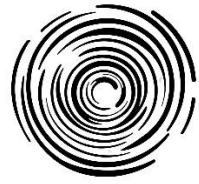


Sounding the Alarm

14th October 2026 | Inside Track x (Re)Insurance



Inside Track x (Re)Insurance is a group of senior professionals in the UK & European insurance and reinsurance industries. Everyone in the group holds - or until recently has held - senior roles in the industry's leading non-life insurers, reinsurers and broking firms.

Our industry knows as much as any about risk - assessing it, pricing it, evaluating it.

As senior experts in our field, we are deeply concerned that the level of physical climate and environmental risk we are seeing is increasing at a dangerous rate. The frequency, severity, and unpredictability of hazards are broadly increasing, as are the exposure and vulnerability of many parts of society to these hazards.

We are writing this memo to surface these issues with government, customers and investors - all of whom it has significant ramifications for.

Climate change is neither our fault nor our explicit responsibility. However, we are also not totally powerless - through the products we sell, the information we choose to share or withhold and the ways in which we engage with public policy, our choices will influence how severe the impacts become.

We are facing a period where short term increases in climate risk are inevitable and where the longer-term extent of that risk will vary significantly based on our future emissions trajectories.

We are worried that the risk levels we are seeing either aren't being communicated to or aren't being properly internalised by government. Without intervention these physical risks will translate into major economic risk. The undermining of the mortgage market drove the Global Financial Crisis - we are worried a major increase in uninsured, high-risk properties could manifest in a similar way as climate impacts intensify.

Inside Industry

If you sit in board meetings at major insurance firms, you might expect that these issues would be at the forefront of the agenda. In reality, they barely make the top three most pressing issues being discussed. Why? Because the industry is confident in its strategy to respond in a way that manages its exposure - namely to first reprice (leaving insurance unaffordable to many), second to alter or restrict coverage (e.g. remove wildfire coverage from buildings insurance), and third, to simply withdraw

provision from certain sectors, geographies and communities (including for example many farming communities upon whom society relies). This process has already begun and will now accelerate. **The net result will be an increase in uninsured losses for which someone else will have to pay the price. This is not because of any malice of insurers but because this is how our industry is incentivised to operate if we focus on the short term.**

Whilst the industry's response to physical risk is commercially logical over this short-term horizon, it creates a situation that should be of deep concern to anyone worried about economic stability and the experience of the communities – including many customers of today - who will face the strongest impacts of climate change.

Within this context there have been firms, departments and individuals within our industry who have provided real leadership on issues connected to environmental risk and long-term responsibility. Too many, however, have resisted rather than led on these issues. The current global political environment has given our industry an opportunity to shed broader responsibilities and concentrate on doing deals whilst 'times are good'.

Rather than take action to help government understand and reduce climate risk or help the general public come to terms with the impacts facing different communities, from farming regions to coastal, mountainous and wildfire prone areas, we are seeing our industry turn more insular.

As well as physical and societal risks, there are also material financial risks to our own industry and therefore to our investors and the wider economy, which relies on the financial services sector. In some (but not all) firms, those raising these issues are coming under increasing pressure. For example, natural catastrophe modellers and actuaries are being asked to give a 'haircut' to future projections or 'manage down the numbers' in order to avoid causing alarm and to keep getting deals done. Modelling adjustments are frequently constrained by commercial considerations, particularly where higher estimates of future physical risk could result in reduced profitability or loss of market share.

Modelling capacity within the industry also varies greatly between firms. Whilst most firms have world-leading capabilities, there is not enough attention paid to systemic risks that sit outside of the silos we tend to organise within. Meanwhile, some insurers have inadequate and outdated Natural Catastrophe (NatCat) models and collectively rely on a small number of base case models. Internal models are very costly to develop and robust external data comes at a steep price. As a result, some insurers are not equipped to sufficiently model complex scenarios or measure aggregated risk across the firm. Even with many firms exhibiting best practice in this area, exposure is building across the industry.

We are writing this as a call to policymakers and regulators to realise that our models show a protection gap - impending damage that insurers cannot and should not be expected to cover.

We are also writing this as a call to investors to understand that in this less predictable and more extreme context, we could end up with losses that financially hurt our industry and therefore their investments.

Both governments and our investors should understand that the fiduciary, regulatory and commercial environments we operate within are driving short term logic that will exacerbate rather than reduce longer-term risk. Some climate and environmental risk is already materialising, some is inevitable and future levels will be deeply affected by current and future emissions trajectories.

In particular, pension funds looking to provide for their members more than 5 or 10 years into the future should understand and interrogate the risk to their capital if they are exposed to the insurance market. Our industry is not doing enough of what it can today to protect them over the medium term - we are jeopardising longer-term shareholder value in favour of quarterly growth.

The Risk

Models across industry show that based on current emissions trajectories, there will be catastrophic damage to many of today's insurance clients. This is even before we consider scenarios where tipping points are breached.

