



Press release

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Climate stress-test: the ACPR encourages insurers to keep up their efforts towards the integration of climate risk

The ACPR published the results of its second climate stress test, the first one to be dedicated solely to insurance undertakings. The ACPR commends the involvement of the industry (15 insurance groups), which made it possible to cover almost 90% of total activity in this exercise carried out on a voluntary basis. The results show that insurers are significantly exposed, which has consequences both on their balance sheet and for policyholders (rising prices in some areas and insurance gap risk). The ACPR takes note of progress made since the first edition, and encourages insurers to keep up their efforts towards the swift and forward-looking integration of climate risk in their strategy, governance and internal models.

This work was carried out building on the pilot exercise conducted in 2020 with both the banking and insurance sectors.

“I would like to thank all participants for their commitment to this marketwide effort, which enabled us to improve stress-testing methodology, including by studying the impact of climate risks on the short-term solvency of undertakings, and to initiate a more thorough analysis of the insurance gap risk in the longer term. It is crucial that insurers keep up their efforts to meet their climate commitments, and to implement asset and liability management measures to address the consequences of extreme climate risks on their claims and financial assets. This exercise will be reiterated and the ACPR will continue to improve associated procedures jointly with other supervisors and with insurers.” says Nathalie Aufauvre, Secretary General of the ACPR.

Insurers tested three scenarios on their respective balance sheets, combining physical risks (storms, droughts, floods, etc.) and transition risks¹. In addition to two long-term scenarios by 2050 based on work carried out by the NGFS, the network of central banks and supervisors for greening the financial system, insurers were also asked to carry out stress-test over a 5 year time frame, with another scenario that aimed to address insurers’ request for a stress-testing timeframe better aligned with that of their strategic planning.

This short-term scenario is built on the recurrence of severe drought events in 2023 and 2024 that are similar to the historic drought observed in 2022, followed by a severe and localised storm episode leading to heavy flooding, which in turn triggers an uncommon event such as the failure of an embankment dam in 2025. This set of events, which further raises awareness of the increasing frequency and cost of extreme climate events, leads to a spontaneous and abrupt correction of financial markets that is partly attributable to pre-emptive action in anticipation of regulatory changes to accelerate the transition. *“In the short term, the financial shock proves to be the most challenging event for insurers, as it affects all their assets and leads to impairment losses by -13% on their portfolios, rather than the rising cost of claims associated with extreme weather events. Not only does the financial shock affect the value of corporate securities in sectors linked to fossil fuels (oil, coal, gas, etc.), but it*

¹ Transition risk stems from changes in the behaviour of economic and financial agents as a result of the implementation of changes to the regulatory environment, as well as due to evolving energy policies and technological advances.

also spreads to other sectors, notably real estate, and to sovereign bonds as a result of contagion effects." explains Laurent Clerc, Head of the Risk Analysis and Research Directorate at the ACPR.

In the long term, the impact of physical risk on insurers' balance sheets is measured using a physical risk scenario to be compared with a fictitious baseline scenario, the latter including no physical or transition risk. The impact of transition risk is assessed based on two long-term scenarios with different transition paths: one deemed "orderly" as it happens gradually, and the other deemed "disorderly", that materialises as a result of the delayed implementation of transition policies. The main takeaways from these scenarios are as follows:

- **Natural disaster-related claims are projected to increase significantly in France:** +105% in the adverse scenario from 2022 to 2050; +42% in 2050 in the baseline scenario in comparison with the baseline scenario. Insurance premiums follow a similar trend: +158% in the adverse scenario, +127% in the baseline scenario. In the health and death & disability segments, the claims associated with pollution and vector-borne diseases would increase by 89% in the adverse scenario and by 11% in the baseline scenario.
- **The analysis shows significant geographical disparity for drought, submersion and flooding risks.** Natural disaster claims could increase two- to five-fold in the most hardly hit French departments, which would in turn lead to premium hikes by 130-200%² over 30 years to cover these losses, according to the insurers that took part to the stress test. **Investments linked to fossil fuels and to real estate are projected to suffer the sharpest impairment losses by 2050**, yet participating insurers appear reluctant to consider portfolio reallocations. The long-term horizon was the most challenging one for insurers. Indeed, as a result of delayed and inadequate action to face global warming, which stems from the accumulation of greenhouse gases over the last 20-25 years, climate parameters for the next decades are already partly set. Therefore, portfolio allocation choices made today, rather than those made in 30 years, are the ones that will determine the pattern of climate change in the second half of this century.

For the first time, insurers and the ACPR used a self-assessment questionnaire to assess insurance gap risk³. Insurers believe that this risk would be highly differentiated depending on the geographical area considered, and they are planning to set up in-house policyholder support mechanisms to mitigate the physical consequences of climate change and the related costs. For instance, in the context of a comprehensive climate-risk insurance intended to farmers, this support mechanism could take the form of discounts applied on premiums paid for protection against drought. A number of insurers already apply pricing policies that vary according to the risks incurred, as well as potential exclusions from coverage depending on the geographical area concerned. These findings confirm the relevance of the discussions initiated on the natural disaster compensation scheme in France and provide evidence of the weight of climate change adaptation policies.

This stress test is in line with the European and French frameworks requiring insurers to include sustainability risk into their respective risk assessment process (ORSA, Own Risk and Solvency Assessment).

About the ACPR

The Autorité de contrôle prudentiel et de résolution, which is backed by the Banque de France, is the administrative authority responsible for supervising the banking and insurance sectors and safeguarding financial stability. The ACPR is also responsible

² Inflation is included in premium changes.

³ The risk associated with the termination of insurance contracts, either at the initiative of the policyholder, who would no longer be able or willing to insure property given the increase in premiums induced by climate risk; or at that of the insurer, for whom the increased cost and frequency of extreme weather events would make property in specific geographical areas uninsurable.

for protecting the customers of supervised institutions and tasked with combating money laundering and the financing of terrorism. It also holds resolution powers. The ACPR's operational departments are grouped within its General Secretariat.

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