

# FIGHT, FLIGHT, OR FREEZE?

*A FORECAST SURVEY OF MARKET PARTICIPANTS ON THE EXPECTED SOCIAL & POLITICAL RESPONSE TO CLIMATE CHANGE*

# FORECASTING PHYSICAL CLIMATE RISKS

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The Inevitable Policy Response has conducted climate transition forecasting surveys with industry experts since 2023 and with market participants since 2024. To date, these exercises have focused on transition risk exclusively, given that ‘traditional’ physical risk forecasting exercises have been the purview of climate scientists.

However, a growing body of literature is highlighting the importance of understanding (and anticipating) the social and political response to climate change for the purpose of risk management and capital allocation. Analysis by Theia Finance Labs has found that the ‘social’ second order risks from climate change could amplify the direct effects by 2-3x ([Link](#)).

However, the current understanding of what market participants expect this response to look like is effectively non-existent. To address this gap, the Inevitable Policy Response, in partnership with Climate Proof, has conducted a market survey to understand expectations about the social and political response to climate change.

This paper summarizes the results of the survey.

## CLIMATE PROOFERS

Episode 83

Jakob Thomä On  
How Markets And  
Governments Could  
Respond To Climate  
Shocks



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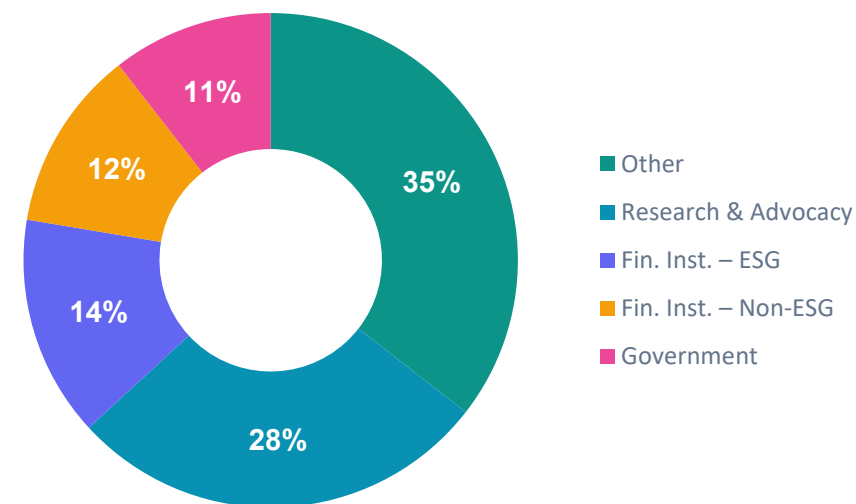
# SURVEY METHODOLOGY AND APPROACH

The survey was run in April 2026 and disseminated via LinkedIn and the distribution lists of Climate Proof and Theia Finance Labs. The survey was anonymous, with the only information provided relating to the position of the individual in terms of their current role.

86 industry professionals responded to the survey across research & advocacy, financial institutions (ESG role), financial institutions (Non-ESG role), government, and research & advocacy. 35% of respondents did not provide a response or put „Other“.

The results presented in this report reflect the views of the survey participants. Individuals interested in understanding differences in results between stakeholder group can reach out to the authors of the report.

## What best describes your role?



Q1

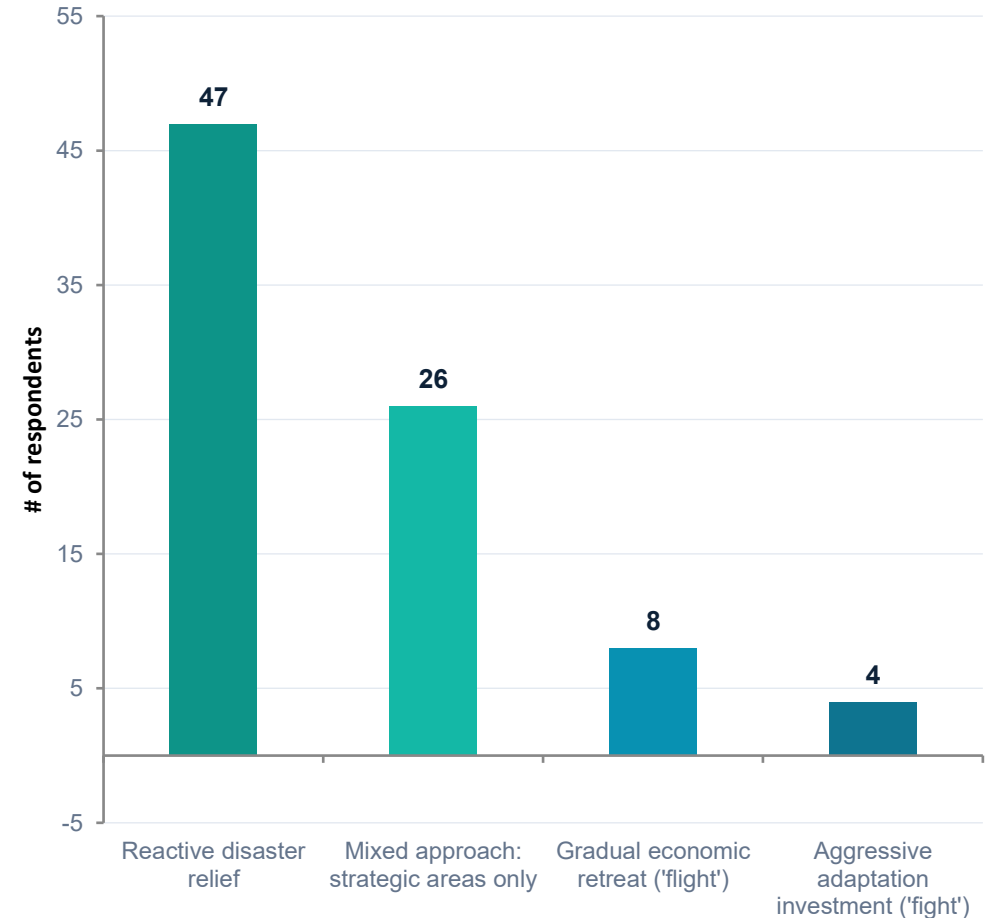
# How do you expect governments to respond to rising physical climate risk over the next decade in highly exposed regions?

