

# MORO 2023

## ESG and Resilience in (Re)Insurance

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# Question 1: Which statement below do you associate ESG with the MOST

## ESG & (Re)Insurance – Top of mind Issues

- a. Energy transition
- b. Carbon footprint measurement
- c. Selective underwriting for ESG unfriendly sectors e.g. Oil & Gas, Coal
- d. Additional burden for (re)insurance entities
- e. Measures to increase sustainability for (re)insurance entities
- f. Measures to increase resilience for society
- g. Measures to increase resilience for the most vulnerable in society

## Question 1 : Options

- a. Energy transition
- b. Carbon footprint measurement
- c. Selective underwriting for environmentally unfriendly sectors
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- f. Measures to increase resilience for society
- g. Measures to increase resilience for the most vulnerable in society

# Who is African Risk Capacity?



Specialised agency of the African Union, set up to help African states to prepare, plan for and respond to climate-related disasters



35 member states from across Africa



Sovereign risk pool structured as a mutual insurer that has provided over \$1B coverage and \$125m payouts against drought and tropical cyclones using parametric insurance

# Why was ARC formed?

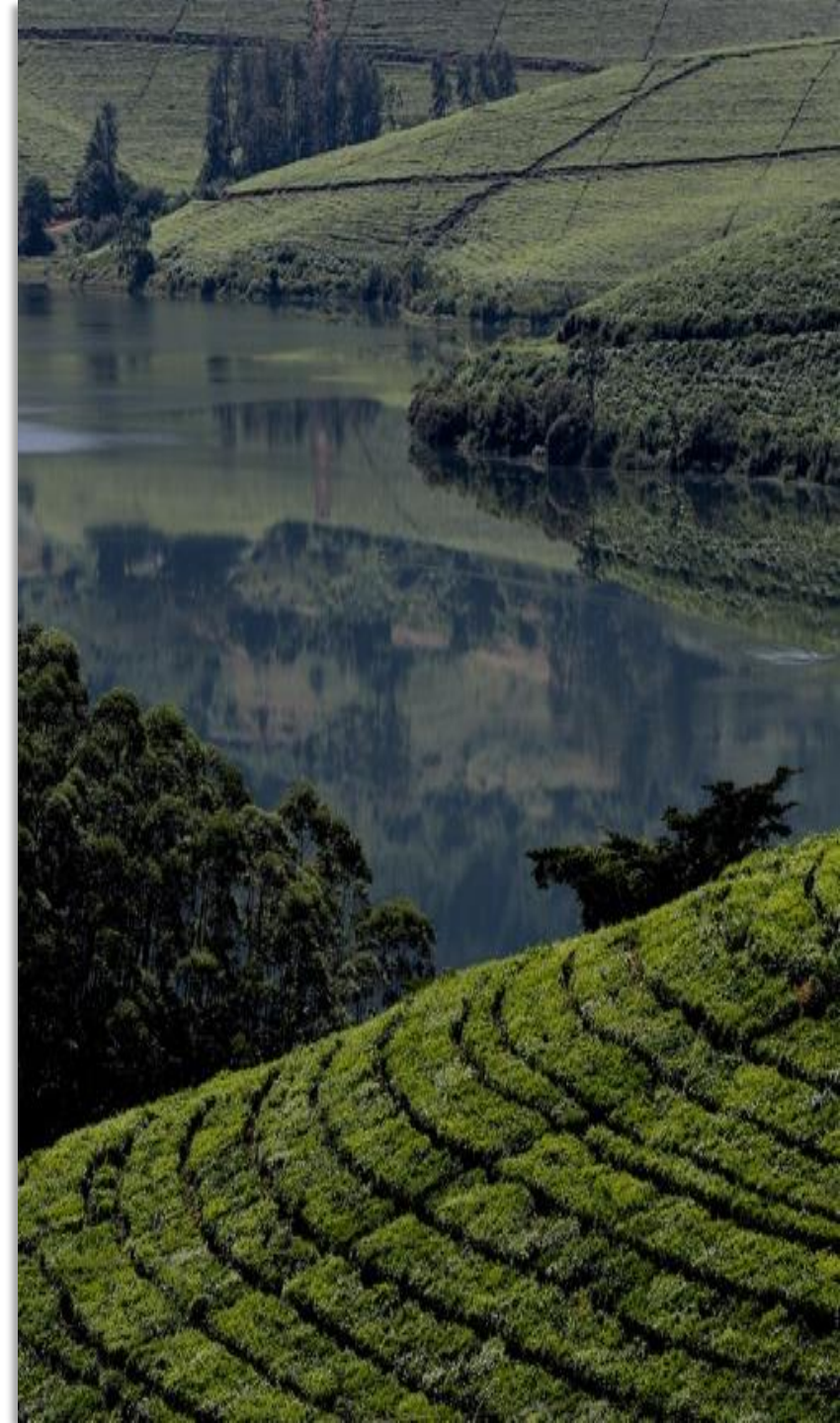
What problems was ARC looking to help solve?



