or 15 years ago."

Clarke adds pre-arranged finance has been climbing up the international community's agenda. "Every major set-piece initiative in the international development space has featured prearranged finance. Whether it be [Barbados prime minister] Mia Mottley's Bridgetown Initiative, the World Bank's Evolution Roadmap or the V20's Accra-Marrakech Agenda, in all these discussions there is a strong component that relates to prearranged finance," he says.

With the political will to develop more pre-arranged financing, the CDP has been looking to the more practical barriers, which it outlined in a set of recommendations published as part of its recent report on the protection gap. Among them were the need for more public-private partnerships among the large international risk pools. These include African Risk Capacity, which is part of the African Union; the Pacific Catastrophe Insurance Company; and South-east Asian Disaster Risk Insurance Facility.

"At the moment the international risk architecture is mostly development banks and humanitarian agencies," Clarke says. "You don't really have at that strategic level institutions that can act and think a bit more like an insurer and can pre-arrange finance, particularly for those low-probability risks, in a cost-effective way."

He continues: "If you look at the international organisations that are really moving forward on this agenda, they're stocked full of people who have experience in the industry and are bringing those analytical skills… it's partly the skill set and it's partly also the capital and management of capital."

Insurance involvement

On a domestic level the CDP also had recommendations on using insurance tools to cover public assets as way to protect government balance sheets, but also to improve the management of government assets. The role of private insurance is as much about the risk management expertise and product innovation as it is about the capacity international markets can provide. "If you look at most high-income countries where disaster risks are practically managed, one big part of that is the insurance industry. And it's usually through a partnership with the public sector to ensure people have access to affordable insurance, but also that the knowledge is there," Clarke says.

A lot of the barriers for greater private sector involvement come from governments. "There is a lot of fear around the risk of being seen to go wrong," Clarke says. "We have seen in some circumstances a government has bought insurance against drought, but then the wrong kind of drought happens or a flood happens."

It is not a good look for any government to spend money on an insurance product that does not pay out when expected and these are real concerns that need to be taken seriously. But at the same time there is a growing understanding insurance has a key role to play. "There's a lot of learning yet to be done, but it's all because of these broader favourable trends," Bruce says. "We can point to cases where this makes a difference and we have governments that are speaking up… As someone who has been in the policy space for a long time, you see how some of the sceptics are turning around and beginning to understand how to use [insurance]."

And governments do want to buy more insurance. Many are taking the right steps, involving their finance ministries, their own insurance regulators and, in some cases, hiring a broker themselves or working with international organisations they trust. "Where there's never been insurance and there needs to be, it's about engaging in those emerging markets and engaging in those discussions with governments about how best to support the development of insurance markets to really protect people effectively," Clarke says.

Perhaps what the growth of pre-arranged finance really represents is a different calculation of who owns crisis risk. Clarke concludes: "The problem politicians are being asked to address is, can we move from treating disasters like surprises to actually planning properly and insurance is a large part of that solution." ■

Insurers are adding a new vector to climate finance

Insurers and development banks have historically operated in separate spheres, but climate change demands their collaboration

Assisting developing countries is normally associated with development banks and non-governmental organisations, but climate finance initiatives are drawing from an additional pool of expertise and increasingly insurance is joining forces with the established development community, both to complement their existing approaches and to offer new solutions to funding disaster relief, *writes Francis Churchill.*

In an interview with *Insurance Day*, Ekhosuehi Iyahen, secretary-general of the Insurance Development Forum (IDF), points out historically insurers and development banks operated in separate spheres. Insurers have traditionally focused on commercial risks, while development banks concentrate on concessional finance – specialised financing provided below market rates – and infrastructure investment.

"Within the private insurance sector, aligning commercial insurance models with the needs of low-income and vulnerable markets remains a challenge," Iyahen says.

Traditional insurance products have not been designed for the specific risks faced by communities in developing countries. Affordability is also a problem, leading to growing calls for premium subsidies. Beyond subsidies, however, Iyahen says the real need is innovation. Some progress has been made on this front in the form of parametric products, as well as through regional risk-pooling efforts.

The other hurdle is a lack of technical ability within governments on integrating financial risk solutions into their national financial planning. They tend to prioritise any immediate fiscal needs, sometimes at the cost of long-term risk management, Iyahen says, adding this can make it difficult to secure funding for insurance-based solutions.

Recognising role of insurance

This is changing as the role of insurance gains wider recognition in the international development community. "This shift is driven by the broader reality that capital will not flow where risk is not understood or measured," Iyahen says.