## KEY TAKEAWAYS

The dominant expectation (55%) is that governments will be reactive rather than proactive when it comes to climate change. This is bad news as evidence suggests that reactive responses are more expensive and have higher negative welfare effects, and by extension are more expensive for companies.

Only 5% expect aggressive investment in protection or adaptation ("fight"), suggesting deep pessimism about proactive policy. With limited economic retreat anticipated at the moment, this likely will increase the risk of long-term stranded assets as capital gets misallocated.

Virtually no respondents expect a coherent, comprehensive government strategy across exposed regions.



n = 86 respondents

## How do you expect migration patterns to change?

*In response to climate-related physical risks over the next decade*

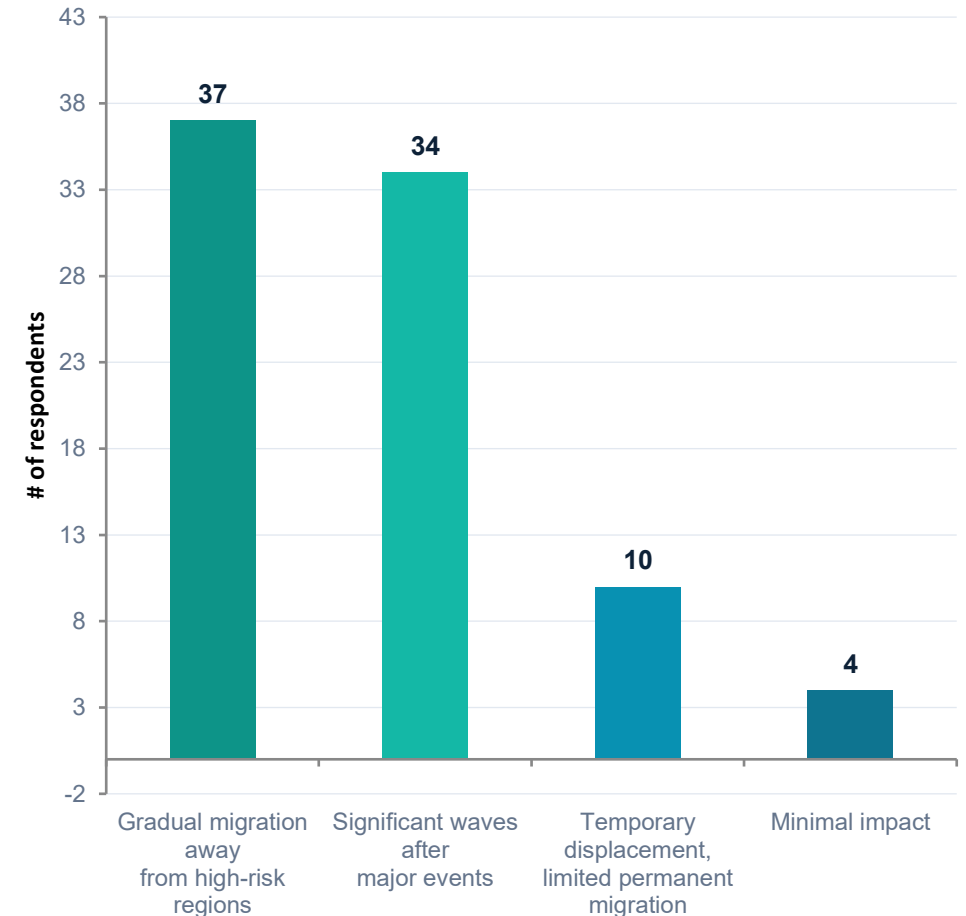
### KEY TAKEAWAYS

Respondents are split almost evenly between gradual within-country migration (43%) and significant cross-border waves following major events (40%).

Very few expect minimal impact (5%), signaling near-universal agreement that climate will reshape where people live.

