

A preliminary assessment of the impact of climate change on non-life insurance demand in the BRICS economies



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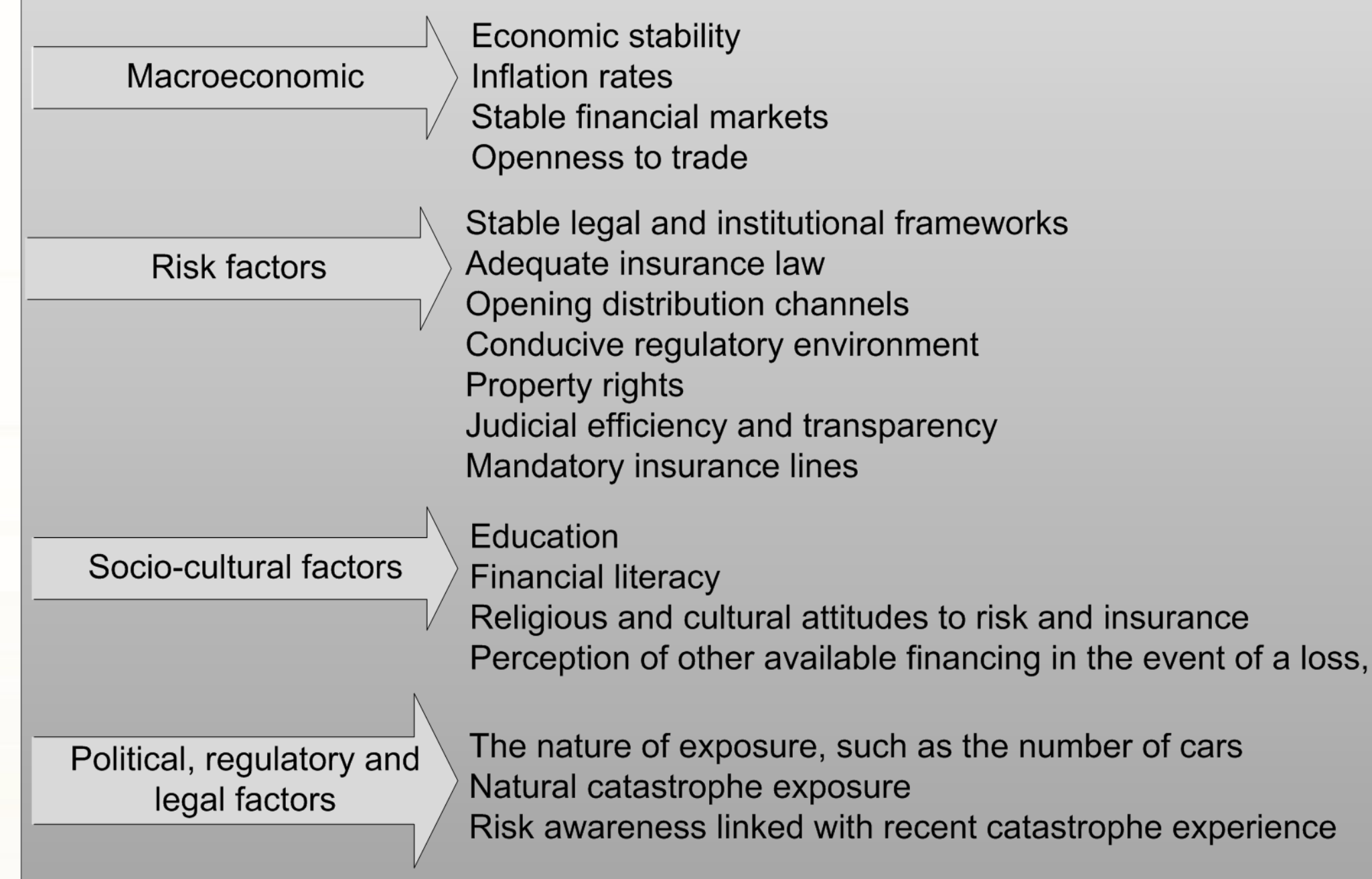


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Objective: This study investigates the impacts of climate change on BRICS economies and the potential influence of climate change on future growth with a view to informing long-term strategic planning in the insurance industry. We conduct a preliminary evaluation of their relative scale and directions based on evidence available today.

1. Observations: Understanding non-life insurance demand

What drives non-life insurance demand in the BRICS beyond income?



Economic growth is an important driver of insurance demand in emerging economies

Baseline projections suggest significant increases in non-life premium volumes in the BRICS are primarily due to rising wealth. This effect promotes affordability and a more conducive environment for insurance penetration.