Several factors have driven this change, including the increasing

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"The most effective solution may not be insurance but rather investments in infrastructure… to mitigate risks at their source. These approaches are not mutually exclusive; addressing residual risk through financial mechanisms must go hand-in-hand with proactive investments in risk reduction"

Ekhosuehi Iyahen
Insurance Development Forum

frequency and severity of climate shocks, a decline in access to financing following the Covid-19 pandemic, and the increasing strain on government resources because of an unstable geopolitical situation. These factors are driving governments and development organisations increasingly towards integrating insurance solutions into their resilience strategies. "The industry has moved beyond traditional risk transfer to becoming a proactive partner in resilience-building and risk-informed financing," Iyahen says.

She continues: "Sustainable growth requires a proactive risk management strategy, reinforcing the inherent role of insurance – one that is often taken for granted in the development space. Insurance is not just about payouts after catastrophes; it also fosters confidence, enabling investments to happen in the first place."

Evidence of greater collaboration is apparent in several ways: an increase in sovereign risk financing solutions, such as risk pools and parametric insurance policies, to provide pre-arranged crisis funding; an increase in the use of insurance by development banks to help build resilience in communities receiving finance; and more co-financing initiatives.

In April last year, the IDF announced plans to facilitate insurance sector investments in resilient infrastructure to enhance the resilience of vulnerable communities in emerging and developing economies to risks from climate change and other natural disasters.

Its infrastructure taskforce has developed a blueprint to drive greater mobilisation and more impactful insurance sector investment in what the IDF describes as a critical, underserved segment of the infrastructure market. This blueprint reflects the need to partner with development finance institutions and other credit enhancement providers to create new, innovative investment structures that meet the credit quality requirements for insurer investments.

A long time coming

The evolution of insurers' role in development finance has been a long time in the making. When Sylvain Coutu, head of innovation and sustainability and parametric lead at Africa Specialty Risk (ASR), joined the insurance sector in 2014, work was already under way to integrate the industry into the development community. Initiatives like the Global Index Insurance Facility, the African Risk Capacity and Caribbean Catastrophe Risk Insurance Facility had already been established, and all have "scaled significantly" since then, he says.

Commitment to green and sustainability initiatives has been "more recent and certainly more hesitant", Coutu stresses, and started around 2018 with some attempts to understand, flag and in some cases reject business that did not meet environmental, social or governance objectives.

However, the direction of travel has not been one-way. "Unfortunately, we have seen some major players in the industry stepping back from their commitments and the global geopolitical situation does not seem favourable to massive development in this space, although I personally believe it remains critical," Coutu says.

As for the insurance industry's relationship with development banks, Coutu says what began as experimentation in the early 2000s, accelerated after 2010 when the development community started supporting large index insurance programmes. "Index insurance happened to be a great product to rapidly scale and protect a large number of vulnerable people in developing regions," he says. "Since 2010, it seems development banks have evolved from funders of pilot projects to market enablers and policy shapers," he adds.

The Africa-focused specialty re/insurer's responses to climate risk include addressing the problem that volatility in energy prices can result in solar plants becoming uneconomical when energy prices dip below production costs. ASR developed an innovative parametric insurance solution that ensures the ongoing commercial viability of photovoltaic installations and improves their appeal to investors, helping solar plants secure the necessary resources for funding, operation and growth.

Climate change is bad for business

Bronwyn Claire, senior climate specialist at investment advisory firm Ortec Finance, says there are multiple reasons businesses are looking to engage in development and sustainability initiatives. The first stems from the simple fact climate change is bad for business. "If

you've made net-zero commitments, you're looking to put into practice what you might be saying about the transition. But you're also looking to avoiding the risk of higher global temperatures," she says.

Another reason is insurers are increasingly seeking to engage with emerging markets. By investing in these markets, they can demonstrate their commitment to being part of a country or region's financial community. "[Insurers are saying] we want to be present in these markets, we want to be genuinely involved and that means they're looking for investment opportunities to back that up," Claire says.

She continues: "With that comes first-mover advantage; you're creating a lot of really good, valuable relationships with brokers and the ecosystem for insurance, and that gives a lot of non-financial benefits as well: brand reputation, being seen out there sponsoring things or being involved in [recruiting] new talent."

Engagement like this has been around for years, Claire says, but climate change has shifted the conversation. More recently, discussions with insurers, particularly larger businesses with an established presence in developing countries, have shifted towards how these firms can stay active in regions that are becoming more exposed to physical climate risk.