Temporary displacement is seen as a relatively minor pathway, suggesting most experts expect migration to be structural rather than episodic.

The divergence between "gradual" and "wave" scenarios has major implications for planning: policy responses differ significantly depending on which materializes. The uncertainty among respondents suggests higher risk of surprise down the road.



## What is the most likely trajectory for private insurance coverage in highly exposed regions over the next decade?

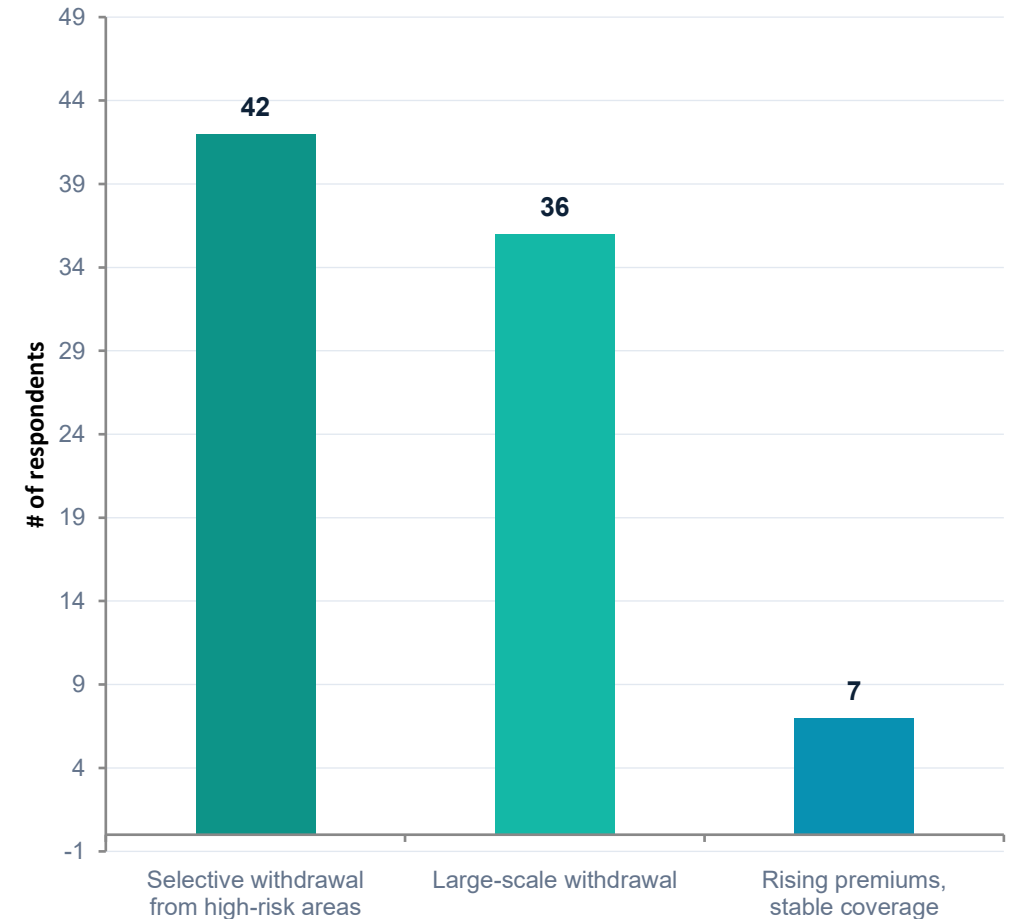
### KEY TAKEAWAYS

The insurance market is widely expected to retreat: selective withdrawal (49%) and large-scale withdrawal requiring public backstops (42%) together account for over 90% of responses.

Stable coverage — even with rising premiums — is seen as unlikely by the vast majority of respondents.

Large-scale withdrawal implies a growing role for public sector insurance or specialist markets, raising questions about fiscal exposure.

The insurance gap in highly exposed regions is expected to widen significantly, with major implications for mortgage markets and household wealth.



Q4

## How do you expect residential property markets to adjust in highly exposed regions over the next decade?

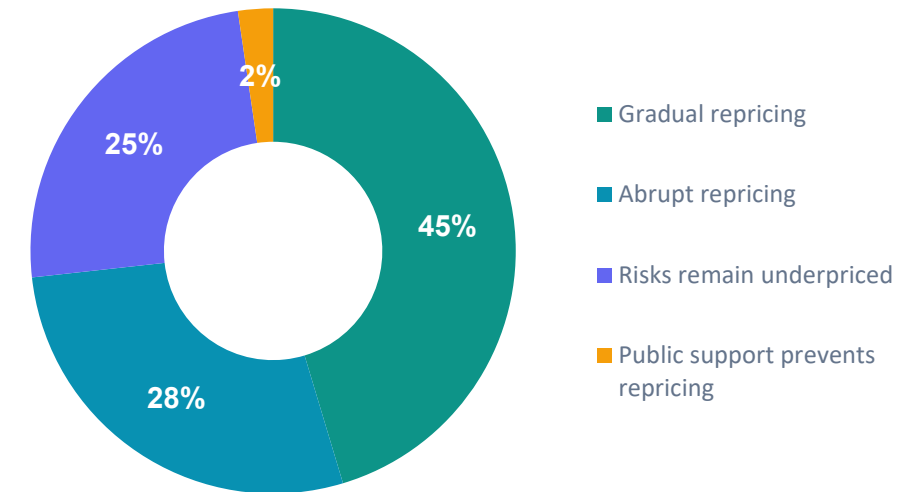
### KEY TAKEAWAYS

Gradual repricing is the most common expectation (45%), but a significant minority (28%) expects abrupt repricing, suggesting tail-risk concern is high.

