

INNOVATING FOR CLIMATE RISK

Challenges and opportunities facing the insurance ecosystem in its efforts to manage climate risks

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Actors across the ecosystem have a role to play addressing increased climate risk

1. The Industry's traditional risk transfer role is being tested

- Risk signalling muted due to temporal mismatch, lack of incentives, high-risk growth, inflation and heightened risks
- Society-wide solutions suppressed by conflicting political perspectives

2. It's a complex ecosystem, particularly as it relates to climate adaptation

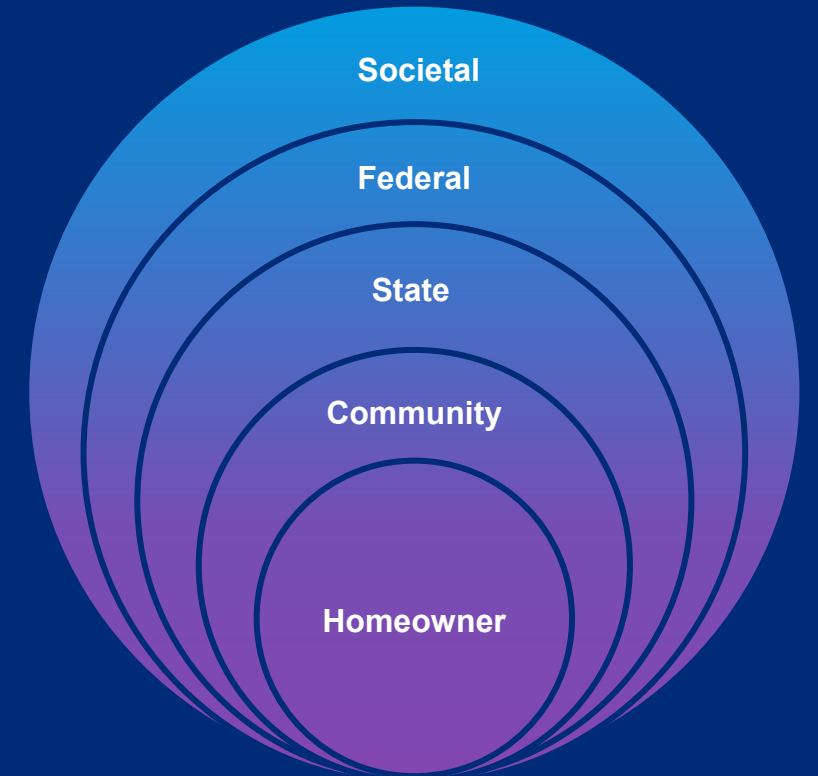
- Local risks require local solutions
- All levels of government involved
- Private capital absent clear returns
- Many view issue as long-term priority

3. Early innovations and partnerships are emerging

- Climate risks are rapidly evolving, creating opportunities to engage and drive impact
- New tools and opportunities for distribution, engagement and mitigation
- Lots to learn from developing world partnerships and product innovation

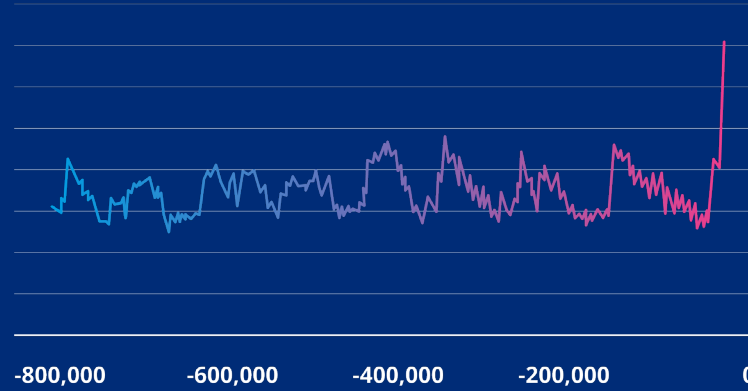
4. Five collective efforts to move the needle

- Equip communities to act
- Quantify the resilience dividend
- Incentivize private capital investment
- Ensure a risk-aware policy environment
- Institutionalize a build back better framework

