

# CLIMATE RISK

Climate change is no longer a distant threat; it is a present reality with far-reaching consequences across insurance industries. For life insurance companies, climate risk introduces new challenges that affect underwriting, pricing, investment strategies, and long-term solvency.

The major climate risks that a life insurance company can be exposed to are:

1. Physical Risks: *Direct Impact on Mortality and Morbidity*

Climate change increases the frequency and severity of natural disasters such as hurricanes, wildfires, and heatwaves. These events lead to higher mortality rates, particularly among vulnerable populations.

2. Transition Risks: *Economic and Regulatory Shifts*

As governments implement climate policies (e.g., carbon taxes, emission regulations), economic disruptions can impact insurers in multiple ways:

- Life insurers hold long-term assets (bonds, real estate). A sudden devaluation of carbon-intensive industries could erode portfolio value.
- Rising costs of living due to climate policies may lead to lapses in insurance coverage.
- Stricter climate disclosure requirements (e.g., TCFD, IFRS S2) can increase compliance costs.

3. Liability Risks: *Legal and Reputational Exposure*

Insurers may face litigation if they are perceived to be:

- Underpricing climate risks, leading to solvency concerns.
- Investing in high-emission industries contrary to ESG commitments.

## Financial Implications for Life Insurers

Climate change isn't just an environmental crisis; it is a growing financial challenge for life insurers. As warm temperatures and extreme weather events become more frequent, the insurance industry is facing multiple financial threats:

- Higher claims, payouts resulting from increased mortality and morbidity due to climate-related health issues are placing growing pressure on insurers' financial reserves.
- The devaluation of stranded assets, like fossil fuel-linked investments exposed to climate transition risks, may trigger significant capital losses for life insurers with concentrated exposures in carbon-intensive sectors.

- Increasing climate-related catastrophic risks are driving upward pressure on reinsurance premiums, which could compress life insurers' profitability by increasing their risk transfer costs.

### **Together, we don't just adapt, we lead**

At IME Life Insurance Company, we believe that addressing climate risk is not just a corporate responsibility, it's a shared mission that demands collective action. The challenges posed by climate change are complex, but by working together with our stakeholders, we can turn risks into opportunities for innovation, resilience, and sustainable growth.

We invite our policyholders, partners, investors, and community leaders—to join us in this critical endeavor. Whether through collaborative initiatives, shared insights, or tailored climate-smart solutions, your engagement is vital to shaping a more secure and sustainable future.