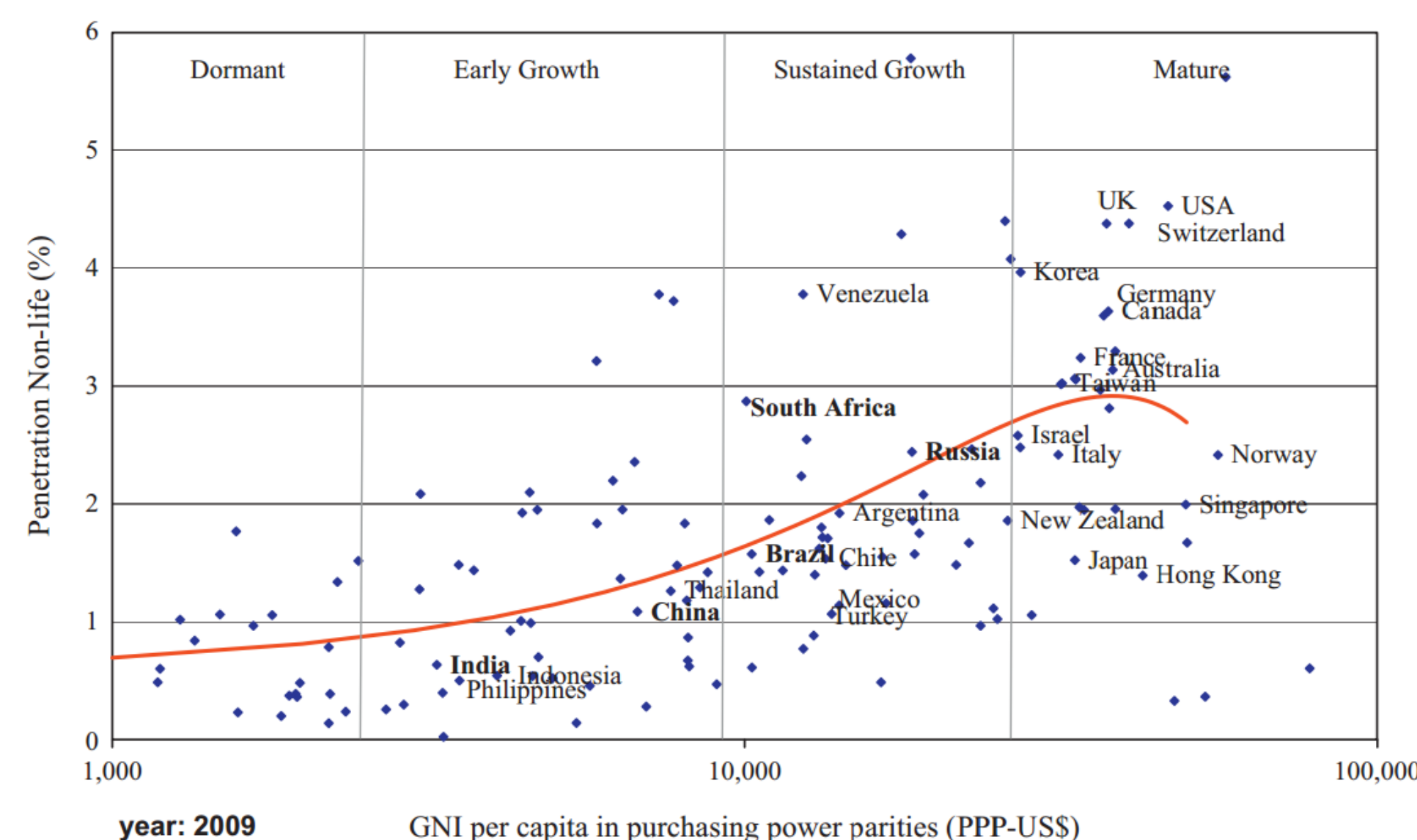


Fig. 1. Gross national income (GNI) per capita and the penetration of non-life insurance (% of GDP) in 2009 with red 'Global Trend Line' Source: data provided by Munich Re.

2. Analysis: What are the pathways that will influence future insurance demand?

We identified five pathways influenced by climate change that will impact future insurance demand, the most significant influence being **policy and regulatory responses** to climate change.

Pathway	Impact on premium volumes in BRICS economies in 2015 (\$ bn estimated)
Impact on income levels	-4 to +1
Public policy and regulation	Up to +6 (India) up to +12 (China)
Supply factors	No data
Willingness to pay for insurance	No data
New products and services	>+1 across all BRICS
Baseline economic growth (i.e. no climate change)	Up to +20 to +30 in most countries, up to +125 in China

3. Implications for insurers

Scenarios for insurance demand in the BRICS that impact the trend of pathways

A number of uncertain factors e.g. scale of physical risks, government, insurer and insured response may impact insurance demand, we therefore suggest two distinct scenarios:

- **Optimistic scenario** with an increase in demand
 - Strong curb on emissions
 - Proactive governmental policy
 - Awareness of risks results in favourable environment for insurers
 - Confidence in the industry rises and insurance seen as implicit solution to climate change impacts
- **Pessimistic scenario** with little increase in demand
 - Government measures passive and too little
 - Losses increase
 - Industry fails to anticipate full implications of risk
 - Insurers withdraw from market segments
 - Confidence in insurance fails, shift to state sector products

Climate change- implications for insurers

The impacts of climate change including both the scale and direction of action are influenced by insurer response and five key actions have been identified that may bring opportunities for insurers, including:

- **Raising awareness of risk and climate change** through education and information dissemination
- **Adopting a longer term perspective** in strategic business planning and anticipating changing risk levels in underwriting and risk management practices
- **Supporting adaptation** through innovative product design and public-private partnerships
- **Building technical capacity** to capture new market opportunities
- **Informing the debate and lobbying government** on climate change and taking action to reduce risks