"Acute or chronic physical risks are quite high in tropical locations, but [as an insurer] you don't want to say, 'This is a red mark, I need to step away from that,'" Claire says. It may be an insurance company has a main office in a developing country or it is a jurisdiction where the business has customers and clients. Instead of stepping away, Claire says insurers accept they need to understand adaptation and transition plans and have a "much more nuanced" appreciation of their clients and the given sovereign nation.

Claire says insurers looking to engage with developing markets tend to take a much longer-term view than they would with their other areas of business. To do that, the sector is examining the climate risks and how they might change over time. "If you're looking to establish yourself in emerging markets, that's more like a 10- or 20- or 30-year decision," she continues. "You're making much more of those strategic investments, and that's where the climate risk becomes much more pertinent."

Insurers are also looking for long-term partners and are taking a joined-up approach to investment in development and green financing, Claire says, by linking the development banking sector with local insurers. This more holistic solution "recognises the part each party plays", she adds.

Ortec Finance recognises climate change is a complex financial risk and there is a need to identify and understand how the impacts of physical climate risk, the net-zero transition, and associated financial market responses could manifest and affect investment portfolios. ClimateMAPS, the climate scenario analysis solution it developed with Cambridge Econometrics, enables financial institutions to quantify climate change risks and identify opportunities, across all asset classes and macroeconomic variables.

Work to be done

There is still work to be done on all sides of the finance community, Iyahen stresses. From a government perspective, risk financing needs to feed into broader policy discussions on risk reduction. "In some cases, the most effective solution may not be insurance but rather investments in infrastructure, such as better drainage systems, to mitigate risks at their source," she says. "These approaches are not mutually exclusive; addressing residual risk through financial mechanisms must go hand-in-hand with proactive investments in risk reduction to optimise resilience outcomes and maintain insurability."

At the same time, insurers can take a more active role in shaping both global and local policy decisions around financial resilience and can invest more in improving insurance literacy. "This is a task not only for insurers but also policymakers, regulators and insurance supervisors," Iyahen stresses.

She concludes: "While development banks provide long-term capital for infrastructure and economic development, insurers offer financial protection and incentivise proactive risk reduction. These approaches should not operate in silos. Rather, they need to work together to support robust risk-layering strategies for governments, whether in response to disasters or other risk financing contexts." ■

"If you're looking to establish yourself in emerging markets, that's more like a 10- or 20- or 30-year decision. You're making much more of those strategic investments and that's where the climate risk becomes much more pertinent"

Bronwyn Claire
Ortec Finance

Climate finance should focus on private capital, not just public funding: WWF

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Public finance may dominate climate discussions, but the impact of private sector money is 'much, much bigger', WWF UK's chief economist says

Climate finance must extend beyond public funding to include the transformative power of the private sector, including insurers, according to the chief economist at WWF UK, Karen Ellis, *writes Queenie Shaikh*.

In an interview with *Insurance Day*, Ellis says while public finance tends to dominate climate talks, the potential impact of private sector money is "much, much bigger" and therefore crucial to tackling the cost of a changing climate.

The role of the insurance industry in improving climate resilience is under scrutiny.

"We've seen the fires in the US and the insurance companies pulling out. That means households are going to end up with no cover. The government then must step in," Ellis says, highlighting the growing need for alternative government-funded insurance mechanisms.

Travelers Insurance recently announced $1.7bn in pre-tax losses from the California wildfires. These losses are the heaviest in a series of loss estimates from major carriers in the wake of fires that devastated nearly 50,000 acres of land in and around Los Angeles.

Other carriers affected by the wildfires have also reported losses in the hundreds of millions or even billions.

Fiscal pressures

It is this critical intersection of public and private finance that is becoming increasingly important as governments grapple with climate-related fiscal pressures. Ellis says governments need to consider seriously how these costs will affect their economies and adapt accordingly.

She outlines how WWF is already trying to address this challenge through strategic partnerships. The organisation has been working with Aviva since 2021 to help transform what WWF describes as one of the biggest indirect drivers of climate change: the UK's finance sector.

The partnership explicitly focuses on

building climate resilience from an insurance perspective, with WWF pointing out Aviva is "all too aware of the devastating effects of climate-related extreme weather on customers and communities".

These partnership efforts were strengthened by a September 2023 WWF report, supported by Deloitte Switzerland, which described insurance companies as "economic heavyweights" whose underwriting decisions could dramatically improve efforts to address climate change and nature loss. The report found many economic activities underwritten by insurance companies are fuelling rather than addressing these twin crises.