Nearly a quarter of respondents believe risks remain largely underpriced today, pointing to a potential correction ahead. But, if that correction is gradual, property markets may be able to adjust. Indeed, 25% believe that over the next decade, property markets will still not see risks priced properly.

Persistent public support preventing repricing is seen as marginal (2%), suggesting limited faith in policy intervention sustaining valuations.

The spread of views across gradual, abrupt, and underpriced scenarios reflects genuine uncertainty — and implies markets may be caught off guard.



*n = 86 respondents*

Q5

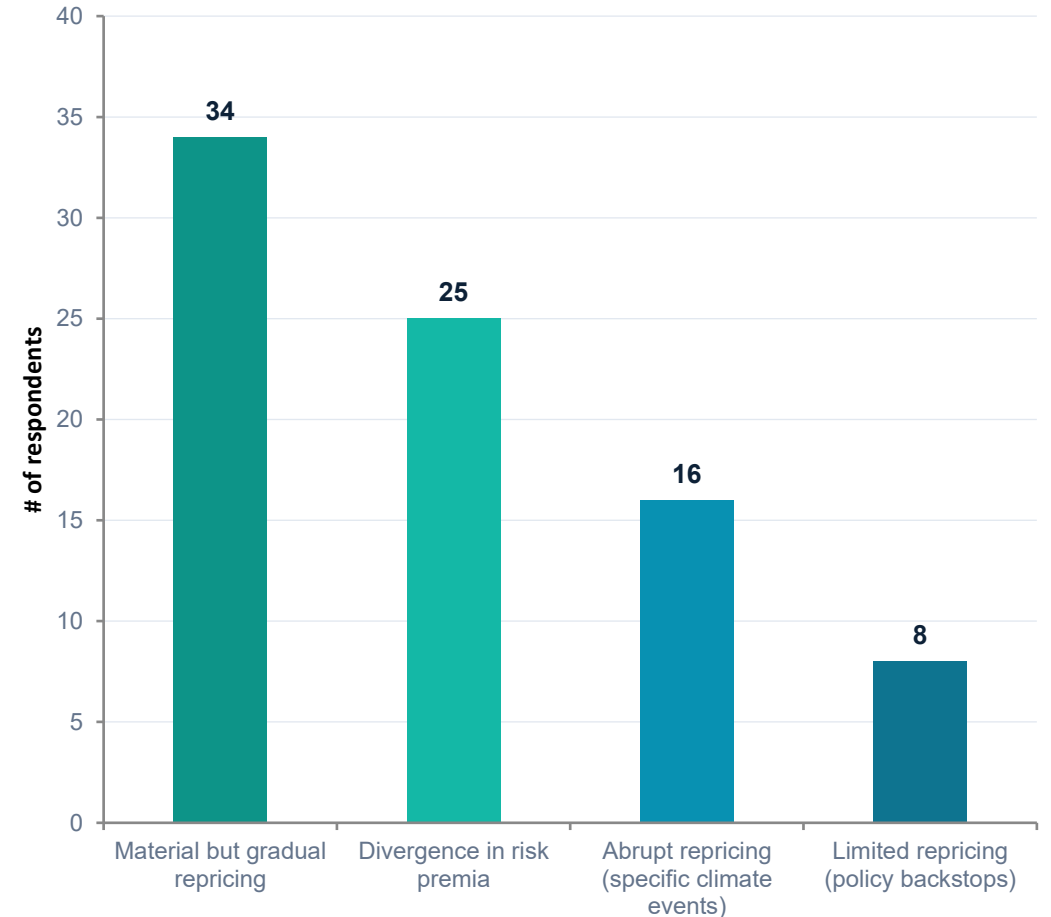
## How do you expect financial markets to incorporate increasing physical risk?

### KEY TAKEAWAYS

The view is markedly different for financial markets. Whereas 25% expect property market risks to remain mispriced, only ~10% see limited repricing in financial markets.

Material but gradual repricing in a macro context is the modal view (40%), suggesting markets will adjust but not in a disorderly way.

Abrupt repricing triggered by specific climate events is seen as plausible by 19% — a non-trivial tail risk from the perspective of stress-tests and downside risks.