- Lack of disaster preparedness
- Ad-hoc post-disaster response
- Absence of pre-arranged financing tools



- ✓ Improve disaster preparedness and response by assisting countries to better prepare, plan and respond to disasters
- ✓ Shift from post-disaster response to pre-arranged financing
- ✓ Save lives and livelihoods through early action





# ESG & Sustainability

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A framework that uses Environmental, Social and Governance (ESG) factors and systems for promoting *a long – term sustainable approach to conducting business* “sustainability”

- Corporate Social Responsibility
- Sustainability
- Triple Bottom Line Reporting
- King IV - Six Capitals

# ESG - Sustainable Development Goals (SDGs) Framework

## ENVIRONMENT



## SOCIAL



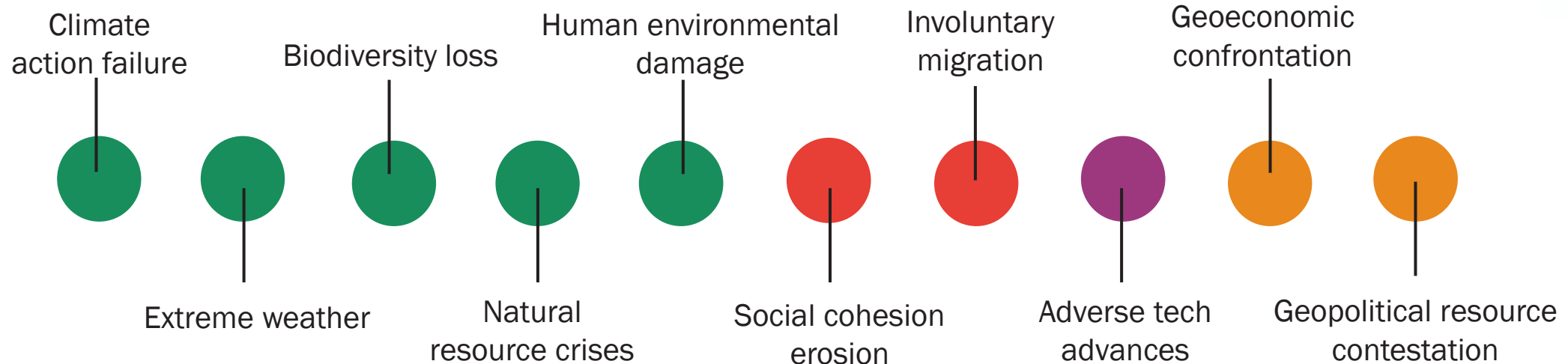
## GOVERNANCE



# Risk Insights - Exposure

## Top Long-Term Global Risks

Over the next 5-10 years



■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Source : World Economic Forum Global Risks Report 2022