Climate action – let alone climate finance – faces the scepticism of the newly installed US president, Donald Trump, with his mantra "drill, baby, drill". This, combined with rising geopolitical uncertainty, makes justifying spending on climate change solutions challenging.

But Aaron Vermeulen, global practice finance lead at WWF International, urges potential climate financiers not to hesitate, stressing the risks of inaction and inconsistency from financial institutions and insurers outweigh the risks of ambitious climate action.

"If you as a financial institution [are] not paying attention and not being consistent in how you address these risks, then it will punch you in the face," Vermeulen says, emphasising climate impacts will continue regardless of political fluctuations.

'We've seen the fires in the US and the insurance companies pulling out. That means households are going to end up with no cover. The government then must step in'

Karen Ellis, WWF UK

This warning is already playing out in key markets. In California, Hartford Financial Services, State Farm and Allstate have ceased writing new home insurance policies following last year's wildfires, while in Florida flood insurance costs have doubled or tripled for thousands of homeowners in flood-prone areas.

According to statistics from the California Department of Forestry and Fire Protection (Cal Fire), a total of 7,127 wildfires burned a total of 324,917 acres in California in 2023. Last year, Cal Fire responded to 8,024 wildfires that burned more than one million acres.

Innovation

However, there are reasons for optimism. Ellis and Vermeulen highlight innovative approaches to climate finance that could create new opportunities for the insurance sector.

The Dutch Fund for Climate and Development, they argue, is a perfect example of where private capital has amassed more firepower than public spending could achieve alone, having successfully mobilised €1.3bn ($1.36bn) in commercial finance from an initial €200m government grant.

They also highlight the UK's ambition to become the world's first net-zero aligned financial centre, announced at COP26, as potential best practice, although Ellis says this "hasn't quite lived up to its promise yet".

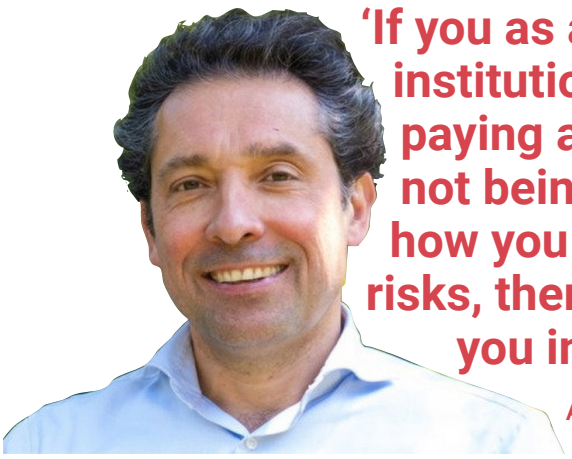
The UK government's recent commitment to require 1.5°C aligned transition plans from FTSE 100 firms could create new imperatives for insurers, both as institutional investors and as underwriters, Ellis argues.

Looking ahead to future climate talks, including COP30 in Brazil, Ellis and Vermeulen emphasise the need to focus on mobilising private finance and creating appropriate regulatory frameworks.

For insurers, the message from WWF is clear: these are existential threats that demand immediate attention. Ellis emphasises that both physical risks from climate change and transition risks from incoming regulation need to be managed better.

'If you as a financial institution [are] not paying attention and not being consistent in how you address these risks, then it will punch you in the face'

Aaron Vermeulen, WWF International



She also points to opportunities, saying "there's a lot of potential for investment and growth of these kinds of industries of the future".

The September 2023 WWF report outlines specific steps insurers can take to reduce their negative environmental impact and become catalysts for change.

These include strategically aligning underwriting policies with global climate and biodiversity goals, engaging with clients and brokers on the green transition, and promoting resilient choices through product design and claims management.

Marcel Meyer, head of sustainability services at Deloitte Switzerland, who co-authored the report, says the insurance industry has the power to play a leading role in climate goals, by incentivising sustainable practices and promoting responsible behaviours from its clients.

WWF is actively working to develop opportunities through various initiatives. The organisation recently signed a memorandum of understanding with the European Investment Bank to develop a pipeline of nature-based solutions worth half a billion euros over five years.

They are also working with the Asian Development Bank to establish a major solutions financing hub in the Asia-Pacific region.

Barriers to progress

However, political deadlock between developed and developing nations remains a significant barrier to progress in climate finance, according to Ellis, with emerging markets demanding greater financial support from nations they view as historically responsible for climate change.