*n = 84 respondents*

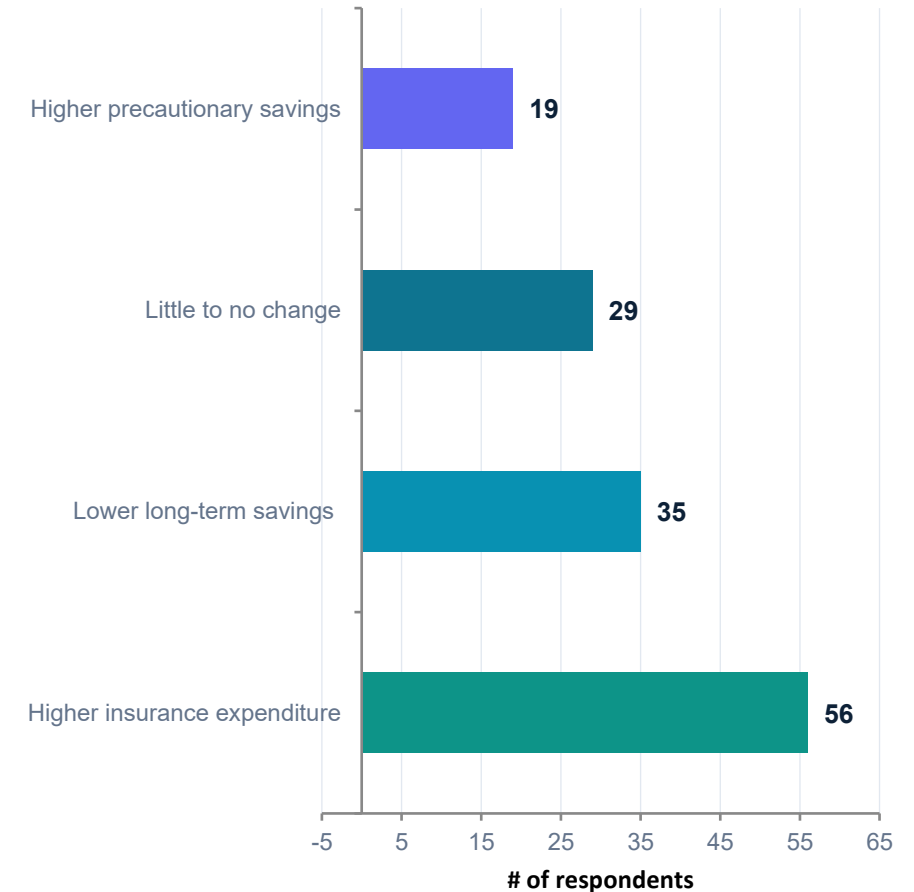
## Q6 How do you expect household financial behavior to change?

### KEY TAKEAWAYS

There is a clear perspective that insurance companies have the potential to significantly benefit from higher demand (65% of respondents) – assuming such demand can be serviced competitively.

At the same time, based on the responses it seems almost twice as likely that household savings will be lower rather than higher. This may have significant implications for household resilience to climate change (and by extension the need for ‘household bailouts’ by governments as a reactive response) and overall savings and investment rates in the economy.

Overall, divergence of views as to household behavior is particularly high among respondents relative to other questions.



**KEY TAKEAWAYS**

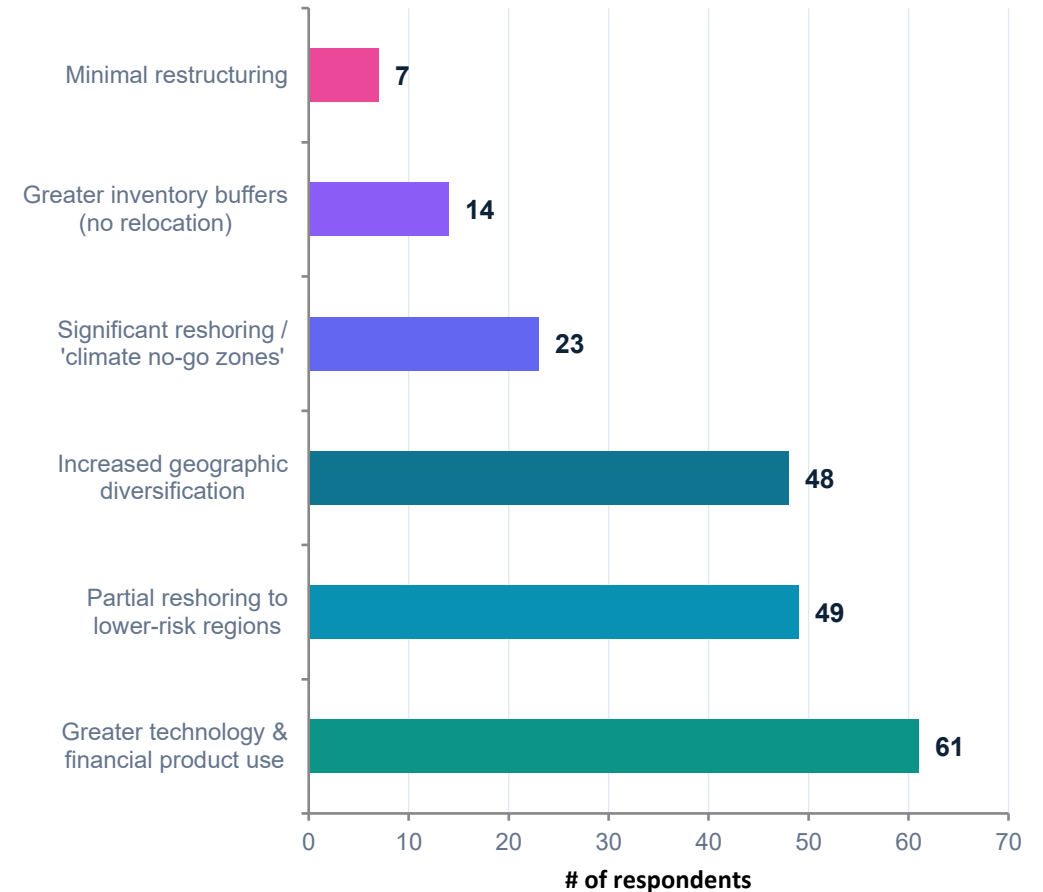
Technology and financial products for resilience lead the expected responses (72%), reflecting confidence in innovation-led adaptation over physical restructuring.