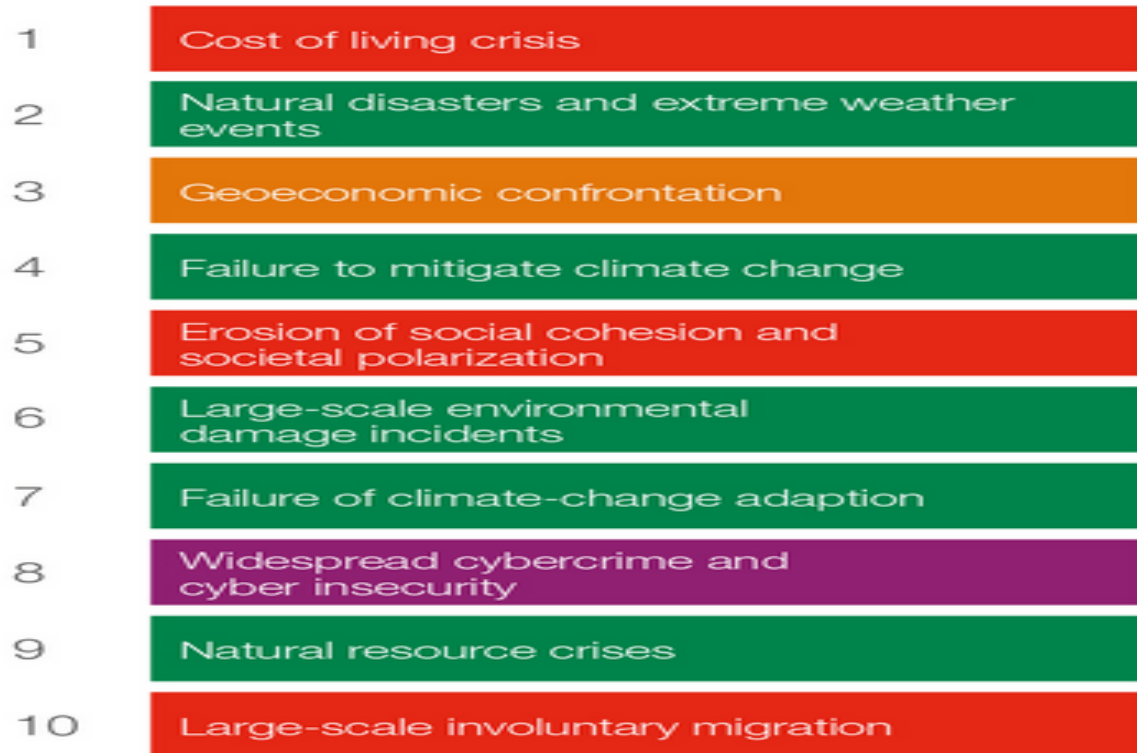
# Risk Insights - Exposure

Global Risks Report 2023

## Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”

### 2 years

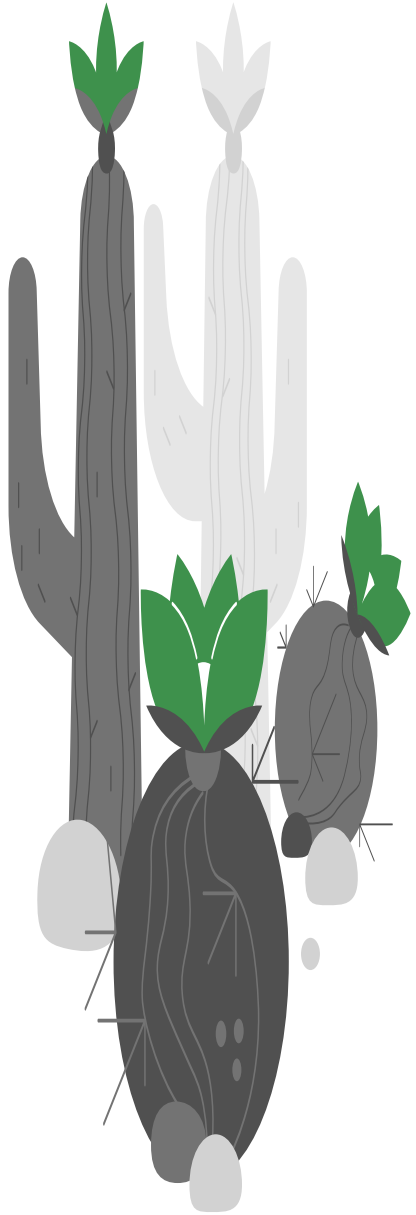


### 10 years



#### Risk categories

Economic   Environmental   Geopolitical   Societal   Technological



# ESG & Resilience

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A framework that uses Environmental, Social and Governance (ESG) framework to assess progress towards resilience

The ability of a system, community or society exposed to hazards to resist, absorb, accommodate, adapt to, transform and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management.

