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Nature positive insurance:

how insurers can evolve thinking and practices to contribute to stop nature loss and to increase nature restoration

TRANSITION PLANS THAT LACK OBJECTIVES AND CLEAR TARGETS TO ELIMINATE AND REVERSE DEFORESTATION ARE INCOMPLETE[1]

Indeed, neither climate change nor loss of nature will be solved in isolation, as they reinforce each other and are strictly intertwined. In this context, in 2022, the Kunming-Montreal Global Biodiversity Framework (GBS) has been adopted by the COP-15 and it is considered as the 'Paris Agreement for Nature', defining 4 goals and 23 targets to be reached by 2050. According to World Economic Forum, over 50% of the global GDP (approx. $44 trillion) depends directly or indirectly from natural resources, with some industries such as construction and agriculture more affected than others.

Ecology and economy are strictly interconnected, and the effects of loss of nature ultimately generate impacts on the financial system, too. As for the climate change mitigation and adaptation, the insurance sector is called to substantially contribute in achieving the goals of the GBS. As investors, protection providers and risk managers, they play a pivotal role in nature restoration and conservation as well.

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RISK MANAGERS

On the risk management side, nature-related risks are much more complex to assess compared to climate change ones, given the lack of data and scientific consensus. For example, whereas for climate change mitigation, emissions are a common impact metric, nature-related impacts typically require a much broader range of indicators. Furthermore, loss of biodiversity is much harder to link to singular high-impact events such as catastrophic hazards, thereby requiring broader and less specific data for assessment. This led EIOPA to issue its 'Staff Paper on nature-related risks and impacts for insurers', claiming for an immediate action although leveraging on qualitative approaches in the identification and assessment of nature-related risks.

INVESTORS

Insurance entities are also expected to integrate nature in their investment decisions, in respect of the prudent person principle, assessing their asset portfolio, engaging investee companies, integrate investment strategies and disclose accordingly. Comparable to the challenges on the risk management side, investment decisions and KPIs as they relate to nature require more comprehensive considerations and are difficult to link to a small set of KPIs. Aggressive reduction of CO_2 emissions by measures that have adverse impacts on nature might work towards decarbonization targets, but the tradeoff might be difficult to assess and balance. Examples of this are impairment of natural habitats in favour of solar parks, or adopting industrial processes that consume less CO_2, but produce significantly more wastewater. Consequently, in integrating nature into their investment decisions, insurers may need to adopt a more holistic approach compared to climate change only.

CONSEQUENTLY, INSURERS MAY NEED TO ADOPT A MORE HOLISTIC APPROACH COMPARED TO CLIMATE CHANGE ONLY

PROTECTION PROVIDERS

Finally, on the underwriting side, insurance coverages dedicated to the so called 'nature-based solutions' (NBS) are a promising business perspective. NBS are defined as 'actions to protect, sustainably manage, and restore natural and modified ecosystems that address societal challenges effectively and adaptively, with simultaneous benefits for people and nature.'[2]

Insuring NBS would have multiple potentially positive effects; such as:

- Further unlock the potential of NBS
- Greater ecosystem resilience means reducing potential insured losses associated with nature- and climate-related risks
- Development of new risk management services and insurance products that cover biodiversity and ecosystem services

Case study 1

A briefing paper produced by UNEP FI's Principles for Sustainable Insurance Initiative and Nature Team shows an example where the coastal tourism businesses, property owners, and municipalities in Mexico have worked on an NBS by purchasing a parametric insurance policy that protects 160 kilometers of coral reef from storm damage. In this case, insurance reimbursements are used to fund reef recovery and restoration activities in the event of storms with wind speeds exceeding certain parameters. These activities minimize storm damage to coastal communities and economies and improve reef recovery while being cost-effective. The estimated costs of these repairs are significantly lower than artificial measures, such as dam construction.

INSURERS FACE THE RISK OF DEVELOPING PRODUCTS AND SERVICES THAT CANNOT BE USED UNTIL APPLICABLE AND COMPATIBLE PROJECTS ARE IDENTIFIED AND DEVELOPED

Case study 2

The same paper also mentions another example, where a blue bond coupled with a parametric insurance was placed on the market as a solution to protect Belize's public debt following hurricanes. The parametric insurance is designed to activate when an event occurs that could cause damage equal to at least 20 percent of the Country's GDP. With this coverage, when the event occurs, the government can then have more resources to invest in disaster response and economic recovery. In this context, the government has pledged to spend about $4 million annually on conservation efforts that will help improve the resilience of the coral reefs that protect the country's coastline. The parametric solution, therefore, strengthens public capacity to invest in nature-based solutions and is a good example of public-private engagement.

ACT NOW

Despite the potential, some considerations must be taken into account when approaching NBS insurance coverages, both from an inside and outside perspective.

Indeed, lack of specific knowledges, difficulties in risk modeling and competing internal priorities might slow down the process. On the other hand, insurers face the risk of developing products and services that cannot be used until applicable and compatible projects are identified and developed.

Despite these known limitations, first mover insurers in Europe show how it is nevertheless possible to start acting now at different levels in order to approach nature conservation and restoration from an insurance perspective. Some quick-win action where to start from could be:

- integrate NBS in net-zero targets: as an example, a European insurance group supports a biomass burial project as part of its net-zero goal;
- insure NBS with traditional insurance coverages (e.g., CAR coverages for dedicated nature-positive projects);
- start investing in developing internal knowledge and spread awareness regarding the impact of nature for the financial system;
- advocate for nature with studies, papers, engagement, etc.;
- understand and assess the nature footprint of the investment portfolio, where data (especially on deforestation) are available;
- support nature through own operations, building and/or restoring green areas;
- identify and (qualitatively) assess nature-related risks and opportunities for the different LoBs and asset classes, incl. interconnections with other environmental and social risks;
- define clear and measurable goals, targets and action plans on nature-related actions, including clear governance and disclosure (e.g., according to the TNFD).

Point of no return is near. We cannot wait until we are able to fully assess and quantify nature-related risks and label 'nature-friendly' products. Leading insurers are called to act and lead by example in order to redirect capital flows, contribute to NBS development and spread awareness. ■

1 – Statement on Deforestation Financing from the Co-Chairs and Vice Chair of GFANZ

2 – The International Union for the Conservation of Nature (IUCN)