VIEWPOINT

Insurers must be seen to take action on climate change

How transparently insurers address the issue of climate change has consequences not only for their relationship with regulators and policyholders, but also for their ability to recruit and retain new talent

Antonio Huertas
Mapfre

The world has been put on notice it has 10 years left to fix climate change. The UN Intergovernmental Panel on Climate Change's (IPCC) special report on global warming of 1.5°C left the world in no doubt as to the severity of the situation facing us: we have until 2030 to stave off the worst impacts of greenhouse gas emissions.

Last month, the World Economic Forum (WEF) issued its Global Risks Report 2020. For the first time in the survey's 10-year outlook, the top five global risks in terms of likelihood were all environmental.

The economic impact of climate change should not be underestimated. A study by the US administration estimates by the end of the century the economic impact of climate-related events could represent 10% of US GDP annually: $2trn or almost double the GDP of Spain. According to the WEF, more than 200 of the world's largest companies have estimated climate change could collectively cost them almost $1trn if action is not taken.

This is not the first report to highlight the climate change crisis we face. Report after report has clearly demonstrated the need for urgent action. If we want to limit global warming to the recommended 1.5°C rise above pre-industrial levels, we have to slash worldwide carbon pollution by more than half over the next 10 years. Yet even after all the stark warnings we have received, we seem to be going in the opposite direction: the UN's most recent annual emissions gap report shows global greenhouse gas emissions actually rose 1.5% in every year of the past decade.

The issue is the impact is all too often not felt by those who are at the heart of the problem. While local pollutants pollute locally, greenhouse gases do not respect geographical borders. Spain's emissions contribute to warming in Senegal and Senegal's emissions contribute to warming in Sri Lanka.

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Worse still, emissions-related economic damages are distributed in a starkly differing manner, meaning a large number of minor actors in this tragedy (countries with comparatively low emissions per capita) are set to suffer disproportionately in the future. This could risk eroding the historic gains made universally in terms of reducing extreme poverty.

Concerted action is required not only to reduce emissions but also to develop credible adaptation strategies, which include a gradual closing of the insurance protection gap and an expansion of public and private financing to cover the cost of societies transitioning adequately to the new reality.

Important role for insurers

In this context, insurers have an important role to play in assisting with the switch to a more sustainable economy and not just because the costs of catastrophic events have an impact on our income statements. The experience of many countries shows public policy is more successful when it incorporates insurance mechanisms to compensate for the economic and social effects of natural disasters, thereby alleviating the burden on the public purse.

It is crucial for governments to better recognise the role and benefits of insurance as an efficient tool to protect and compensate for this type of catastrophic risk.

But the issue for insurers is not just the way in which they interact with governments and their clients; there are internal issues as well. Our staff are aware of and increasingly concerned about the direction and impact of climate change. As such, they want to work for companies that are making a positive difference to global sustainability.

Next year, millennials will represent 50% of the workforce and this figure will rise to 75% by 2030. We are witnessing social transformation no longer from above but from below. Grassroots movements, including schoolchildren all over the world, are calling for a global, coordinated response from the entire planet to one of the greatest challenges we face.

Insurers, like all companies, are essentially large groups of people working together towards specific financial and developmental objectives, so everything we can do individually to fight climate change can be applied in the same fashion at our places of work, only on a larger scale. Employees should actively encourage best environmental and energy management practices in their own work areas.

Senior management has the obligation to ensure the company's operational processes respect the environment and make maximum use of energy resources and all external suppliers and providers assume their responsibility in this respect too.

Glossy veneer

As an industry, what are our companies doing? It is no secret for years many companies have treated sustainability and corporate social responsibility as little more than a glossy veneer, a bit of marketing to make the less savoury aspects of their corporate behaviour more palatable. Today, that is no longer enough. When reputation-building is not backed up by real actions, it usually has little impact or is difficult to sustain over time.

Nowadays, companies must not only appear sustainable but must actually be so. Transparency and accountability requirements are such that in a global and connected world, any lack of authenticity comes at a high price.

Today, company executives must defend not only the interests of their shareholders, but also of their employees, clients, partners and suppliers; ultimately, of anyone who may be affected by the company's presence in the social fabric in any way. A company with no purpose beyond short-term financial gains is a company with a weak foundation.

We cannot engage with governments and regulators or ask our clients and staff to play their part in the drive towards a sustainable economy unless we can provide transparency on the steps we as an industry and individual companies are taking.

We are committed to making the operations of all Mapfre companies based in Spain and Portugal carbon-neutral by 2021, which means a 61% decrease in the group's present emissions. In addition, we have set out our public commitment on carbon-neutrality, to make Mapfre an environmentally neutral company globally by 2030. We are determined to walk our talk.

Mapfre is finalising its new sustainability plan, under which we will cease investment in electricity companies that earn more than 30% of their revenue from coal-produced energy. We are also not going to insure the building of new coal-powered electricity plants or the operation of new coal mines.

Mapfre is also committed to the circular economy, a concept that advocates the optimisation of materials and waste, extending their useful life and reducing the environmental cost. This marks a clear departure from the existing linear or "disposable" model and our commitment to a system based on prevention, reuse, repair and recycling that allows us to give materials a second life: based on the three Rs: reduce, reuse and recycle.

We have 10 years to halt climate change. Is it achievable?

I want to say yes, it is. Not just because I am an optimist, which is a prerequisite to working in insurance, but because I firmly believe we have, finally and collectively, woken up to the reality of how we are destroying the very world that sustains us. There is now a real hunger for change at individual level that needs to be urgently channelled by those in power, including insurers, to make sure we implement the right measures to combat climate change globally. ■

Antonio Huertas is chairman and chief executive of Mapfre Group

Extinction Rebellion is one example of global grassroots movements fighting climate change
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