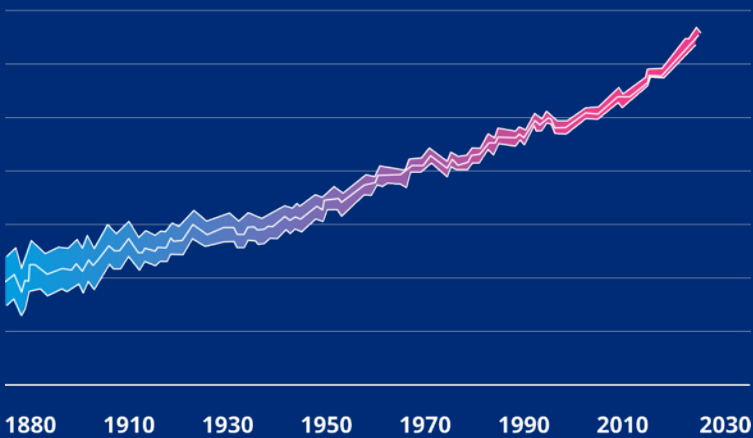


Natural science trendlines show rising risks

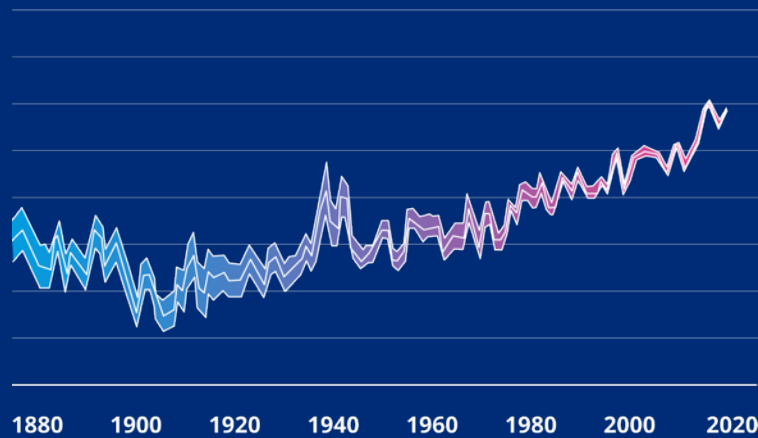
CO2 particulates (804,000 BCE to 2021 CE)



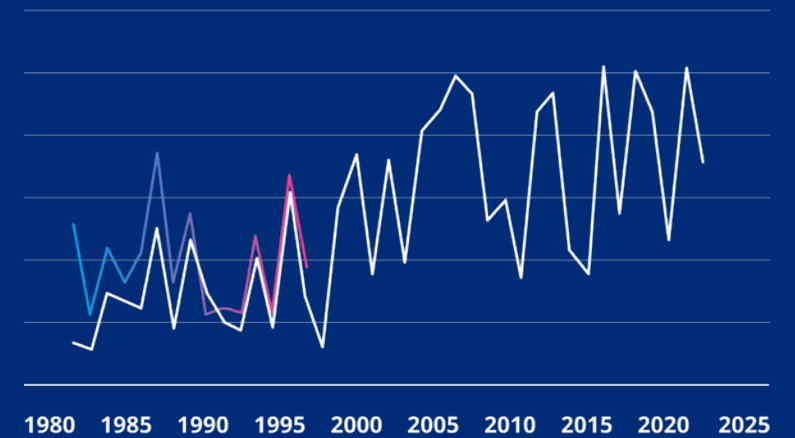
Global average absolute sea level change, 1880-2021