Partial reshoring and geographic diversification are nearly equally anticipated (58% and 56%), suggesting a broad shift away from concentrated, exposed supply chains.

Significant reshoring with "climate no-go zones" is expected by 27%, indicating some experts foresee more radical restructuring.

Minimal restructuring is the least selected option (8%), suggesting near-consensus that firms will be forced to act — the debate is about how much and how much such a response will impact profits or consumers.

It is worth noting that the key question will be the extent to which the currently more beneficial tax regimes in many jurisdictions will be used by companies to invest in resilience or squandered, leaving them more exposed in the future.



Q8

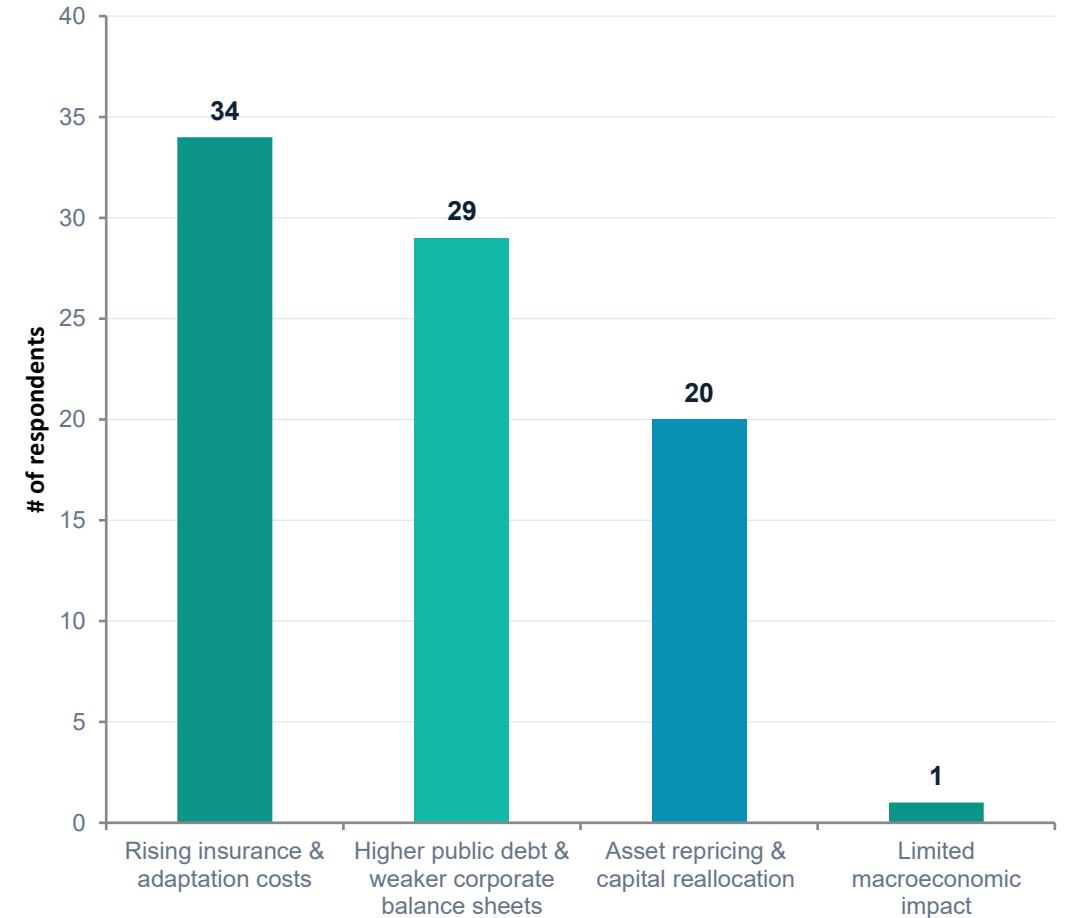
## What will be the dominant macro-financial spillover from climate-related physical risks over the next decade?

### KEY TAKEAWAYS

Near-zero respondents expect limited macroeconomic impact, suggesting expert consensus that physical climate risk will have material macro consequences.