## Sendai Framework Terminology On Disaster Risk Reduction

- Exposure to hazards
- Resist/Absorb/Accommodate – Shock Absorbing Capacity
- Adapt/Transform/Recover - Agility
- Timely and efficient manner - Preparedness
- Preservation and restoration(BBB)

# Protection Gap

## Risk protection Gap

the difference between total losses and insured losses

## Non-insurable risks

risks that the insurance company deems too hazardous or financially impractical to take on.

## Insurance protection Gap

- The difference between the amount of insurance that is **economically** beneficial, and the amount of coverage actually purchased
- The shortfall in the amount of cover necessary to maintain current living standards of dependents = **Total economic losses - Insured losses**

## People protection Gap

number of people on the planet without access to any form of risk management or insurance

## Protection Gap Metrics

Insurance Penetration - Premiums/GDP  
% area planted uninsured, % cars uninsured

# Insurance Protection Gap

Lack of Trust



Financial Literacy



Affordability



Lack of access to financial products



# DISPROPORTIONATE FOCUS ON POLICYHOLDERS?



1 Embed ESG issues into decision making

3 Work with gvts, regulators & others to promote widespread action across society on ESG issues

- 2
- Work with clients and partners to raise awareness of ESG issues
  - Manage risk and develop solutions

4 Transparency & accountability in public disclosure of implementation progress

# UNEP FI Principles for Sustainable Insurance

# Transition to ESG 2.0 (Towards a greater purpose)

## Focus Areas – UNEP FI



### **Principle**

Work with clients and business partners to raise awareness of ESG issues

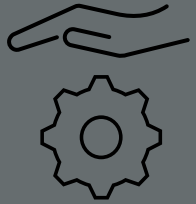
Manage risk and develop solutions.



### **Principle**

Work with govts, regulators & others to promote widespread action across society on ESG issues

# Insurance as an ESG Enabler – External Focus



## Risk Management Tools

Insurers working in partnership with government and civil society can co-create scalable risk management tools that reduce the exposure of vulnerable communities to common hazards.

*Flood Forecast Bulletins, Fire Alerts, Technology as an enabler*

## Policy Advocacy

Insurers should not ‘stay in their lane’. They should aggressively engage with government (national/regional) to create conditions conducive to risk management and insurance including financial inclusion.

*Subsidised insurance for low income*

*Scalable social safety nets with an insurance backstop*

*Facilitating the development of the insurance sector by risk mgt*



## Resilient Infrastructure

Advise governments, local authorities and cities to build resilient infrastructure less prone to climate hazards





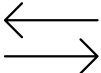
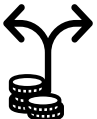

## Proactive Engagement with the Regulator

Engage with the regulator to enable a growth friendly regime that enables innovative structures and schemes to take shape particularly community based micro-insurance schemes that can contribute to the narrowing of the protection gap





# How can the industry close the gap

	Intervention	
	<b>Financial literacy</b>	Financial literacy programmes should be developed to enable the education gap to be closed
	<b>Affordability</b>	More affordable premiums can be possible due to the crowding in of various actors including government to subsidise some elements. Innovation on product design can lead to sustainable reduction of sales and operational costs especially if parametric products are utilised
	<b>Trust</b>	Collaborate with regulator, industry bodies and policyholders to enhance trust
	<b>Risk Management &amp; Protection Gap Reporting</b>	Transparency over protection gap in insurers' sphere of influence and progress in addressing the gap
	<b>Behavioral changes</b>	Adopt an approach that enables insurers to facilitate an orderly transition for ESG challenged policyholders rather than curtailing of coverage which jeopardises livelihoods
	<b>Alternative Capital View</b>	Insurance programs that reach the masses have lower profitability and will need lower rate of required return on capital
	<b>Investment</b>	Allocate specific funds from the investment portfolio to social investments that yield ESG outcomes

# An alternative ESG strategy – Key Enablers





**Tatenda**

**Thank You**

# Final Question: What should (re)insurers focus on to accelerate resilience?