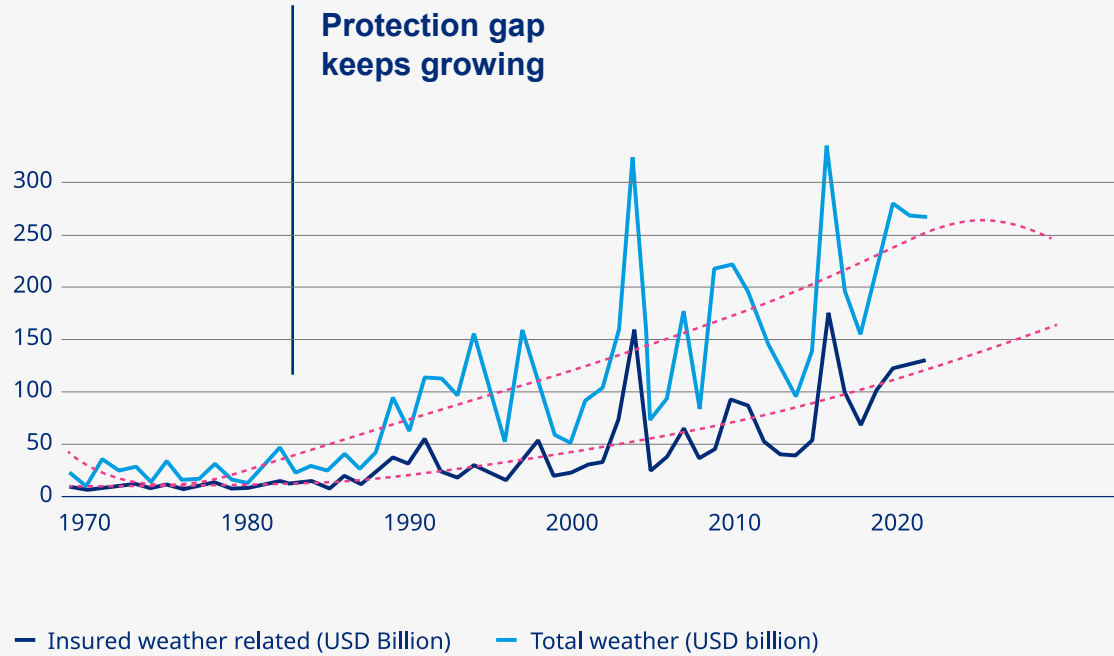
Average global sea surface temperature, 1880-2020



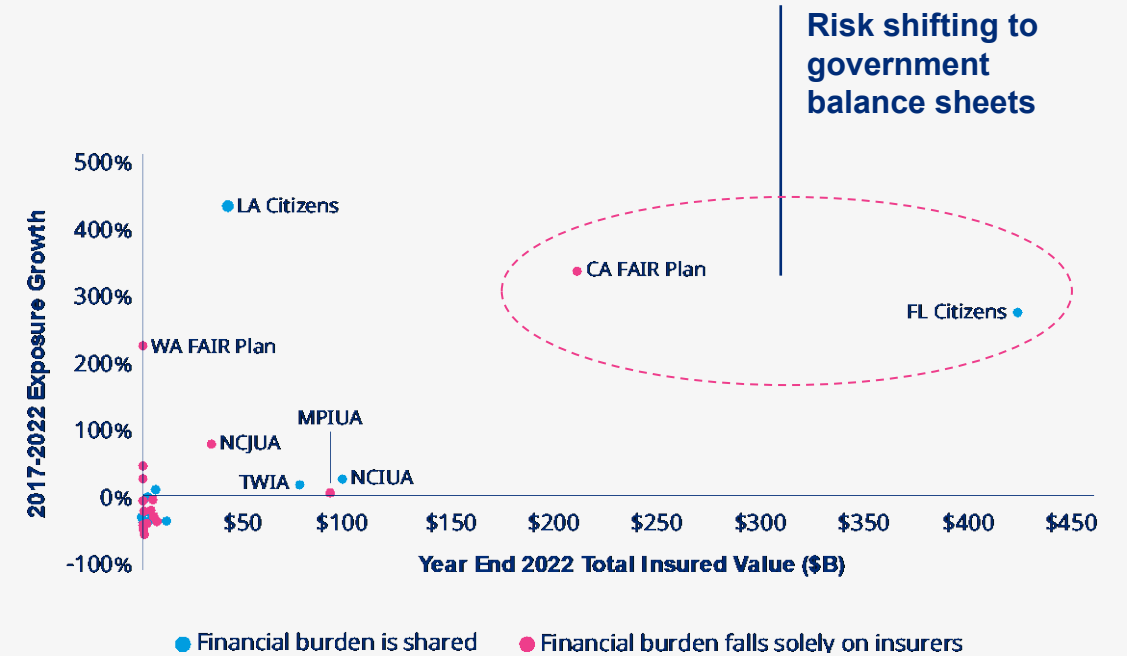
Wildfire extent in the United States, 1983-2021



Economic trendlines show a growing gap and increasing government role



Source: Oliver Wyman analysis based on Swiss Re Institute's Sigma Explorer assumed 60% loss ratio



Source: Milliman report "A Survey of Residential Market Plan Assessment and Recoupment Mechanisms, November 2023"

Insurance sector's signaling role is being tested

Incentives may be insufficient in face of long-term system-wide exposures

Like the canary that detects unseen risks, industry uses terms and conditions to send risk signals and incentivize individual behaviors.

