Notebook – View From India

Hotspots will be hot to handle

Eight hundred million people in South Asia are at risk as the areas in which they live are projected to become 'moderate' to 'severe' hotspots by 2050, according to a World Bank study 'South Asia's Hotspots'. Six hundred million of these live in India. What can the Indian insurance industry do about it?

By Anoop Khanna

The World Bank study 'South Asia's Hotspots' says such areas will impact the lives of almost half of South Asia's population. It is a call to think about strategies targeted at hotspot inhabitants, the hidden victims of climate change in the six South Asian nations.

Mr Shankar Garigiparthy

Mr Sasikumar Adidamu

Average temperatures in South Asia have increased in the last 60 years and will continue to rise. Rainfall in the region is becoming more erratic, hence some areas will experience more droughts and others more rain.

Asia Insurance Review spoke with Lloyd's India country manager Shankar Garigiparthy and Bajaj Allianz General Insurance chief technical officer Sasikumar Adidamu to understand how the Indian insurance industry views these climatic changes and how it plans to mitigate the impact of these disastrous events.

India to be the hardest hit

Moderate hotspots are defined as areas where projected consumption spending declines by 4%-8% and severe ones are where the drop exceeds 8%. India, making up 600m of the total 800m south Asians in terms of population, would be the hardest hit.

These hotspots would cause the standards of living and incomes to decline as crop yields would go down, water would become scarce and push more people to distress migration. The climate change-induced rising temperatures and changing monsoon rainfall patterns could cost India 2.8% of its GDP and depress living standards of nearly half of the country's population by 2050.

The region's inland areas, where most of the hotspots are located, would be impacted more than the coastal and mountainous regions. The coastal regions would, however, continue to be battered by rising sea levels and extreme weather events.

Impact on business and commerce

Mr Garigiparthy said, "For businesses, climate change could mean lost work hours and consequential business interruption and harm to trade and commerce. It also impacts economically important sectors such as agriculture, fisheries, energy production and tourism.

"From an insurance industry point of view, some of the most obvious impacts of climate change would include damage to property and infrastructure, loss of productivity, mass migration and security threats."

Mr Adidamu said, "As insurers, we understand that the past actuarial models of losses may not provide us accurate picture of losses. Hence insurers are now investing in analytics, satellite and drone-based surveying, imaging and other useful technologies."

"We are also witnessing more and more challenges in terms of urban flooding due to various issues connected with unscientific, ill-planned expansion plans in urban conglomerates," he said.

All catastrophic events entail extensive repairs or even reconstruction of infrastructure facilities. Severe rainfall events or extreme summers can delay planting and harvesting, cause power outages, delay air travel and make it difficult for people to go about their daily business.

Climate change is a major risk driver

The impact of a natural catastrophic event is severe not only due to asset destruction, but also due to the business disruption that occurs when assets are damaged. It takes time to reinstate them fully and for production schedules to get back to normal volumes.

Speaking about risk management strategies and risk education for customers, Mr Adidamu said, "When we do gap analysis for the insurance industry, there are two areas which require attention to ensure appropriate coverage. One is the adequacy of sum insured, which is a major issue for most clients. We are trying to address this proactively by explaining them the issue of under-insurance and the need to take adequate insurance cover.

"The other area is consequential loss emerging out of an event. We also indemnify business interruption losses resulting from an insured event, but there is a lack of awareness about taking such covers that we are trying to address by educating the clients."

Building strong resilience is an urgent priority

Referring to the new Lloyd's City Risk Index, Mr Garigiparthy said, "Out of the 279 cities surveyed across 22 threats, 54% of the Asia Pacific region's exposure comes from natural catastrophes. Tropical windstorms are the largest threat to the GDP of APAC cities. Flood and tropical windstorm threats account for 14.5% of India's risk landscape. Of the 92 cities the index analyses in Asia Pacific, 19 cities receive the lowest level of 'very weak'. These 19 include all Indian cities that were part of the risk index study."

Steps to mitigate the risks

"Insurers and reinsurers will need to take these factors into account and map them into their underwriting pricing tools, as bad or lack of maintenance in infrastructure could result in significant claims, following an adverse climate event," said Mr Garigiparthy.

Mr Adidamu said, "Depending on business growth and exposure in the market, an insurer can look for additional cover for CAT XL. We are also preparing our policyholders on how they can be cautious during such catastrophic events by communicating the dos and don'ts through various means including social media."

"Insurance managers should look at business interruption cover to protect their balance sheets against the catastrophic events more seriously. Adequate sum insured, and business interruption cover would improve the insurance protection level against such events," he added.

Preventive maintenance saves on premiums and reduces claims

Mr Garigiparthy said, "A more regular and preventative maintenance is likely to be far cheaper than rebuilding after a natural disaster. This would, in turn, reduce the insurance premiums, due to low claims occurrence. Many losses in the property sector occur due to bad maintenance or inferior quality of construction material used."

"Governments also need to enhance the city sewer systems to cope with large amounts of water outflows, strengthen bridges, subways, and other critical components of the transportation system, to ensure that the infrastructure can cope with any adverse catastrophic event," he said.

Mr Garigiparthy said, "It is extremely important to have a good understanding of the risk and the exposures, in order that the risk is priced appropriately. In a developing market, the availability of quality data is a challenge and underwriters often find it difficult to obtain reasonable levels of quality data on claims ratios."

Out-of-the-box strategies required

Most of the insurance penetration in India is in motor, health and property lines. Insurers could, therefore, encourage the policyholders to invest in renewable energy and hybrid/electric vehicles by offering attractive discounts on insurance premiums.

Government could also incentivise homeowners and builders to carry out rainwater harvesting, thereby replenishing the depleting groundwater level taking advantage of good monsoons.

Insurers in India need to work closely with the regulator and the government to devise appropriate insurance covers, which will incentivise policyholders to obtain better insurance coverage to meet the climate change challenges.