AXA
Response

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AXA Group response to the European Commission's Green Paper on the insurance of natural and man-made disasters

AXA welcomes the European Commission Green Paper on the insurance of natural and man-made disasters. We believe it is another milestone on the way to the promotion of (re)insurance as a tool of disaster management and to foster a general culture of disaster risk prevention and mitigation across the EU.

As a leader in the industry, AXA has the responsibility to leverage its expertise to help find solutions to the climate challenge. AXA has chosen to be active not only in the elaboration of its insurance products by proposing reliable solutions, but also by improving its understanding of climate risks, better managing them, and sharing this knowledge with others. AXA aims to contribute to increasing society's resilience to climate change and its risks with the ultimate ambition to protect people, especially the most vulnerable.

To illustrate this orientation, we would like to stress that AXA is already involved in initiatives to help better understand, protect against and prevent climate risks:

- **The AXA Research Fund**, in which AXA has invested €100 million since 2008, and will reinvest another €100 until 2018 to support the production and diffusion of public research to increase knowledge on a number of insurance-linked themes. Of the 367 projects financed in 27 countries, 122 projects were linked to environmental risks, representing €23.5 million in investment (as of April 2013). In 2013, the ARF has already committed €1,4 million to climate risks research.

- **The AXA Group partnership with the international NGO CARE** established in 2010 to help vulnerable populations better prepare for climate-related risks. This partnership supports two initiatives: 1) an international research project on changing rainfalls patterns in 8 countries "Where the Rain Falls", and 2) a Disaster Risk Reduction (DRR) program, which focuses on prevention and awareness-raising for local communities in developing countries particularly exposed to natural catastrophe risks.

- **The United Nations Principles for Sustainable Insurance (UNPSI)**, which was signed by AXA and 29 other insurance companies in June 2012 at the Rio Earth Summit. These 4 principles provide a common framework for integrating environmental, social and governance (ESG) criteria into the insurance business. AXA was a founding member (2006) and is on the PSI Initiative Board (2013).

- **The UN Principles for Responsible Investment (UNPRI),** where signed by AXA IM (2007), AXA Private Equity (2008), AllianceBernstein (2011) and AXA Group (2012). This is a major collective initiative that seeks to promote responsible investment by integrating of ESG criteria among investors and asset managers.

- **The United Nations Office for Disaster Risk Reduction (UNISDR)**, where AXA became 2013 a selected member of the Private Sector Advisory Group. This initiative aims to coordinate disaster reduction and to ensure synergies among disaster reduction activities with an important focus on risk prevention.

Nevertheless, AXA believes more can be done in terms of promoting public private partnerships to better align incentives for prevention and long-term risk reduction and to strengthen and expand disaster risk reduction. While the insurance industry has a role to play in helping to understand and manage climate risks, we would like to underline that tackling climate risks also requires in our view collective action, where governments should be deeply involved.

The recent **"AXA Group - Ipsos climate perception survey"**[1] (October 2012), which aimed to understand how individuals perceive climate risks shows there is a growing need to address this issues. Indeed, 90% of people surveyed believed that the climate has changed significantly in the past 20 years and that it is generating a feeling of anxiety (with 30% of people stating it has impacted their personal comfort). However, 88% of people believe that solutions exist and 61% that the insurance sector has a role to play.

We believe the Green Paper is addressing the key points of the debate and puts reasonable principles forward. Regarding the questions asked in the paper, AXA welcomes the subjects highlighted in general, and would like to further discuss two areas of actions that may have the potential to deliver results over the mid to long term:

1. Continuously improve knowledge around and understanding of catastrophe risks through **better quality and diffusion of data**;
2. Build on this expertise to progressively and better **include the risk level information into the development of a risk-sensitive insurance**.

1. Data quality and availability

*Question 12: How could **data** on the impacts of past disasters be improved (e.g., by using standard formats; improved access to and comparability of data from insurers and other organisations)?*

AXA supports the need to improve the production of physical data on natural catastrophes:

- The construction of standardized frameworks which would mean normalizing data and their diffusion (confidentiality, costs, legal issues) would be key to ease the production and diffusion of data on past extreme events.
- Those data should relate to both the physical description of events (intensity of wind speeds, water depth, ground acceleration and associated return periods) and the impacts in terms of damages and losses. On the latter, loss databases constructed from industry-wide initiatives like PERILS should be mentioned as a powerful tool to increase knowledge on past disasters;
- The granularity of data is a key aspect that needs to be enhanced: data provided at the regional/local scale are critical to the development of accurate impact studies.
- Such frameworks would need to address legal, proprietary/ confidentiality and commercial issues associated with the sharing of data.

[1] In 13 countries amongst over 13,000 people (France, Germany, Italy, Belgium, Switzerland, Spain, United Kingdom, Turkey, Japan, Hong-Kong, Indonesia, the United States and Mexico)

In general, we think risk management strategies would highly benefit from enhanced physical information. Moreover, a contribution of the enrichment of insurance claim databases is also critical as those claims are invaluable in calibrating insurance loss models.

*Question 13: How could the **mapping of current and projected/future disaster risks** be improved (e.g., through current EU approaches in flood risk mapping under the Floods Directive 2007/60/EC,29 civil protection cooperation30 and promotion of EU risk guidelines31)?*

- First, as explained above, by enhancing data quality and volume. For natural disasters of an atmospheric source, enhancement should target meteorological/climate observations as well as climate projections. The development of refined climate models, able to deliver projections at the regional/local scale, is a key area of improvement.
  Those refined data may support the development of insurance models in both:
  - their hazard component (model representation of all physical events likely to happen) and
  - their vulnerability component (conversion of events' intensities into damages).

