CLIMATE, CYBER, PANDEMIC: THE FRENCH INSURANCE MODEL CHALLENGED BY SYSTEMIC RISKS

OPINION - APRIL 2022

Climate, cyber and pandemic risks are increasingly frequent and intense, with increasingly serious consequences. Changes in the organisation of our economic and social systems (digitalisation, globalisation, climate change) have led to this increasing vulnerability.

90%

OF FRENCH SMES AND INTERMEDIATE-SIZED ENTERPRISES

were affected by a cyber attack in 2019

€180

BILLION

is the amount of operating losses incurred by companies during the Covid-19 pandemic

The insurance system alone cannot cope with these risks: a paradigm shift is needed in public policies as well as in the development of insurance techniques.

60% is the estimated increase in weather damage by 2050, according to the Covéa insurance group

How can the insurance system cope with the increase in systemic risks?

The ESEC is assessing the increasing risks to which the insurance system can only partially respond. In order to push back against the threat of uninsurability, the ESEC intends to provide concrete answers to better understand these phenomena, better prevent them and better compensate them. This must be done through insurance techniques, but above all through public policies that guarantee solidarity and prevention.

The ESEC has made **14 recommendations** aimed at strengthening insurability through three areas: knowledge, prevention and compensation of risks.

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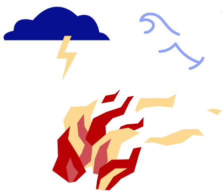
THE ESEC'S RECOMMENDATIONS TO STRENGTHEN INSURABILITY

1 KNOW THE RISKS: IMPROVE AWARENESS AND ACCULTURATION TO RISK

- **The government strategist must drive the paradigm shift:** create a political authority at the highest level of government, responsible for preventing and managing major risks.
- Introduce a culture of risk awareness and prevention through initial and continuing training and develop training on cybersecurity.
- Develop and promote **risk management training and careers** in the private and public sectors.



- Strengthen the means dedicated to compliance with plans for the prevention of major foreseeable natural risks (PPRN), at prefectural and local levels.

2 PREVENT RISKS: REDUCE EXPOSURE TO RISKS BY INVESTING IN PREVENTION

- Encourage insurers to increase **so-called "green" investments**, which not only prevent risks but also address the causes of environmental disruption.
- Encourage **preventive investment in buildings**: in some cases, it is not necessary to "rebuild as is" in order to avoid future disasters (e.g. buildings on clay soil).

- Support **preventive investments of companies**, particularly VSEs/SMEs, through an additional amortisation or tax credit scheme.
- Direct **public investment** towards projects with high environmental added value and which help to prevent disasters of all kinds.
- Increase the budgetary allocation to the fund for the prevention of major natural risks (the Barnier fund) and broaden the eligibility criteria. The ESEC proposes the possible use of European funds and earmarking part of the recovery plan.

3 INDEMNIFY RISKS: ENSURE ACCOUNTABILITY AND SHARE THE RISK

- Promote **access to a basic level of affordable insurance** (for individuals, professionals and businesses) with essential cover.
- **Create a dedicated Cyber insurance branch and a** "standard" **Cyber policy** for VSEs/SMEs. This policy would offer the essential cover: assistance with restarting the business, operating loss, etc.
- Prepare insurers for an **increase in claims related to climate risks**, through dedicated financing and by broadening the base of financial actors.
- Supplement the compensation of **agricultural risks** by introducing a parametric insurance component.
- Encourage the creation and **capitalisation of provisions** to mitigate the consequences of major events in terms of operating losses without damage.