Rising insurance and adaptation costs ("cost of business effect") is the most anticipated spillover (40%), reflecting the direct drag on productivity and margins. This reinforces the expected role of insurance.

While respondents expect financial market repricing (see Q5), this is not expected to be the dominant macro-financial spillover effect.



*n = 84 respondents*

## Which 'tipping points' should be considered in physical risk assessments?

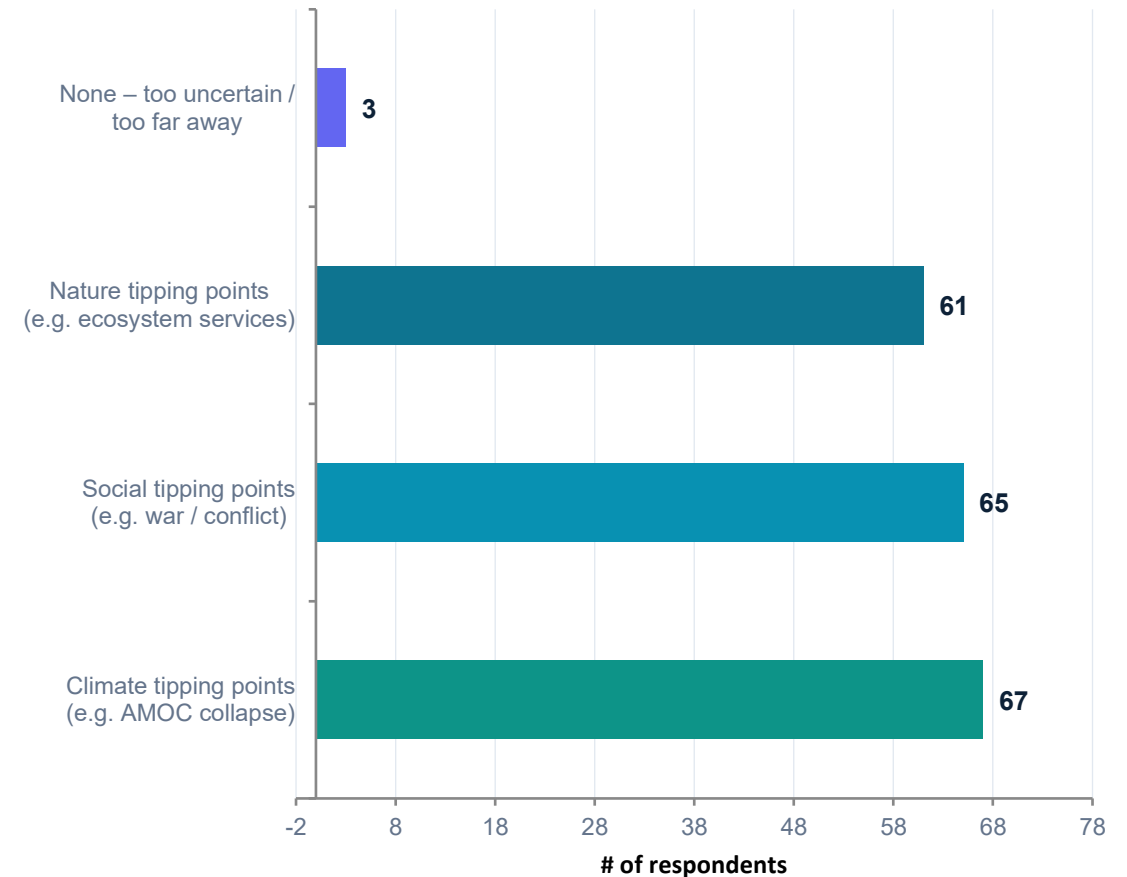
### KEY TAKEAWAYS

There is near-consensus that all three mainstream tipping point categories should be included in risk assessments: climate (78%), social (76%), and nature (71%).

The high and roughly equal weighting across all three types suggests experts view them as interconnected, not siloed risks.

Only 3% said tipping points are too uncertain or too far away to include — effectively dismissing the "wait and see" position.

The strong endorsement signals a gap between current practice (which rarely integrates tipping points) and where respondent opinion says assessment should be. Some of this is undoubtedly also driven by a 'sampling bias' of individuals working on climate risks and climate-related issues.