She argues Brazil's proposed Tropical Forest Financing Mechanism offers one potential breakthrough, creating a sovereign lending mechanism that would financially reward countries for preserving their tropical forests while imposing penalties for deforestation.

This approach, Ellis suggests, represents the kind of innovative thinking needed to unlock more finance and overcome the current impasse in global climate funding.

For insurers, these developments in creating a climate finance architecture are significant, since their sector faces two pressures – as institutional investors needing to decarbonise portfolios and as underwriters managing escalating climate risks.

US insurers withdrawing from high-risk areas highlights one of the central paradoxes for insurers when it comes to climate, Ellis says. This is, how to maintain coverage in increasingly vulnerable regions while remaining financially viable.

The WWF report recommends several specific measures to address this challenge, including reviewing policies to eliminate "harmful" incentives that impact the environment and communicating clear phase-out plans for any fossil fuel-related business in line with the International Energy Agency's net-zero emissions by 2050 scenario.

The emergence of new blended finance models could also offer solutions. "The role of concessional finance in derisking investments is crucial," Vermeulen says, suggesting new structures where public funding could help insurers maintain coverage in challenging markets.

This could be particularly relevant for parametric insurance products in developing nations, where traditional insurance models may struggle with climate-related risks.

Looking ahead, both experts emphasise the insurance sector's role in climate resilience will only grow. As governments grapple with limited public finances post-Covid, innovative insurance solutions could help bridge the protection gap in vulnerable regions.

However, this will require new forms of public-private partnership and potentially novel approaches to risk assessment that incorporate both climate and nature-related factors.

"The government must step in through welfare or through setting up alternative government-funded insurance mechanisms," Ellis notes, again highlighting the urgent need for the insurance sector to work with policymakers on sustainable solutions before public finances become overwhelmed by climate-related costs.

Insurers must engage proactively with climate finance developments. As Vermeulen warns, the risks created by inaction are substantial, regardless of short-term political shifts.

The sector's expertise in risk assessment and management could prove crucial in developing the public-private financial network needed to address the world's climate challenges. ■

For insurers, these developments in creating a climate finance architecture are significant, since their sector faces two pressures – as institutional investors needing to decarbonise portfolios and as underwriters managing escalating climate risk

Insurers must solve the climate finance conundrum

Sergii Tsololo/Alamy Stock Photo

Climate lobbyists ask how insurers can justify support for the industries that drive escalating risks

As wildfires rage and hurricanes batter coastlines, the insurance industry finds itself at the epicentre of a climate-driven storm of its own, *writes Queenie Shaikh*.

It is a storm that proves climate change is not just ravaging communities but is also reshaping the foundations of the financial system that underpins the global economy.

"Over the past 20 years, since the start of the century, an estimated $600bn – roughly more than one-third of all weather-related insured losses – can be attributed to climate change," Risalat Khan, senior strategist at Insure Our Future, says. "Not only that, but we also found the trend lines are upwards on this. In other words, the share of climate-driven weather insurance losses is going up."

This stark financial reality poses an uncomfortable question for insurers from the climate lobby: how can they justify continuing to support the very industries that are contributing to these escalating risks?

The irony is difficult to ignore. In US states such as California and Florida, insurers are withdrawing coverage from regions deemed too risky because of extreme weather events, while simultaneously providing the financial backstop for new fossil fuel projects scientists say will exacerbate these same climate impacts.

"Over the past 20 years, since the start of the century, an estimated $600bn – roughly more than one-third of all weather-related insured losses – can be attributed to climate change"

Risalat Khan
Insure Our Future

"Their main reaction is not to stop fuelling the crisis; it is first preventing this risk on their business, not on our society," Ariel Le Bourdonnec, insurance campaigner at Reclaim Finance, says. "That means reducing exposure, increasing their premiums or, in the worst cases, just a withdrawal from the market, as we saw in California."

Contradictions

This behaviour reflects a wider tension within the insurance market. Insurers are eager to highlight their commitment to supporting the green transition through new climate-friendly products and services, but many remain reluctant to address their continued involvement in fossil fuel expansion.

"We see a lot about these insurers supporting the transition, but they are avoiding talking about the main issue, which is their support for ex-

pansion [of fossil fuels]," Le Bourdonnec continues. "They're claiming they're supporting the transition while they keep fuelling the climate crisis by insuring new fossil fuel projects, especially oil and gas."

Insure Our Future argues this contradiction does not make financial sense. According to their analysis, the fossil fuel industry represents a tiny fraction of the insurance sector's underwriting income, yet the climate-related losses they are paying out are already exceeding those revenues.

