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INTEGRATING INSURANCE INTO CLIMATE RISKS MANAGEMENT

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The climate change and climate related risks are source of financial risks

THE FACTS

- Climate related risks are material for the insurance sector :
  - They impact the insurability of policyholder
    - property
    - assets
    - Insurers’ operation
    - Investments

The role of Insurance Regulatory/Supervisory Body

- Should
  - Identify
  - Monitor
  - Assess and
  - Contribute to the mitigation of the risks from climate change to the insurance sector

Fishers and climate change risks

Fishers

- Facing a nightmare owing to the changing climate
- Particularly true for millions of small-scale fishers, who rely on fishing for their living
- **Fisheries in India are suffering important damage and losses to their business assets calling for an urgent need to improve risk management capabilities.**

Uncertainty

Simple risk transfer options in the form of insurance are not easily available for the micro and small fisheries enterprises

The government's response to this situation is to enable the availability of risk transfer instruments for Aquaculture activities.

The World Bank's intention to support this initiative in helping fisheries to better cope with risk also fits well within its mission of fighting poverty.

The challenges to address when providing insurance for the fisheries are several.

Regulators sharpen their focus helping insurers navigate the climate risk landscape

Climate change

The warming of the world’s climate system, including its atmosphere, oceans, and land surfaces.

Climate related risk / climate risks

The risk posed by the exposure of an insurer to physical, transition, and/or liability risks caused by or related to climate change.

Managing the challenges and opportunities arising from climate risk

Climate-related risks may affect the supervision of insurers in many ways.

The following ICP topics are in scope to support supervisors in their efforts to integrate climate-related risks into the supervisory framework:

- ICP 9 (Supervisory Review and Reporting);
- ICP 7 (Corporate Governance);
- ICP 8 and 16 (Risk Management);
- ICP 15 (Investments); and
- ICP 20 (Disclosures).

INTEGRATING INSURANCE INTO CLIMATE RISKS MANAGEMENT

- Often referred to as society's risk manager, insurance companies have an important role in the web of climate change complexities.
- Through their investment, underwriting and advisory functions, insurers are directly exposed to a changing climate, which creates threats and opportunities for the sector.
- The climate change and climate-related risks are a source of financial risk, having an impact on the resilience of individual financial institutions, including insurers, as well as on financial stability.
- Climate-related risks are material for the insurance sector as they impact the insurability of policyholder property and assets as well as insurers' operations and investments. Therefore, supervisors should identify, monitor, assess and contribute to the mitigation of the risks from climate change to the insurance sector.
- Climate change also presents opportunities for the insurance sector: the insurance industry plays a critical role in the management of climate-related risks in its capacity as an assessor, manager and carrier of risk and as an investor, and is uniquely qualified to understand the pricing of risks. Notably, through risk-based pricing, insurers provide critical economic signals regarding the changing risk environment. Insurers can also help build resilience through (inclusive) insurance.

Establishing effective risk management

Government intervention by creating demand for fisheries insurance products.

Development of an insurance product that creates value for the consumers

Effective distribution by insurance companies through centralized scheme,

Supportive regulatory framework of the chosen insurance mechanism,

Consumer friendly market practice and institutional systems for better information/data on risks and effective claims/losses payment.

Use of new technologies to lower costs and increase efficiency, like with the use of digital registration process of fisheries with a focus on smaller size shrimp farms and fisheries.

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Major nationwide public benefits

- the strengthening of the capacity of the government to respond rapidly to priority needs of its fisheries sector in the face of insurable loss.
- the development of a national insurance plan to shift the financial burden of future loss of fisheries from the individual families to the insurance sector and then to international re-insurers and possibly capital markets.
- increased responsibility on the part of the fisheries empowered through heightened awareness of the issues which determine their protection and well-being
- Improved coordinated work between the public agencies, the insurance industry, and:
- Reduce the underserved population.

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Climate-related risks for re/insurance sector

- Climate related risks are often systemic risks, difficult to measure, and with high potential correlations and knock-on effects. These can vastly increase both financial losses and uncertainty, which may render standard insurance practices ineffective.
- Lack of data may lead insurance companies to conclude that they are unable to cover certain types of losses or geographic areas. Although such decisions allow the insurance industry to avoid losses in the short term, they are not part of a sustainable approach. The insurance industry needs to grow, and countries, businesses, and individuals need insurance to mitigate risks and support economic growth. For these reasons, the insurance industry needs to be involved in policymaking, data collection, and analytics, and it should be encouraged to develop innovative solutions for covering risks rather than just relying on exclusions.
- Affordability. A related risk is that some currently insured risks may become so expensive to insure that they are de facto uninsurable. However, moving in this direction, even partially, can provide the right incentives for proactive planning and risk-informed investments in adaptation.
- Underwriting risks. The profitability of the underwriting business depends on the ability of the re/insurer to correctly price and pool the risks so that the inflow of premiums is higher than the outflow of claims payouts and operating expenses.

Climate change presents opportunities for the insurance sector

There is growing recognition that climate change and climate-related risks are a source of financial risk, having an impact on the resilience of individual financial institutions, including insurers, as well as on financial stability. Climate-related risks are material for the insurance sector as they impact the insurability of policyholder property and assets as well as insurers’ operations and investments. Therefore, supervisors should identify, monitor, assess, and contribute to the mitigation of the risks from climate change to the insurance sector.

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