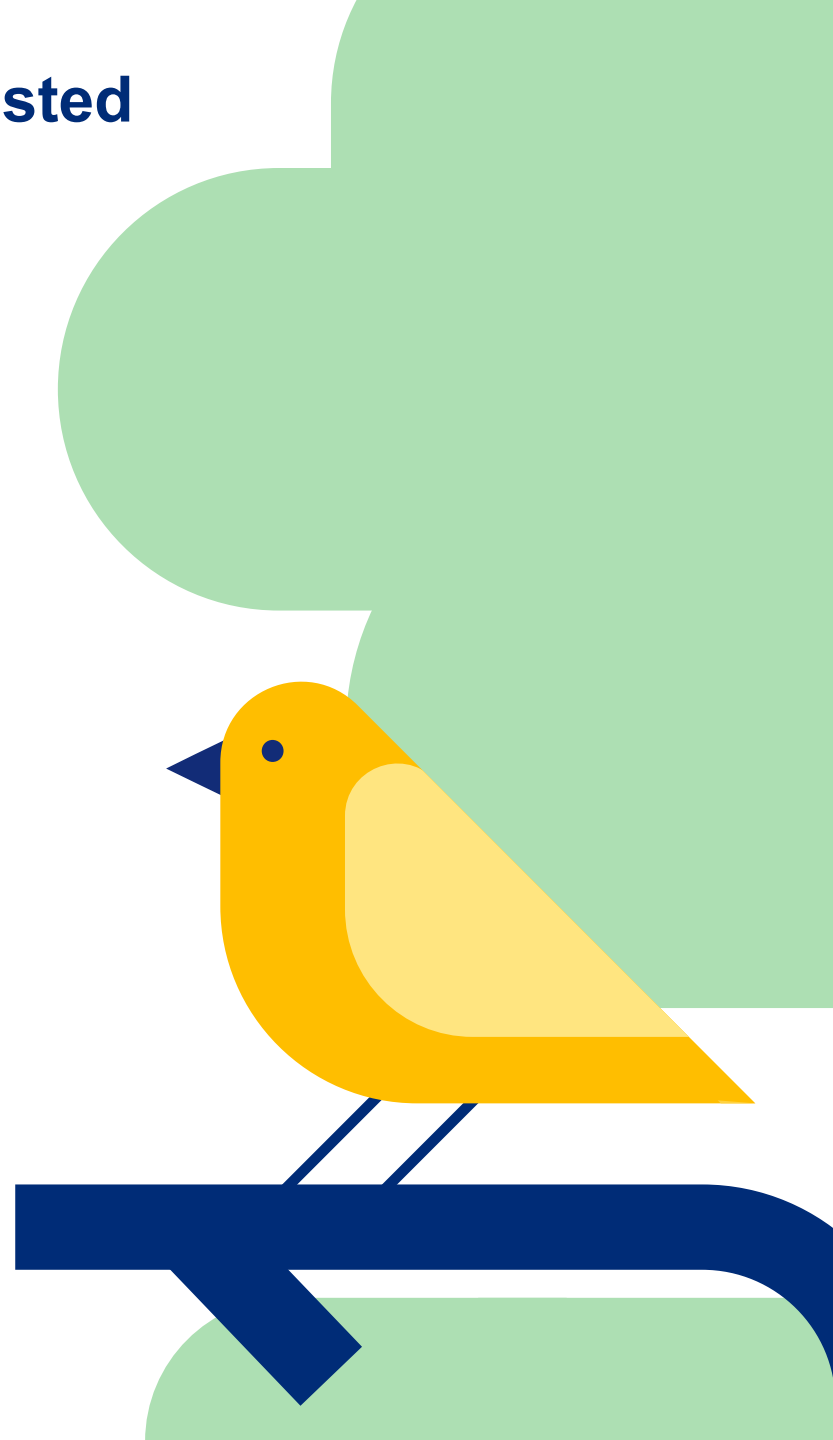
The typical delivery method – a 12-month insurance contract – is becoming less effective in performing that social role on climate-related risks.

