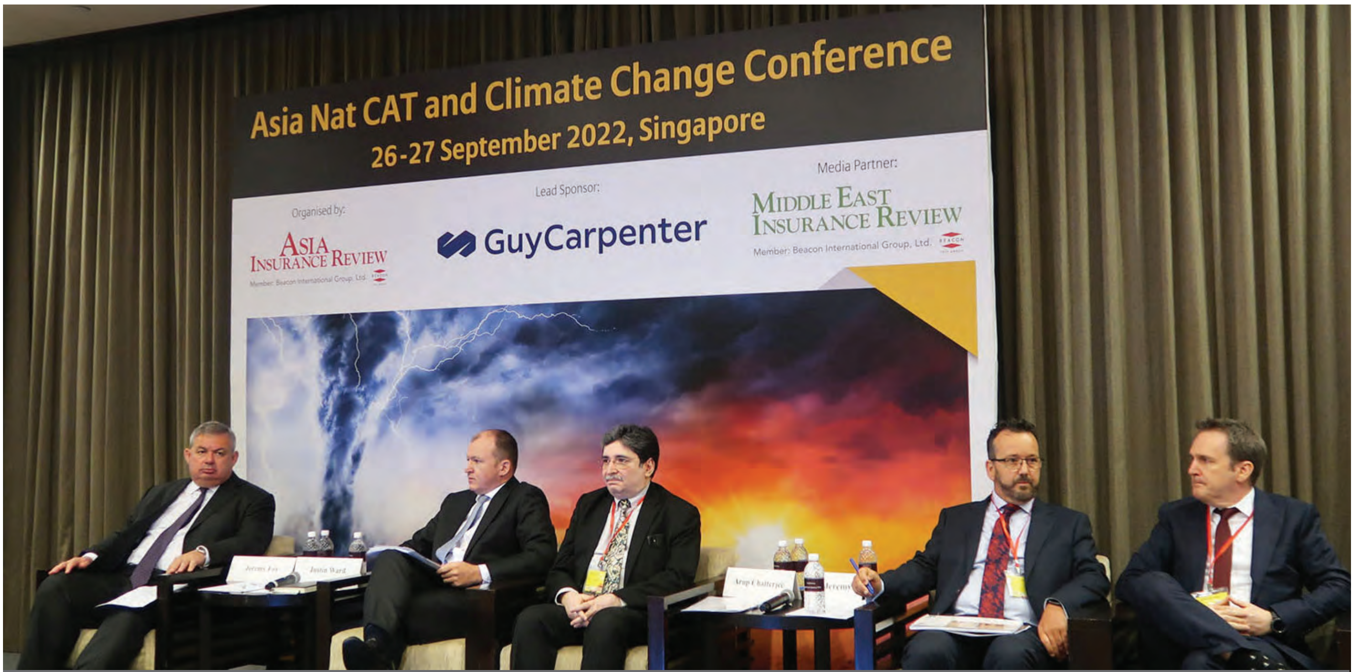
REINSURANCE

Asia significantly underinsured for Nat CAT



(L to R): Messrs Jeremy Fox, Justin Ward, Arup Chatterjee, Jeremy Waite and Mark Weatherhead

The impact of Nat CAT in Asia is mounting with unprecedented floods, heatwaves and weather-related disasters in the region. Insurers must keep up with new technologies to understand the volatile nature of climate risks. Speakers at the Asia Nat CAT and Climate Change Conference shared their insights on the impact of climate change.

By Nadhir Mokhtar

Temperatures are rising twice as fast as the global average in Asia Pacific, risking frequent and severe weather-related disasters. About half of global emissions comes from the region and it is home to five of the world's largest greenhouse gas emitters. Yet, the region remains severely underinsured from Nat CAT.

"The public sector assumes an increasing share of climate costs around the world, particularly in developing Asia, where private insurance for businesses and individuals is less prevalent and covers about 9% of the economic losses compared to 38% globally. The insurance protection gap is estimated at about 90% and varies significantly among Asia's high, medium and low-income countries," said Asian Development Bank principal financial sector specialist Arup Chatterjee speaking at the Asia Nat CAT and Climate Change Conference.

He said such financing gaps, if not rectified, may lead to long-term fiscal instability for governments, businesses and households. Insurers, as both investors and risk carriers, must understand the challenges of prevailing gaps in the region and innovate solutions to address them. This also includes aligning operations with the Paris Agreement goals.