"When we looked at 28 top property and casualty insurers, we actually found that for more than half of them, the estimated climate-attributed losses already seem to exceed what they're making in terms of underwriting income from fossil fuels," Khan reveals.

"The insurance sector, more than any other sector, has a real economic stake in these damages, because they're paying out. When that hurricane or wildfire happens, they're the ones paying up," he says.

Yet many insurers privately acknowledge the complex reality they face. The global economy remains deeply dependent on fossil fuels, which still account for roughly two-thirds of global energy consumption. For insurers, continuing to support these businesses represents the realpolitik of operating in today's world.

"We know that our world is dependent on fossil fuels," Le Bourdonnec says, highlighting the grey area insurers must navigate. Major economic sectors from manufacturing to agriculture to transportation cannot function without fossil fuel-sourced energy in the short term, and a precipitous withdrawal of insurance coverage could trigger economic instability that would harm the very communities that insurers aim to protect.

This reality is a delicate balancing act, and one where insurers must consider both climate imperatives and their role in maintaining economic stability during what will inevitably be a gradual, rather than overnight, transition.

Responsible approach

What would a responsible approach to climate insurance look like? Is there a middle path that allows insurers to continue supporting the energy needs of today while facilitating the transition to a low-carbon future?

Le Bourdonnec suggests one clear boundary: "If they want to keep insuring the fossil fuel sector, meaning those projects that are already in operation, fine. But insuring new fossil fuel infrastructure is another topic and, on this, I don't think there is any middle ground with what the science is telling us."

This distinction between existing and new fossil fuel projects emerges as a potential line in the sand – one that some insurers are already beginning to draw, at least for certain types of projects. "We were happy to see Generali, the Italian insurer, last year adopt an approach that covers the whole of the oil and gas value chain, including LNG [liquefied natural gas] terminals," Khan says. "It still shows when a company wants to, it is possible to make those kinds of decisions, saying, 'We will not be expanding underwriting anymore'."

Generali's climate strategy includes a commitment to "mitigate global warming and develop climate change adaptation strategies". Their policy framework, originally approved in 2018 and updated in July 2023, establishes clear principles to guide decision-making around environmental issues, including the "integration of environmental and climate aspects into insurance and investment".

The insurer has positioned itself as supporting "a fair and socially just transition to a net-zero emission economy", laying out measures for implementing this strategy across its core business activities. Yet Khan points out limitations in its approach: "They can still go further, because they have said the policy only applies to transition laggards. But 96% of the oil and gas sector are expanding. And if you're expanding in 2025, you are a transition laggard. So, it's not a meaningful distinction."

Reputation

What is driving those insurers who have begun to act? The answer, in many cases, comes down to reputation management – especially for consumer-facing brands.

"Many insurers are famous brands known by the public. Their reputation is their main asset," explains Le Bourdonnec. "The confidence that we put in their brand is their main asset. So, if there is a threat to this confidence, they will act very quickly."

Civil society organisations have leveraged this reputation vulnerability

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Ariel Le Bourdonnec
Reclaim Finance

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James Vaccaro
Climate Safe Lending Network

effectively, particularly around controversial projects like the East African Crude Oil Pipeline (EACOP) in Uganda and Tanzania.

"When you have this mix of all these issues at the same time – climate, human rights, local impacts – I think you have the perfect cocktail for a project that is dangerous to insure, because there is this potential image risk," Le Bourdonnec says. "As of today, we have more than 20 insurers that ruled out insuring EACOP."

Meanwhile, James Vaccaro, executive director at Climate Safe Lending Network, points to the interconnectedness between banks and insurers in the financial system's climate response. "Banks don't hang around very long when insurance goes," he observes, highlighting how insurance decisions ripple through the wider financial sector.

Vaccaro also notes the growing tension between commitment and action within financial institutions, particularly around projects such as the controversial Rosebank oil field in the UK.

"If you're looking at the UK, if you take Rosebank, which is the one the Scottish court said was unlawful, you've got a project which is 90% oil, none of which the UK has got a refinery for. So, it's all being exported. It doesn't meet energy security needs," explains Vaccaro. "Any bank who claims they are trying to address climate cannot realistically be financing that."

Vaccaro also identifies a concerning trend in how financial institutions manage climate risk. "There are two forms of managing climate risk. The first is, how do you prevent the risk in the first place – you stop financing harm, you start financing solutions," he explains. "Another way of doing climate-related financial risk is just exporting it and pulling out from the places where there's the damage and potentially even continuing to finance the harm."

