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# Climate change insurance: Missing in action

## Poor insurance penetration and the economy's continuing reliance on fossil fuel have made underwriting sustainable businesses a non-starter

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Climate change and the risk associated with it is a major topic that is discussed at global forums. Yet, discussion on climate issues was conspicuously low-key at a meeting of global insurance mavens in New Delhi last week to decide their priorities for the year and possibly for the decade.

For the Institute of Actuaries of India, the experts who figure out what premium to charge for a risk, their list of priorities included the need for insurance and pension industries as well as actuaries to look holistically at products, regulation, and policy against the backdrop of changing consumer needs. Somewhere in the list at the Global Conference of Actuaries hosted in New Delhi by the India-based Institute of Actuaries, climate change did surface, but this was clearly a proforma issue.

R Arunachalam, president of the Institute of Actuaries of India, told *Business Standard* that climate change issues are important, but they follow the others. "Insurance actuaries are aware of the risks to create products that will drive a solution-oriented resolution."

He is not alone. Next month, industry chamber Ficci shall host its annual insurance conference. A key objective for the ongoing regulatory reforms, the agenda acknowledges, is driving insurance penetration. India has a massively underserved insurance business so spreading the wings of the sector to draw in more business is important.

"We are keen to follow the government's priorities. There is a vast need to increase the level of insurance penetration," said Tapan Singhel, managing director and CEO of Bajaj Allianz General Insurance Company Ltd.

This is not surprising but different from the concerns of developed economies. In both the US and Europe, insurance is now playing an evangelical role in steering the industry towards the development of sustainable products.

The India government, too, has indicated that renewable energy and energy transition is one of its top priorities. But there is a contradiction. Encouraging those aims could mean reorienting the insurance business to discourage the expansion of the fossil fuel business. This is a difficult call, since the Indian economy needs expansion of energy from practically all sources. The dichotomy is difficult to reconcile and there are not too many lessons available from other countries.

The problem is as follows: Insurance needs capital. Each rupee of insurance underwritten needs a corresponding rupee of capital to provide for the possible loss. Smart insurers keep a high solvency margin and also pool their risks among other insurance companies, the reinsurance business.

India's challenge is that the insurance coverage and penetration vary by lines of business and the low penetration problem is acute especially in serving customer segments such as middle- to low-income populations in smaller towns and in villages; among MSMEs and farmers. The problem is easier to solve among existing policyholders in urban areas, but even there it may not be adequately covered. To serve all these new segments, insurance companies have to spread their resources thin. The reward is this will improve the insurance penetration in the country currently estimated at 4.2 per cent of the GDP. This number, too, is dependent on the large government-run schemes like Pradhan Mantri Jeevan Jyoti Yojana and Suraksha Yojana.

Having financed those businesses, it becomes difficult for an insurance company to also underwrite those of a renewable company or that of, say, battery swapping for autos. These are frontier areas with very little data and so the actuaries demand the insurance companies set aside larger capital to underwrite these risks. Some of these can be handled by raising natural catastrophe bonds by companies.

"But not all," said Praveen Gupta, former CEO of an insurance company exploring climate action. "Climate risks are not pencilled into almost any insurance products in India. If they did, costs would rise, which insurance companies are not keen to do for their clients."

In contrast, the risk-return trade-off from insuring a coal mine or a thermal power plant is seen to be clear, though no insurance companies are willing to admit this on record.

Small wonder, then, that the theme at the conference was on how to expand insurance penetration instead. Debasish Panda, chairman of the Insurance Regulatory and Development Authority of India, made his priorities clear in his keynote speech. "I see no reason why insurance penetration should not expand to global benchmarks." He offered a regulatory regime that gives flexibility while ensuring security of the policy holder through a risk-based capital regime. As Saurabh Mishra, joint secretary (insurance) in the department of financial services, said, the focus is on insurance for all by 2047.

Before Finance Minister Nirmala Sitharaman presented her Budget for FY24, the persistent demand from the insurance companies was for increasing the maximum tax benefits for the end consumer from ₹50,000 to ₹1 lakh. The other was, as Anup Rau, MD and CEO, Future Generali India Insurance Company Ltd, said: "The much-awaited proposal to increase the foreign direct insurance limit to 100 per cent in insurance could be taken up during the Budget '23."

None of these happened. Instead, the finance minister applied a brake on how much life insurance can qualify for a tax break. The upper limit is now ₹5 lakh, which the insurance industry is fighting hard to claw back.

Climate change, in contrast, was discussed only on the sidelines. Singhel said the insurance industry is excited about the scope for expansion as the economy expands. "Climate change is something the government and the society have to face together. India, as a country, is beginning to face it. So, there shall be friction initially as it happened with agricultural insurance before it settled down," he said.

Climate change was also mentioned prominently in the press release issued by the Institute of Actuaries. But as the theme for the event, "Marching into the future, with responsibility and resilience" demonstrated, the priorities were elsewhere.


### Range of climate-positive insurance cover needs

- For grid-connected solar and wind farms
- Disincentive for polluting industries
- Softer premium for nature-related therapies
- Insurance products for carbon removal
- Better insurance rates for battery-operated vehicles
- Insurance for recycling of wastes

### Back-end work needed for insurance companies to:

- Build data-backed models for new risks
- Invest in expertise in clean energy technologies
- Develop parametric products for health risks, warehousing, etc
- Have differentiated occupancy models based on risk assessment