Q10

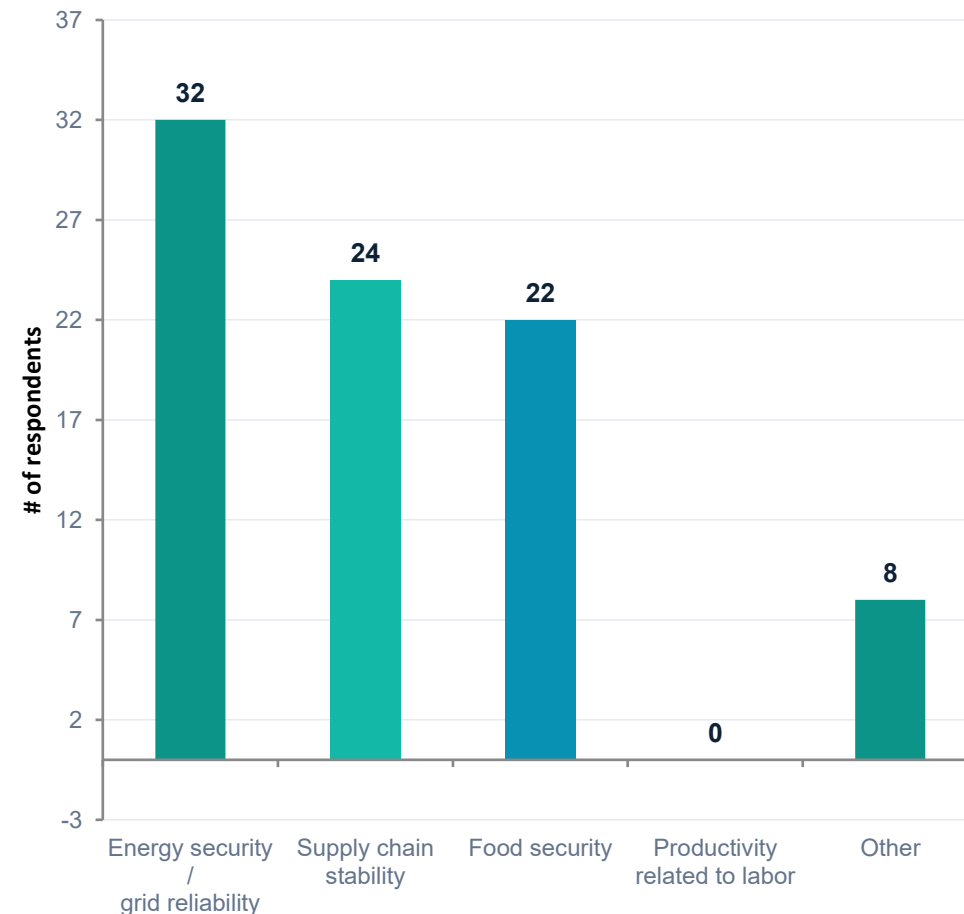
## Which theme is most likely to dominate the debate on physical risk impacts over the next decade?

### KEY TAKEAWAYS

Energy security and grid reliability leads (37%), likely reflecting concerns about infrastructure resilience under increasing physical stress.

Supply chain stability (28%) and food security (26%) are close behind, suggesting no single theme is expected to dominate decisively.

At the moment, labor productivity is not seen as a significant driver. However, there are other issues (no text box option was provided) that may shape the debate not covered by these three categories.



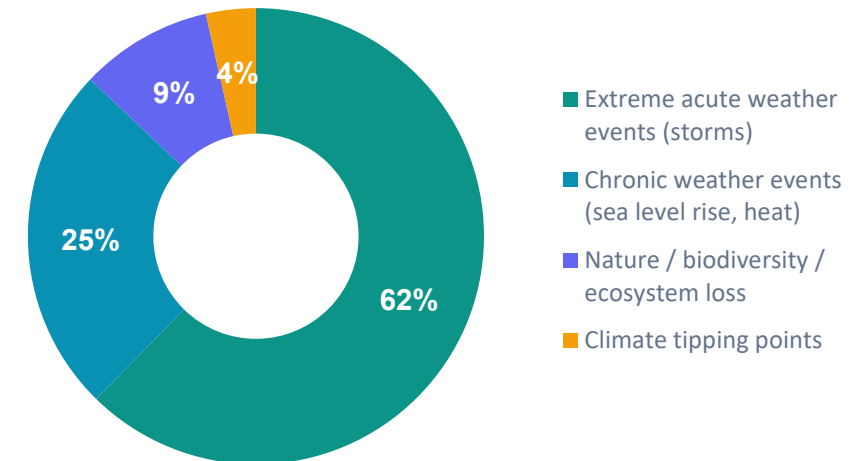
## Which physical risk hazard is most likely to dominate over the next decade?

### KEY TAKEAWAYS

Extreme acute weather events (storms) dominate expectations at 62%, reflecting the visibility and immediacy of weather-driven disasters.

While climate tipping points are seen as important (Q9), they are not expected to be the primary risk driver over the next decade (4%). The same applies to nature / biodiversity / ecosystem loss effects.

Chronic hazards (sea level rise, heat) are seen as the primary risk by 25%, a significant minority that suggests meaningful risk assessments should consider both acute and chronic factors.



## NEXT STEPS

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Understanding market expectations about the social and political response to physical risks can help inform climate risk and stress-test exercises, and in-house climate scenario analysis. Without that dimension, these exercises will inevitably be insufficient.

This survey enables such analysis by informing the narratives underpinning climate scenario analysis and supporting the calibration of scenario parameters powering these exercises.

Crucially, this survey highlights the ‘baseline’ of market expectations across a panel of industry respondents.

Further research is needed to understand expert opinions, how to best calibrate ‘tail risk’ assumptions, quantify responses and translate them into value drivers, and in turn design risk models equipped to process and interface with such value drivers.

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