Traditional Challenges

- Availability/affordability challenges as risks increase
- Claims inflation rising faster than CPI
- Development continues in high-risk geographies
- Extraneous litigation costs

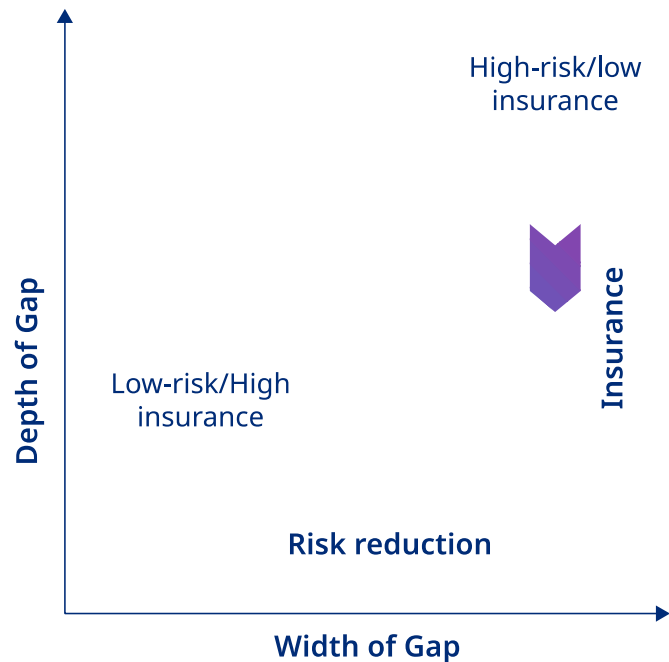
Climate Challenges

- Long-term climate modeling evolving
- Climate risks evolve inconsistently: some fast, some slow
- Systemic nature of climate exposures transcends individual efforts
- Few other financial sectors signaling same risks



Complex eco-system slows collective action and limits new funding sources

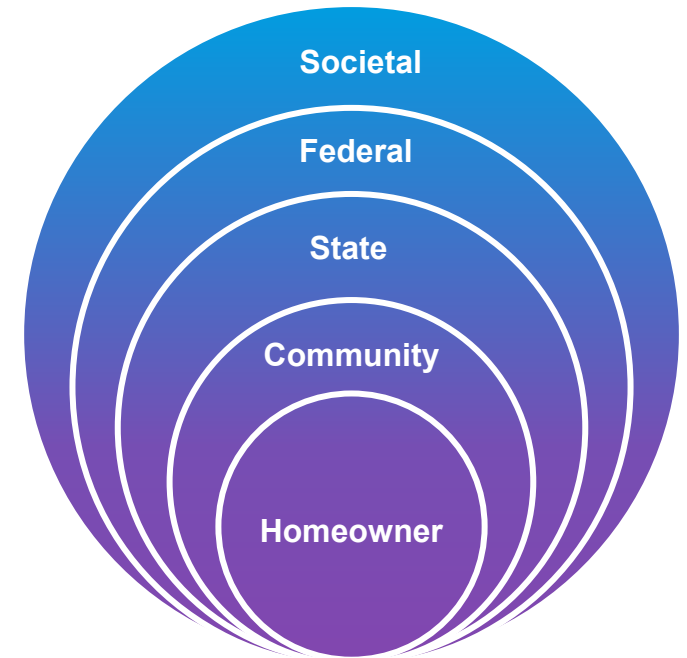
Two forms of resilience . . .



across six core assets . . .



and five systems



Matrix creates many options for system-level impact

Global leaders rank climate and natural risks as significant long-term challenges

Global risks ranked by severity over the short and long term

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period.”