Regulatory and policy change

While celebrating these victories, climate advocates stress that voluntary corporate action alone will not solve the climate crisis. Regulation and policy changes are essential components of a comprehensive solution.

"There's a real backsliding where those who had said, 'Yes, we'll act on climate, we'll do the right thing, we'll go to net zero by 2050, we're developing plans to do that', a lot of them are going backwards," says Khan.

Meanwhile, Vaccaro emphasises the critical role of public policy in supporting market transformation: "Look at the example of feed-in tariffs for renewable energy. I started financing wind energy in 1998... now renewable energy in onshore wind farms is the cheapest form of energy in the UK, about three times cheaper than nuclear. It doesn't need that degree of public support."

The right policy frameworks, he argues, can accelerate private sector transitions: "These support mechanisms, if targeted by policy, by public investment, by various incentives and structures of support, needn't be in place that long before everybody's doing it."

He points to retrofitting housing as an example where targeted support can quickly transform markets: "Getting people over the unfamiliar technology and how does it all fit together... the industry learns. It becomes more robust, it becomes cheaper, it becomes quicker, it becomes less hassle. There's less friction and more of it is done. You see the neighbours over the road are doing it. It's easier."

As the industry looks towards COP30, the pressure on insurers to align their business models with climate science will only intensify. "At a time when costs and risks from extreme weather events continue to go up, and there is a lack of confidence that governments will do what's needed," Khan says, "really, no one in a position of power, in a position of meaningful influence, can sit behind the logic of 'someone else will do it; it's someone else's problem'."

The answer might lie, not in wholesale withdrawal from carbon-intensive sectors, but in using insurers' considerable expertise in risk assessment to guide clients through the energy transition. By differentiating between companies genuinely pursuing decarbonisation strategies and those expanding fossil fuel infrastructures, insurers can help shape market behaviours while maintaining their crucial role in the economy.

As Vaccaro explains, the emerging business models simply require financial support to scale. Once that support is in place, costs decrease, demand rises and widespread adoption follows – ultimately facilitating the transition. ■

Climate finance means sharing all the world – by insuring it

Re/insurers could make COP30 the most consequential of the UN's climate talks to date by enabling the finance sector to take a holistic approach to climate change

Imagine there's no insurance. It's easy if you try, especially if global warming continues its current trajectory, *writes Louise Isted.*

Günther Thallinger, chairman of both the sustainability and investment boards at Allianz SE, put it best in a recent post on LinkedIn: "There is no capitalism without functioning financial services. And there are no financial services without the ability to price and manage climate risk."

There is only one path forward, Thallinger stresses, and that is to prevent any further increase in atmospheric energy levels by burning less carbon or by capturing it at the point of combustion. "These are the only two levers. Everything else is delay or distraction," he writes.

Solar, wind, battery storage, green hydrogen, electrification, grid modernisation and demand-side efficiency are not sketches on a drawing board, but mature solutions. All that is needed from their deployment is speed and scale. For that, the world needs climate finance. Not as a sideshow to the economy and not as a marching band insurers can choose to join or leave. Otherwise, there really will be hell below us and above and all around us too.

Waiting for a definition

COP29 may have concluded with a new collective quantified goal on climate finance but, in the wider world of investment, the meaning of "climate finance" is open to interpretation.

On the one hand, there is *public* climate finance, which is the subject of the UN's climate talks. On the other, there is *private* investment in climate-related projects. In that dual context, re/insurers need to be clear about what they can and cannot do to help draw capital into the transition to net zero. The bold assertion insurance is the linchpin for private capital to flow is not the same as explaining exactly what re/insurers are offering.

The potential and actual roles of insurance in financing climate mitigation, adaptation and resilience is not a new debate at the UN level. Insurers were first present at a COP at least as long ago as COP3 in 1997, which famously concluded with the Kyoto Protocol. Insurers, research institutes and non-governmental organisations went on to form the Munich Climate Insurance Initiative (MCII) in 2005, in response to the growing realisation that insurance solutions can play a role in adaptation to climate change, as suggested in the Kyoto Protocol and the UN Framework Convention on Climate Change.

The MCII and many other initiatives that followed, such as the Insurance Development Forum that launched in 2016, are still going strong. However, the same cannot be said in all cases and, since the early days of UN climate talks, it has been proven time and again it is not enough to unveil an initiative at a COP, if it then takes months or even years to work out it cannot deliver everything that was promised. It would be much more effective if the designers of an initiative said from the outset: "We can do X, but we can't do Y." Then, they could work with other actors to find the missing pieces. If there is something everyone can agree on, it is there is no time to waste. Searching for a true definition of "climate finance" wastes time.

