

FERMA's Position Paper on the EU's Blueprint for a new and more ambitious strategy on adaptation to climate change

15 September 2020

The Federation of European Risk Management Associations (FERMA) would like to thank the European Commission for the opportunity to share its feedback on the blueprint for the EU's new and more ambitious Adaptation to Climate Change Strategy.

For several years, FERMA has been actively engaged on topics related to climate risk: we provided recommendations to the 2018 evaluation of the EU Strategy on Adaptation to Climate Change and have commented elsewhere on the availability of insurance options for natural disasters and other catastrophic events. In addition, we've contributed to some initiatives stemming from the Sustainable Finance Action Plan.

FERMA welcomes the Commission's Blueprint for a new, more ambitious EU strategy on adaptation to climate change. We believe that the new, more ambitious strategy on adaptation to climate change should aim to make real progress on improving our understanding of climate risk, to allow the EU to better anticipate and prepare for the consequences of climate change, and minimize the impact of extreme events when they occur.

In this paper, we share our thoughts on climate risk management in general and on the climate protection gap specifically. FERMA supports the Commission's commitment to close the climate protection gap, as well as the prominence given to helping Europeans access better climate data and integrate climate change into their risk management practices. We also reiterate the continued need for EU-wide public access to climate-related risk data and the importance of promoting professional risk management practices inside businesses and public entities.

In addition, since the start of the COVID-19 crisis, FERMA has been working with other stakeholders to develop a new [Resilience Framework](#) that aims to better manage the share of uninsured losses resulting from catastrophic events. FERMA believes such a framework may be used to help close the climate protection gap by distributing losses across different risk-owners in a new public-private partnership.

Climate Risk Management

FERMA is firmly of the view that a risk manager's approach to managing climate risk is a pre-requisite step in closing the protection gap. Even more so, an enterprise risk management (ERM) approach taken on all levels (corporates, governments, etc.) can help inform better management of climate risks. Having in place sound ERM processes allows:

- The proper **identification** of risks
- **analysis** in terms of potential frequency and severity
- **evaluation** and **quantification** in terms of possible impact.

Once there is a full overview of the risks, organizations and public authorities can make the appropriate decisions to mitigate those risks, as well as decide on plans to recover quickly from the

events that materialize. Then, having implemented the suitable and cost-effective prevention and protection measures, the organization is still likely to have potential losses for which it has no appetite or financial capability. Only then will companies look to transfer the residual risks to an insurer or into the reinsurance market via a captive insurance subsidiary.

The value of professional risk management applies in the same way to the public sector. Economies rely on the quality and resilience of public infrastructures and a professional risk management process should be in place to ensure that public funding is directed effectively to reduce the social and financial consequences of disasters, including on commerce.

It must be borne in mind that all of the above relies on two key factors: i) public-private cooperation; and ii) availability of, and access to high quality data. This is why we are particularly supportive of the Commission's continued emphasis on helping Europeans access better climate data and integrate climate change into their risk management practices.

Closing the Climate Protection Gap

The proposed blueprint correctly notes that closing the climate protection gap remains an ongoing challenge. As was noted in the [2018 evaluation on the implementation of the EU Strategy on adaptation to climate change](#), although the 2013 strategy aimed to improve the market penetration of natural disaster insurance and to unleash the full potential of insurance pricing for risk-awareness, prevention and mitigation, etc. EU action has yet to bring clear results.

This protection gap does not exist because members of the insurance community refuse to acknowledge the severity of the climate issue. In the FERMA *European Risk Manager Survey 2020*, climate change and environmental damage are the top long-term risk identified, and in the 2020 *World Economic Forum Global Risks Report*, climate related issues dominate all of the top five long-term risks in terms of likelihood.

However, when it comes to systemic risks, such as climate change, it is beyond the capital of the private insurance market to provide material capacity to transfer risk due to the large-scale effect such events have on the economy. In these cases, adequate insurance relies on risk pooling, which increases the market capacity by diversifying risks among a broader base of insurers, or by providing the capacity for businesses to purchase specific types of reinsurance coverage.

Yet, while risk pools have proved effective in select member states, their coverage is limited to Member State level, and they usually only exist in wealthier countries of the EU, widening the climate risk protection gap within Europe and – as the proposed blueprint notes – disproportionately affecting those who may be most exposed to climate impacts. New solutions are therefore needed to ensure a just increase in insurance capacity that will enhance the resilience of the European community overall.

Introducing A New Resilience Framework

From the start of the COVID-19 crisis, FERMA has been spearheading efforts with a range of other stakeholders to develop a new **Resilience Framework for catastrophic risks** ([here](#)). This framework would function on four levels:

- Enterprise-level risk management: anticipation, prevention, identification and mitigation of risks

- Transfer of risk to private insurance and reinsurance markets, developing enhanced coverage for non-damage business interruption (NDBI)
- Member State reinsurance pools or guarantees
- EU support for, and coordination between national governments

To date, this work has resulted in an [Issues Paper](#), published recently by the **European Insurance and Occupational Pensions Authority** (EIOPA) on shared resilience solutions for pandemics. Although EIOPA envisages this framework as a solution for pandemics primarily, FERMA believes that it should be adapted and applied to other systemic risks, including climate change. In fact, the proposed blueprint on the Adaptation Strategy already mentions that “supporting and de-risking the creation of public-private partnerships” may permit the development of new risk transfer mechanisms that could help to close the climate protection gap. FERMA would be pleased to work with DG CLIMA to develop this existing initiative further, and make it possible to provide greater protection for European businesses, particularly the most vulnerable.

Crucially, in order to make this solution a reality, risk managers require better access to climate-related risk data. In FERMA’s recent response to the public consultation on Sustainable Finance, we recommended that the European Union consider digitizing such data in a centralized European database. To be actionable, this information should be delivered in an accessible and interactive format, and should be structured following the requirements of the **Non-Financial Reporting Directive** (NFRD). To be practical, the relevance of data should be determined following a risk and opportunity materiality assessment that will help distinguish information that is important and necessary to disclose from that which could be considered secondary and optional.

As the proposed blueprint acknowledges, ensuring the high quality of risk and vulnerability assessments is imperative for effective policymaking on risk prevention and management. Risk managers are therefore ideally positioned to help both private and public enterprises develop **Materiality Matrices** following established risk management standards such as **Enterprise Risk Management** (ERM) to help build the basis for shared risk transfer solutions.

As the representative body of risk managers in Europe, FERMA stands ready to contribute to the dialogue between the European Commission and industry to support the development of a new and more ambitious EU strategy on adaptation to climate change.