Source: World Economic Forum Global Risks Perception Survey 2023-2024

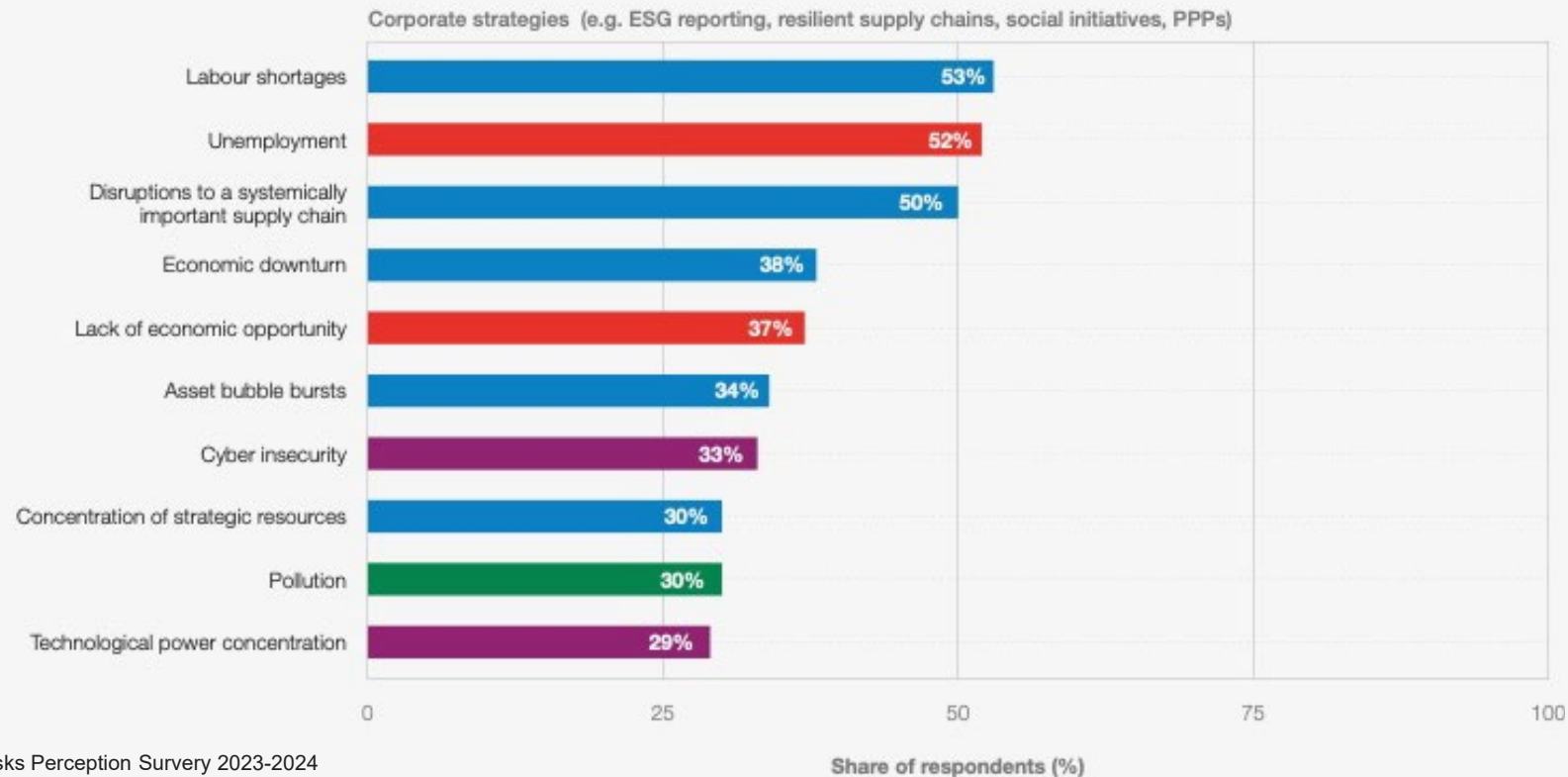
However, global leaders do not envision corporate strategies having a long-term impact on climate risks

Top global risks addressed by corporate strategies

“Which approach(es) do you expect to have the most potential for driving action on risk reduction and preparedness over the next 10 years?”