In the lead-up to COP30, investors and insurers will be watching closely the next generation of commitments that countries release – their Nationally Determined Contributions. Ambition-setting will not cut it anymore. There must be clear policy priorities embedded in legislation. Only then, can the required investment and insurance be deployed. That does not mean these cannot be planned now.

You may say I'm a dreamer, but it would be better to drop the word "climate" from climate finance and start making all finance decisions in the real world of climate change. Before it becomes the only choice there is. ■

The world needs climate finance. Not as a sideshow to the economy and not as a marching band insurers can choose to join or leave. Otherwise, there really will be hell below us and above and all around us too

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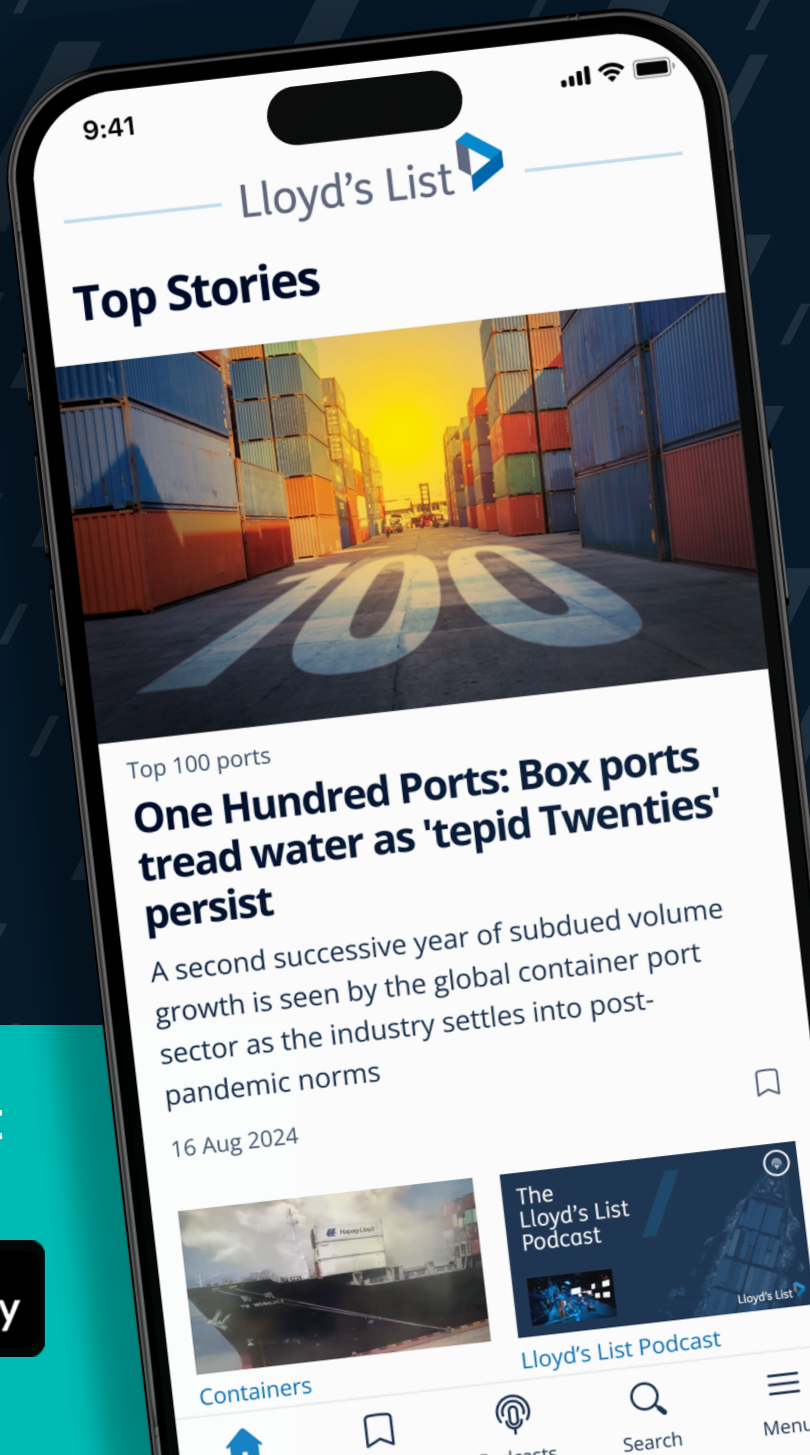

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