

Abstract

The impact of climate change on the BRICS economies: The case of insurance demand.¹

Submitted by:

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Over the past decade, growth in the BRICS (Brazil, Russia, India, China and South Africa) economies has been a key driver of global economic growth. Current forecasts suggest that these markets will continue to be areas of significant growth for a large number of industries. We consider how climate change may influence these trends in the period to 2030, a time horizon that is long in terms of strategic planning in industry, but relatively short for climate change analysis, where the impacts are predicted to be most significant beyond around 2050.

Based on current evidence, we expect climate change to affect the BRICS economies in four main ways:

1. The impact of physical climatic changes on the productivity of climate-sensitive economic activity, the local environment, human health and wellbeing, and damages from extreme weather.
2. Changing patterns of investment in climate risk management and adaptation
3. Changing patterns of investments in areas affected by greenhouse gas (GHG) mitigation policy,
4. The impacts of the above globally, including on international trade, growth, investment, policy, migration and commodity prices, and their impacts on the BRICS.

We review the evidence on the impacts of climate change in the BRICS and then apply this to one particular industry sector: non-life insurance. We propose five potential pathways through which climate change could influence insurance demand: economic growth; willingness to pay for insurance; public policy and regulation; the insurability of natural catastrophe risks; and new opportunities associated with adaptation and greenhouse gas mitigation. We conclude that, with the exception of public policy and regulation, the influence of climate change on insurance demand to 2030 is likely to be small when compared with the expected growth due to rising incomes. The scale of the impacts and their direction depend to some extent on (re)insurer responses to the challenges of climate change. We outline five actions that could pave the way for future opportunities in the industry.

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