Risk categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

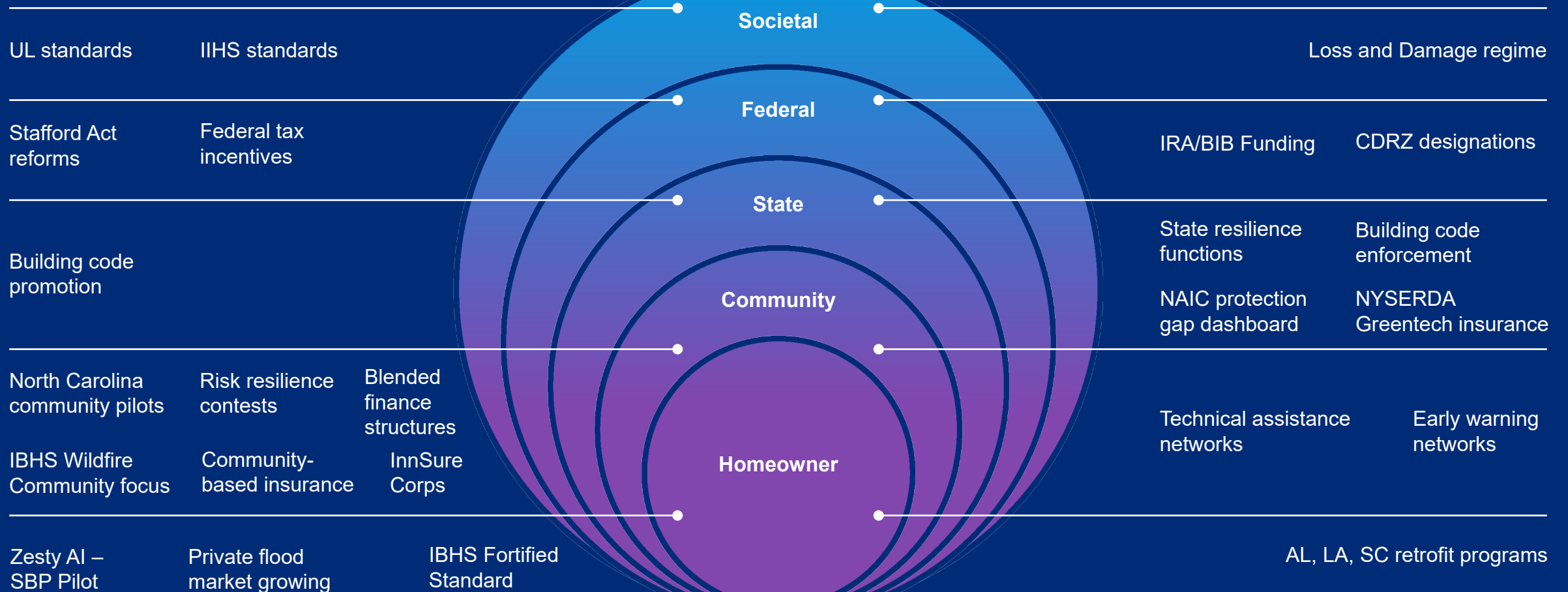


Source: World Economic Forum Global Risks Perception Survey 2023-2024

Pilots, partnerships and best practices are emerging, but much more work is needed to scale impact

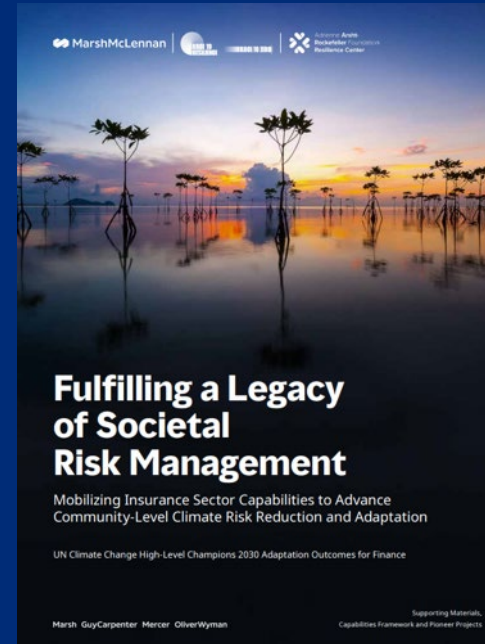
Private sector efforts

Public sector efforts



Marsh McLennan & UN reports illustrate emerging partnerships

COP Race to Resilience Reports feature over 50 projects tying insurance to climate risk reduction



