Date: 27.02.2023	**Publication:** BQ Prime

Urban India Is Underinsured For Climate Disasters Despite High Risk

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Nine states in the country are featured among the top 50 vulnerable regions globally, according to a recent report released by XDI, the Cross Dependency Initiative. These states include Punjab, Bihar, Uttar Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Gujarat, Kerala, and Assam. At a recent UN Security Council meeting, the nation's financial capital Mumbai was declared 'high-risk' due to rising sea levels.

India lost about Rs 65 lakh crore two years ago due to natural calamities like tropical cyclones, floods, and droughts, Sharad Mathur, managing director and chief executive officer at Universal Sompo General Insurance Co., said citing World Meteorological Organization's estimates.

"India witnessed over 700 seasonal floods in a year," he said. "Despite numerous natural calamities, segments like home insurance have a low penetration of up to 1%."

The risk of economic loss to states and affected individuals from natural calamities is expected to aggravate. General insurers can provide relief throughout payouts, provided residential properties and businesses in the region are insured.

Based on the recent floods experienced across a few regions, it was observed that only around 5% of the economic losses were insured, according to Parthanil Ghosh, president, retail business at HDFC ERGO General Insurance Co. "If this were to exclude the losses pertaining to motor and commercial risks, the insurance coverage of the losses would be less than 1%."

He cited the example of the 2022 Bengaluru floods, which caused Rs 10,000-crore economic losses to Karnataka. But the insurance payout was less than Rs 400 crore. The industry could have insured risks up to Rs 5,000–7,000 crore, according to Ghosh, reducing the overall losses.

Similarly, while the Chennai floods of 2019–20 caused an overall economic loss of about Rs 16,000 crore, the insurance industry paid Rs 1,200 crore. Property—house, motor own damage, business interruption, and aviation insurance—of up to Rs 6,000 crore could have been underwritten, according to said Ghosh.

Mathur explained that insurance penetration in residential property is abysmally low. While co-operative housing societies still buy insurance against natural catastrophes, he said individual property owners seem to be evaluating whether to do it or not.

Gurdeep Singh Batra, national head of property underwriting excess and surplus, risk engineering services, and global accounts at Bajaj Allianz General Insurance Co., said all homes and property that are currently financed by financial institutions are insured. Ghosh from HDFC Ergo said that they have insured about 10 lakh residential properties so far.

Insurance penetration is better in commercial establishments, but in small enterprises, it is to the extent of financial obligation, according to Mathur

Pricing, Product And Awareness

For a country like India, low per capita income could be one of the key reasons for people not buying such insurance when compared to the developed nations, according to Ghosh. "Affordability is one of the key challenges. Additionally, awareness for such kinds of products is relatively low, and thus, it becomes a push product amongst the customers."

Currently, the pricing for property protection is not too steep.

Mathur said while rates normally depends on the frequency and severity of accidents based on the nature of activities carried out at a location, for a house, premiums may vary from Rs 30 to Rs 60 per lakh of sum insured for fire, earthquakes, and floods. For a small engineering workshop, it may vary from Rs 75 to Rs 100 per lakh of insured sum for fire, earthquakes, and floods.

Bajaj Allianz's Batra said for commercial properties, there are annual policies that are priced as per the rates approved by the regulator in Standard Bharat products. This is based on the occupancy-wise experience of the insurer, which is for up to Rs 50 crore of insured property or assets. For sums insured above Rs 50 crore, the industry currently follows "common base rates" in commercial properties.

Reinsurance Getting Dearer Globally

Hitesh Joshi, general manager at the General Insurance Corporation of India, told BQ Prime that with the rising frequency and severity of global climate risks and events, the reinsurance costs of policies covering them are climbing. "While the U.S., Europe, Australia, and Japan make up a very substantial part of the global premium on the non-life side, India is contributing less than 1% currently."

Even if the insurance penetration in India were to spike with increased awareness, purchasing power, and successful push efforts by distribution channels, there would still be more than sufficient reinsurance capacity. This is because the increase in reinsurance demand may still look minuscule compared to global capacity and market size, he said.

Yet, the reinsurance costs are rising as the global reinsurance industry saw some of the worst years since 2017 in terms of catastrophic events, and then Covid-19 further impacted the sector, according to Joshi.

That has hurt the return on equity for investors in the reinsurance market, making them wary. Inflation, higher interest rates, the rising cost of capital, geopolitical tensions, and a diminished supply of capital from other markets have all affected reinsurers' access to capital, Joshi said.

While GIC Re and foreign branches of global reinsurers may be willing to underwrite more climate-related policies in India, increased pricing in the short to medium term is unavoidable. Alongside, there is a change in some reinsurers' willingness to maintain global catastrophe risks in their portfolios.

"Re-insurance rates globally went up 25–100% in January 2023 renewals following supply constraints and changes in risk perception against the backdrop of global uncertainty," Joshi said. "One may expect reinsurance pricing for India to go up by 25–40% in April 2023."