"You could shy away from increasing risks, which are hard to understand, or you can expand your understanding and capture society's increased need for risk management while being vocal and assertive about adaptation. Insurance leaders who pursue active climate-related initiatives and establish themselves as part of the solution will stand out in the market," he said.

Understanding changes in Nat CAT

Global economic losses caused by climate change have spiked in the past three decades, putting pressure on the insurance and reinsurance industry. The global protection gap is forecast to be between $1.8tn to $1.9tn by 2025 with Asia Pacific accounting for almost 50% of all uninsured risk according to a study by PwC.

"Understanding the impacts of climate change has become a top priority and future-focused insurers and reinsurers will need to embed climate risk mitigation strategies into their operating and business models," said Guy Carpenter Singapore head of treaty Justin Ward.

Perils in Asia are an ever-present risk and some factors such as the impact of climate change on weather patterns need to be observed.

Unpredictable weather patterns could make traditional reliance on existing historical data increasingly irrelevant.

"We have to recognise that events are going to look very different in the future. Secondary peril losses are outpacing losses from primary perils and weather-related events are growing headwinds for the reinsurance and insurance industry in Asia," said Guy Carpenter Asia Pacific chairman and head of Japan Jeremy Fox.

"Insurance isn't necessarily the problem or the solution. Sometimes if the risk is changing, we need to do something about the risks rather than just insure it away. For example, building flood defences - with models in the insurance industry we can work out where to put those steps to make a difference to the actual loss," said Guy Carpenter Asia Pacific head of CAT advisory group Jeremy Waite.

Increasing support for green solutions

The majority of the world's energy is still dominated by non-renewable sources such as coal, oil and gas. While some insurers have stopped covering unsustainable energy projects, the dependence on traditional energy sources ultimately requires coverage.

"The way forward for all insurance companies is that there's no option other than to stop insuring situations that are heading for trouble. By 2050, we will have nearly half of the world's energy requirement coming from renewable sources. If that is so and today, we stop insuring the thermal based or geo-based power plants, what happens to these 25 years that we have in-between?

"We need to have some sort of a stopgap arrangement - a slow process that gives time particularly to developing nations that they should be able to switch over from a traditional mode of power generation to a renewable source," said Risk Management Association of India associate professor Pratik Priyadarshi.


Professor Pratik Priyadarshi

He said efforts have been made to develop parametric insurance solutions which are catering to some of the requirements to address climate change. However, he said more 'green insurance' policies which give back to nature are needed. "The biggest challenge is that we have not been able to support such green policies being issued across the globe. We need to give more right now before it's too late," he said.

"The role of insurance markets is critical to mobilising and efficiently allocating resources while putting a price on climate risks. Contractual savings institutions are incorporating their exposure to climate risks in their investment, lending and underwriting decisions and integrated them into their broader risk management processes," said Mr Chatterjee.

He said insurers can help bring industry and financiers together to reduce carbon footprints. This can be done by pursuing investments such as solar, energy storage, green buildings and climate-smart agriculture. Such investments can provide clean and affordable energy and promote efficient resource utilisation.

Solutions such as parametric insurance, pooling mechanisms and alternative risk transfer using capital markets for specific risks are some examples insurers can follow to collaborate with governments and provide affordable coverage. Mr Chatterjee said this could include pooling a large set of projects in many jurisdictions backed by guarantee schemes or other de-risking solutions. He added blended finance structures can also unlock private sector financing to aid the transition to a low-carbon economy.

"Mangroves and coral reefs can be used cost-effectively to reduce coastal flooding, but these 'blue' natural resources are increasingly in danger. The insurance industry is therefore starting to use innovative risk transfer schemes to conserve and restore natural ecosystems. Insurers and reinsurers are already transferring the risk of this type of insurance to capital markets by selling securities that mirror the underwritten insurance obligations," he said.

Climate crisis in sight

Prof Priyadarshi said agriculture is one of the areas which is deeply affected by the climate change and it has been being affected by new strains of such viruses and bacteria that are coming across through migration and travel.

"Groundwater levels are depleting. It's drying up and one of the most common ailments across the globe, malaria, is going to spread. It could be one of the worst killers that we are aware of. Livestock and crops are becoming more susceptible to disease and climate change and movement of population due to scarcity.

"The time has gone when we refer to this as climate change. Now we are in a situation where it is more of a crisis that is happening at hand," he said.

The Asia Nat CAT and Climate Change Conference, ran from 26 to 27 September, was sponsored by Guy Carpenter and organised by *Asia Insurance Review*. The two-day event returned to a live setting in Singapore with the theme: 'Unmask the Possibility'.