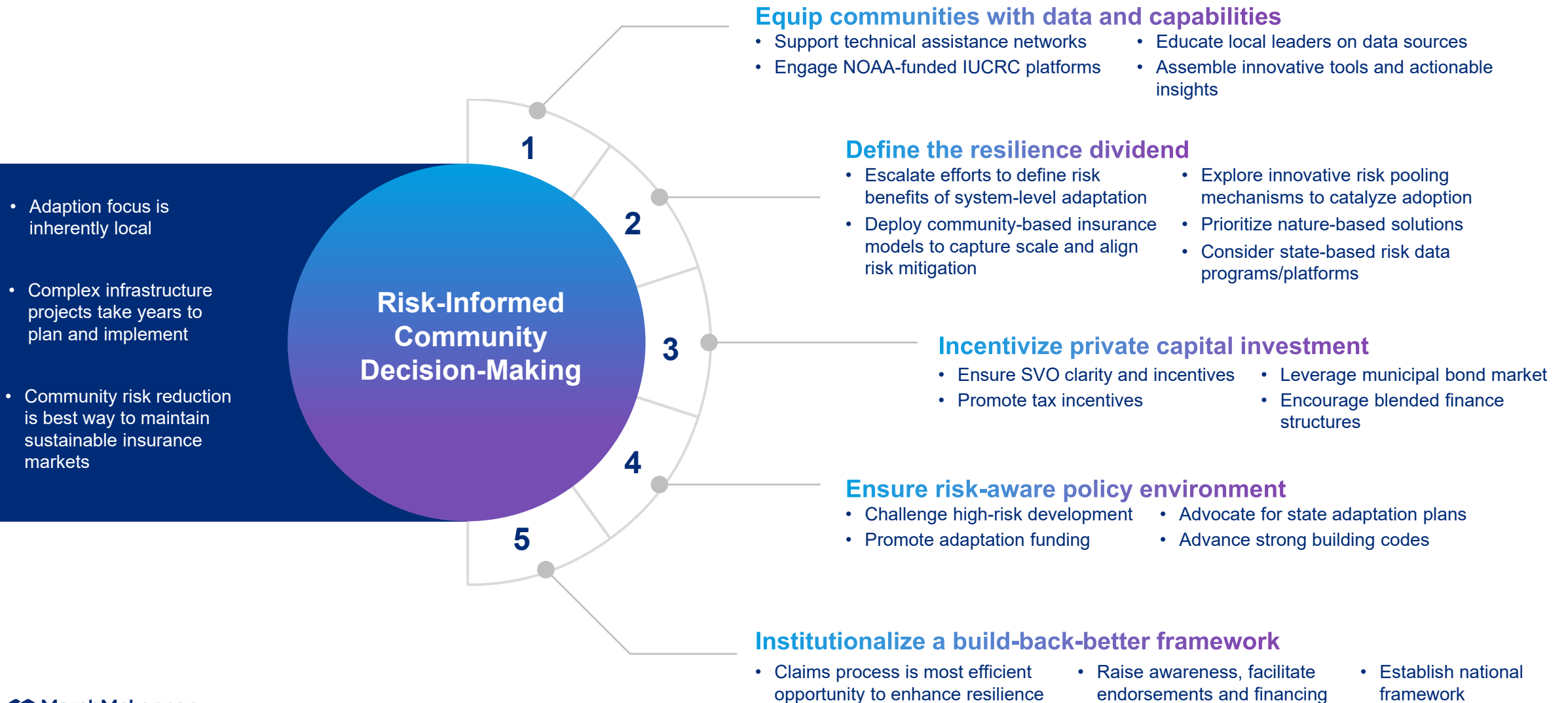
https://www.marshmcLennan.com/content/dam/mmc-web/insights/publications/2022/november/Race%20to%20Resilience%20Report_COP27%20FINAL.pdf



<https://www.marshmcLennan.com/insights/publications/2023/december/building-a-climate-resilient-future.html>

Public and private sector collaboration is key to driving impact

Objective is to reduce climate vulnerability and exposure at the community level





**We are doing something for
manufacturers and buyers and
users and property owners
everywhere . . . we are doing
something for humanity.**

— William Henry Merrill, Jr.



Thanks

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