The risks we are seeing will have a disproportionate impact on:

- Coastal and mountain communities exposed to risks from multiple perils;
- Communities exposed to flood, wildfire risk or subsidence;
- Communities who are already struggling to pay for insurance;
- Farming communities and those across the agricultural supply chain (even though they represent a small part of the insurance market);
- Other industries which have a significant interface with and dependence on nature (such as tourism and shipping).

These effects will be felt across Europe, North America, Japan and other regions with currently high levels of insurance coverage.

Our industry's strategy is to manage renewals in order to limit our exposure as the physical risk manifests so that premiums are sufficient to cover the rising claims load. This is not a malicious act but a simple response to the commercial realities we are faced with.

We will do this in three ways which many clients are unaware of and governments across Europe are failing to internalise the consequences of:

Firstly, we will **reprice our cover**. We will simply make policies much more expensive to reflect this elevated physical risk and uncertainty. This will have wider consequences for economic inequality, making it harder for less affluent households to access insurance. It will also increase costs for critical industries such as farming or shipping, creating a significant social and financial burden for governments and, in turn, its taxpayers.

Secondly, we will **limit coverage** to exclude elevated risks such as wildfires as well as other less predictable risks. The nature of insurance being re-negotiated on a 12-month basis allows us to do this without friction. Ensuring customers really understand that this is happening is critical.

Thirdly, if there is no way to bring premiums and claims into balance or introduce risk reduction measures we will – for certain geographies and sectors – simply **withdraw coverage**. This will particularly affect coastal, mountain and flood-prone communities.

This approach is our way of managing our own financial exposure and maintaining profitability at a time of increasing physical risk and increasing uncertainty. Doing so is critical to ensure we can continue to pay claims, therefore fulfilling both our fiduciary duty and our role in society.

Multiplying Risks

The ramifications of changes to insurance cover will not stop with finite costs to a certain number of people or companies.

Insurance is necessary to access a mortgage, allowing providers to manage their own financial exposure. As both domestic and commercial property insurance is limited or withdrawn at a significant scale, we foresee an economic risk that could precede a financial crash in the way that the sub-prime mortgage crisis catalysed the Global Financial Crisis.

These are not just risks that will affect some of the population, they are fundamental and systemic economic risks.

Even before coverage is withdrawn, if critical industries such as food, property and tourism have to pay more for insurance, there will be an inflationary impact. This will exacerbate the significant challenges populations are facing around the cost of living.

Industry Response

Our models show that increases in atmospheric greenhouse gas concentrations will lead to severe societal damage. Rather than enter a period of strategic response to this

challenge, too many - again with notable exceptions - are entering a period of collective cultural denial:

- As an industry we are not doing as much as we could to raise awareness with government about the scale of the climate impacts we are predicting, or the nature of the cover we will be able to provide as they manifest;
- Instead of taking a long-term view on how to reduce risk or doing enough in the short term to limit its effects, we are focusing only on how to 'time the risk' and make the commercially logical step to get out before the costs fall on us;
- Our ability to perfectly manage timing in a more unpredictable world is not guaranteed and could have serious ramifications for our own industry if we get it wrong. This should be of real concern to long-term investors, for whom our corporate plans should provide little reassurance and, in some cases, raise serious alarm;
- Our models show increasing physical and financial risk over time and yet our business planning stops short of modelling what this means for us and our business models over the medium term. Remuneration packages are increasingly incentivising and rewarding executives based on short-term share price performance and company valuations rather than long-term value creation;
- Whilst not the primary focus of this paper, there are co-endemic systemic risks that will emerge from the life and health insurance sectors which will be increasingly stressed by extreme weather, as well as from the impacts of these risks on the investment side of our business;
- We see a broad failure to sufficiently grapple with systemic or concentration risk at the industry level;
- Finally, our models point towards broader societal and economic consequences that our industry cannot remain immune from, particularly if tipping points are reached as many expect. Instead of looking at how we play a strategic role in making sure such a situation is avoided, we are moving ahead with plans to side-step through unprecedented upheaval.

Through the products we sell, the sectors we (de)prioritise, and the way in which we communicate with customers, regulators, and policymakers, we could play a significant role in reducing the risks facing society and our own industry.

Our customers, our investors, governments and regulators alike should all be deeply concerned because our voluntary industry initiatives and current collective strategies will not deliver the protection society needs.

Our industry thrives in environments where risks are relatively predictable. We are moving into a world that is far from predictable and we are neither prepared ourselves

nor moving to prepare our customers of today, who may suddenly find that they are not our customers tomorrow.

Even if we reject any broader moral responsibility, we have a self-interest in not just pricing and timing risk but in helping to reduce it.

This is not a long-term issue on the horizon – the physical risks we are talking about are already materialising and industry is already responding in how it provides coverage. This is already causing economic upheaval for the most affected communities.

Meanwhile, the broader decisions made today at a policy level - and indeed by industry - will determine whether today's threats increase exponentially or reduce over the years ahead.

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