- Second, research around the evolution of climate extremes under climate change should be further supported:
  - While trends are visible on simple atmospheric variables like temperature, sea level or humidity, the climate change impact on complex extreme physical events like wind and hail storms, floodings, droughts, is surrounded with material uncertainty today.
  - This uncertainty will need to be progressively resolved in order to implement locally efficient adaptation actions.

*Question 14: How could better **sharing of data**, risk analysis and risk modeling methods be encouraged? Should the available data be made public? Should the EU take action in this area? How can further dialogue between insurance industry and policymakers be encouraged in this area?*

- By supporting the diffusion of data and models between academics, risk managers, policy holders and all other relevant stakeholders. Appropriate sharing frameworks, as mentioned in the response to question 12 above, will need to be designed. In this context, the role of academia could be pushed to leverage the integration of science and research, at the onset of the decision-making process, to reduce uncertainties and ensure that decisions are made on rational and objective information.
- Making data available to the public would be a key discussion to have at the European level, as it would require a collective decision from the industry to ensure an equal playing field.

2. ***Risk-based insurance***

*Question 6: Could **risk-based pricing** motivate consumers and insurers to take risk reduction and management measures? Would the impact of risk-based pricing be different if disaster insurance was mandatory? Do insurers in general adequately adjust premiums following the implementation of risk prevention measures?*

AXA believes that insurance premiums truly reflecting the risk borne by the client would have two benefits:

1. Guarantee a sustainable insurance scheme where the risk is known and measured, and the solvency requirements properly assessed. Consequently, the insurance mechanism has the strength to overcome a major extreme event and play its protecting role over the long term.
2. Guarantee a sustainable insurance scheme where the right incentives are given. Insurance premiums may be comparatively higher for policyholders in exposed geographical areas, but could also be reduced for clients in safer regions. Similarly, risk limitation actions taken by the client could lead to a reduced insurance premium. Such a risk-based pricing may have the potential to induce behavioral changes and therefore promote some degree of loss prevention and resilience.

However, AXA considers a risk-based approach as a long term objective. Its operational implementation comes along with caveats:

- While it is surely a sound principle for the underwriting of specific commercial risks, applying the scheme on the retail business needs to be considered cautiously. Insurability of consumers for whom risk reduction is not an option should be preserved.
- Such a paradigm would need to be adopted collectively by the insurance industry, so that a loss in competitiveness would not be a price to pay for a given insurer.

In any case, operational implementation issues related to risk-based premiums should not impair the assessment and management of catastrophe risks from the insurance sector. Risk awareness/assessment, prevention services, improvement of infrastructures and the development of construction codes are instances that should all be developed on the short to medium term to accompany and support risk-based insurance. Furthermore, we believe that to guarantee this insurability, designing sustainable and fair insurance mechanisms, which have the ability to give risk mitigation incentives can only be reached through a close collaboration between public and private stakeholders.

*Question 8: What other solutions could be offered to **low-income consumers** who might otherwise be excluded from disaster insurance products?*

*Question 15: How can the Union most effectively help developing countries to create solutions for **financial protection against disasters** and shocks and what should be the priority actions? What types of partnerships with the private sector and the international institutions should be pursued for this purpose?*

The role of governments remains essential in situations where the private insurance is facing risk levels that would make risk-based insurance premiums unbearable by the client. In such cases, we call for public rules/public private partnerships schemes setting the scene for a fair and sustainable insurance market.

In developing economies, there is a need at European level to help better understand, inform, and protect vulnerable population of climate risks in order to limit their direct and indirect impacts. Different risk transfer mechanisms should be encouraged to promote

better protection for these populations by working on developing adapted products (e.g. micro-insurance), and investing in appropriate financial mechanisms (e.g. international pooling of risks).

There is also a need to build on existing pools of knowledge and expertise within the international arena, especially the ones promoted by the insurance sector (e.g. UNPSI, Global Compact, UNPRI, Geneva Association, UNEP, etc.). The work done by the UNISDR should also be promoted to expand the work being done on Disaster Risk Reduction at European and International level. Furthermore, the role of Non-Governmental Organization (NGOs) can also be strong local and international relays with whom the EU could work to facilitate, for example, better risk education in developing countries. Since 2010, AXA has partnered with the international NGO CARE to help vulnerable populations better prepare for climate-related risks, and they have been essential partners to help breach the gap between our operations and these populations.

Question 21: *This paper addresses specific aspects related to the* ***prevention and insurance of natural and man-made disasters****. Have any important issues been omitted or underrepresented? If so, which?*

In addition to the elements addressed in this Green Paper, AXA believes the EU with all public authorities have a role to play in accompanying the (re)insurance sector with the following issues:

- Integrate the improvement of infrastructures by developing new and adapted regulations (e.g. building codes, etc.), as well as the need to develop protection through better town planning (e.g. local risk mapping, flood defence systems, etc.)

- Promote the development of insurance products and services, which will help both mitigate the adverse impact of climate change, as well as ensure the adequate underwriting of indirect risks (e.g. understand risks linked to loss of business activity post NatCat, etc.) and secure a responsible management of claims (e.g. correct reparation after a claim with strong “post-claim” prevention).

- Finally, although this Green Paper focuses on insurance mechanisms, there is a need to encourage institutional investors to invest in mitigation and adaptation strategies (e.g. regulation giving particular benefits to investments in “green” or “adaptive” infrastructures, etc.).