THE ROLE OF INSURANCE IN MITIGATING THE IMPACT OF CLIMATE CHANGE IN AFRICA

Africa is particularly vulnerable to climate risk. The continent's exposure to drought, flooding, excessive heat, and tropical cyclones means that 30 of the world's 40 most climate-vulnerable nations are in sub-Saharan Africa.

Moreover, given that 60 % of Africa's population works in agriculture, and that agriculture contributes 16 % of the continent's GDP, the sector's disproportionate exposure to climate risk compounds threats to the continent's economies and the livelihoods of its people.

One of the biggest issues Africans face is how to understand, measure and effectively respond to climate change, and as an industry dealing in risk management, Africa's insurers have a responsibility to "direct research, insight and investment towards climate risk mitigating efforts that measurably manage the impacts of climate risk on ordinary Africans.

Despite the enormity of the task on a continent with non-life insurance penetration of only 1.8% (compared with 3.3% globally). Africa's fledgling insurance sector has the tools, insight and ability to assist businesses and governments make the right decisions about what climate resilience efforts to pursue.

Africa's Insurance challenge

Despite growing awareness of the importance of climate risk mitigation in Africa and a growing use of commercial insurance to protect enterprises from climate change, the take up of insurance by ordinary African consumers is limited. With such a small portion of Africa's potential climate risk currently underwritten, Africa suffers a significant protection gap.

For example, only 7% of the $200 billion in damages caused by cyclone Idai, which struck Mozambique, Malawi, and Zimbabwe in 2019 was covered by insurance. Unless more is done to increase levels of risk underwriting Africa will not build the domestic resilience to manage the increasingly severe weather events predicted to be the future norm. But all is not doom and gloom. A number of levers are available to Africa's insurers to start turning the tide on penetration and climate resilience on the continent.

Risk modelling

The global insurance industry has also long pioneered risk models that addresses the complexity of climate risk, delivering solutions that accurately measure and convert climate risk into financial risk variables that can be quantified, underwritten or re-insured.

In short, risk modelling provides Africa's insurance industry with the tools to understand, assess and address the inevitable long-term effects of global warming. Leveraging data and knowledge models to respond correctly is the first step in managing the impact of climate risk in Africa. Insurers have long used catastrophe models to simulate these kinds of effects and assess the risk.

ESG Targeting

Insurers can also use modelling and targeted underwriting to redirect capital flows from sectors that haven't incorporated environmental, social, and governance (ESG) considerations into their corporate strategy. In addition to managing significant long-term capital pools, insurers are essential players in the transition to a low-carbon economy through their receipt and investment in green portfolios and projects. The UN Net-Zero Insurance Alliance is evidence of the growing power of ESG targeting in shaping global investment and business outcomes.

Leading the carbon transition in Agriculture

Africa's deep engagement in agriculture combined with the insurance industry's established ability in risk modelling presents the continent a unique opportunity to lead the carbon transition.

Agriculture has an especially impactful relationship with climate change as the sector is both a contributor of greenhouse gases (GHGs) as well as, potentially, one of the world's greatest carbon sinks.

In as much as agriculture releases carbon into the atmosphere, sustainable agriculture focusses on systems that conserve land, water, plant, and genetic resources in environmentally regenerative, technically appropriate and economically and socially enhancing formats. Farming that removes carbon from our atmosphere, slowing down global warming by aiding global cooling, is known climate smart agriculture. As African insurers increasingly focus investment on supporting smart agriculture, the continent has the potential to become a leading sequestration of carbon, and primary driver to global cooling. In short, insurers can make a significant contribution to lowering carbon emissions in Africa in both their roles as long-term capital asset managers and underwriters. By offering investors de-risking options, insurers serve as underwriters and play a crucial part in enabling the flow of funds to mitigation initiatives.

Industry coordination

For example, at the industry level, financial institutions in Africa are working to create a local underwiring pool providing de-risking options supporting the crowding-in of private money in the development of renewable energy. Similarly, at the sector level, Africa's insurers are collaborating to provide risk transfer solutions in the geothermal energy sector in East Africa, for example, supporting risk management in capital-intensive early-stage development drilling.

Partnerships

Fortunately, Africa does not need to re-invent the wheel. Both the Nairobi Declaration as well as The United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Sustainable Insurance (PSI), for example, provide a broad range of templates for risk-reduction strategies, creative problem-solving and sustainable corporate insurance initiatives that promote social, environmental, and economic sustainability.

How is Coronation Insurance addressing these challenges?

We are committed to supporting businesses and initiatives geared towards reducing climate change impact through mitigation, adaptation, and resilience as it relates to our business activities in the investment and insurance space. Coronation Insurance has done this by:

- Systematically considering climate criteria in insurance and investment business with our robust ESG risk management system;
- Maintaining active dialogue with investee companies on climate strategies to reduce climate change impact and build adaptable and resilient companies;
- Supporting our customers to reduce climate risks and minimize impact as well as adequately compensating those who have suffered losses;
- Working with industry peers, government (NAICOM), and NGOs/CSOs to manage climate risks and outline national development plans;
- Pioneering insurance of, and investment in low-carbon technologies such as renewable energy, green buildings, etc.; and
- Improving transparency to climate-related disclosures through membership subscription to the Task Force on Climate-related Financial Disclosures (TCFD) and Principles for Sustainable Insurance (PSI).