An aerial view of a flooded area in the Gatumba district of Bujumbura, Burundi on April 19, 2024. CFP.

Insurers battle to rise above climate change

Experts say incorporating ESG principles in their operations no longer an option

By Isaac Khisa

Insurance companies have always played a crucial role in ensuring the stability of economies, offering businesses and property owners a safety net against unforeseen events.

However, as climate change accelerates and its impacts become more evident, the insurance industry faces some of its most significant challenges. With rising risks from extreme weather events, shifting regulatory landscapes, and growing demand for sustainability, insurers must adapt or risk being left behind.

Incorporating environmental, social, and governance (ESG) principles into their operations is now no longer an optional for insurers—it is essential for their survival. Climate-related risks, including floods, heat waves, and severe storms, are becoming more frequent and devastating in Africa, just like the rest of the world.

Escalating climate change impact

In Uganda, landslides have swept through villages in the districts of Kisoro, Rubanda and Rukiga while floods have swept through parts of Ntoroko District in the western region this year, leaving dozens dead and thousands displaced. These tragedies followed the floods in Mbale City in the eastern part of the country, where 24 people lost their lives two years ago.

In Kenya, floods and landslides claimed nearly 200 lives this year, displacing hundreds of thousands and causing widespread destruction to homes, roads, railways, bridges, and other vital infrastructure. In neighbouring Tanzania and Burundi, dozens more perished due to torrential rains and floods.

Various parts of the continent also experienced significant impact of climate change, from extreme heatwaves in West Africa, Sahel region ((Burkina Faso, Mali, Niger, Nigeria, Chad) and Horn of Africa to the outbreaks of pests and diseases.

The increase in the incidents of such events are likely to push up insurance claims as food production is disrupted, public health negatively impacted and livelihoods destroyed, leaving insurers with little choice but to rethink how they do business.

But it is not just the physical risks from climate change that insurers need to worry about. Transition risks, stemming from the global shift towards a low-carbon economy, also pose significant challenges. Insurance companies are likely to feel the pressure from governments and other stakeholders to align with climate goals, like those set out in the 2015 Paris Agreement, and from investors who increasingly demand responsible business practices.

Uganda and Tanzania, for instance, have experienced this firsthand as six of the world's largest reinsurance companies—Munich Re, Hannover Re, AXA, Swiss Re, SCOR, and Zurich—declined to provide coverage for the East African Crude Oil Pipeline (EACOP).

This decision followed intense pressure from the "Stop East African Crude Oil Pipeline" campaign, spearheaded by environmental and social advocacy groups, which raised concerns about the project's ecological and societal impacts.

Currently under construction, EACOP is a 1,443km crude oil pipeline from Hoima in Uganda to the Port of Tanga in Tanzania. The infrastructure will run beside the Lake Victoria basin, which is the continent's largest freshwater reserve and the source of the Nile River.

ESG as a strategic imperative

So far, a growing body of evidence, including a recent KPMG study, underscores the urgency of integrating ESG into insurance operations. Insurers who fail to do so may find themselves struggling with higher costs, regulatory penalties, and a loss of customer trust.

But for those that embrace sustainability, ESG presents an opportunity to not only mitigate risks but also attract investors and customers who are increasingly prioritizing responsible and sustainable practices.

A worldwide survey by PWC shows that 76 % of consumers will discontinue their relationship with companies that treat the environment, employees or community in which they operate poorly.

In addition, 36% of global insurers cite customers as their top priority when they are designing their ESG strategy, implying that by adhering to these principles, insurers can build a strong relationship with their customers, regulators and other stakeholders.

Indeed, a number of global insurers have already taken steps to lead the way in this transformation. AXA, for example, has made a bold commitment to stop insuring or investing in

Train stranded after a rail track in Thogoto, Kiambu is left hanging after a landslide early this year. PHOTO: NTV KENYA.

companies that generate more than 30% of their revenue from coal by 2030. The French insurance giant is also heavily investing in renewable energy and green bonds, showing that a focus on ESG can improve both its brand reputation and its bottom line.

Allianz has integrated sustainability into its underwriting processes and offers green insurance products, like policies tailored for electric vehicles and renewable energy projects. This has allowed Allianz to tap into the growing demand for eco-friendly products and position itself as a leader in the green insurance space.

Prudential Financial has also embraced ESG principles, focusing on social impact investments aimed at addressing systemic risks like affordable housing, healthcare, and education. This approach not only benefits the communities it serves but also strengthens Prudential's relationships with investors who prioritize sustainability and social equity.

This development comes at a time when insurance penetration in Africa stands at less than 3%, significantly lower compared to other regions globally. The continent's insurance penetration, measured as premiums as a percentage of GDP, is about half the global average, according to McKinsey.

However, not all is gloom. More than 50 insurance entities across the continent have taken a bold step towards sustainability by signing the Nairobi Declaration on Sustainable Insurance, a landmark commitment to integrating environmental, social, and governance (ESG) principles into their business operations.

Signatories include major players such as Ghana Re, Continental Re, Sanlam Kenya Plc, Minet Kenya, South Africa's Old Mutual Ltd, Namib Re of Namibia, Mauritius' Royal Shield Re Limited, Waica Reinsurance Corporation from Sierra Leone, the South African Insurance Association, and Zep Re, among others.

Launched in April 2021, the Nairobi Declaration aims to provide a unified voice for Africa's insurance industry in addressing the far-reaching impacts of climate change. The initiative initially set an ambitious target of securing 50 signatories before the **COP27 climate conference**, held in Egypt in 2022.

However, this milestone was surpassed ahead of the event, during the African Insurance Organisation (AIO) Conference in Nairobi, highlighting the industry's growing commitment to addressing climate challenges.

Uganda's Insurance Regulatory Authority says it has embarked on a journey leading to the implementation of ESG practices across the country's insurance industry. The regulator says it has since collaborated with Financial Sector Deepening Africa (FSD Africa) to develop an integrated framework to guide insurers in adopting ESG and incorporating the same into their respective business models.

"The ESG framework is vital for the insurance industry in Uganda as it is expected to provide a structured approach to addressing environmental, social, and governance risks that can significantly impact the industry's stability and growth," IRA said in its 2024 annual report.

"By incorporating ESG principles, insurers will be able to better assess and manage risks related to climate change, social inequalities, and governance practices, leading to more sustainable and resilient business operations."

IRA notes that this development will not only enhance the insurer's ability to attract investment and meet regulatory requirements but also strengthen their role in promoting broader societal and environmental well-being, which is crucial in a developing market like Uganda where such factors can substantially influence economic and social outcomes.

"Once the framework is in place, the road map for the adoption will be communicated to the industry," the regulator added.

Speaking during the IRA's 58th CEOs Breakfast Meeting held in Kampala recently, Kaddunabbi Ibrahim Lubega, the chief executive officer at Insurance Regulatory Authority said insurers need to embrace the aspect of sustainability in their operations to positively impact communities, the environment, and related fields in their business.

"In the realm of insurance, risk assessment extends beyond policies. Embrace sustainable practices not just for today's bottom line, but as a strategic investment in resilience ensuring your company's enduring success in a world that demands environmental and social responsibility," he told the CEO's of the country's insurance firms.

Kaddunabbi said inclusive insurance is a major pillar for sustainability in the insurance and this can be achieved by expanding the accessibility and affordability of insurance products, addressing the needs of underserved markets, and finding new distribution channels like telcos and cooperatives and digital channels.

He urged insurers to embrace the idea of responsible insurance by promoting ethical practices and responsible policies, building trust among stakeholders, and simplifying products so that they are easy to understand, easy to enroll in, and easy to claim.

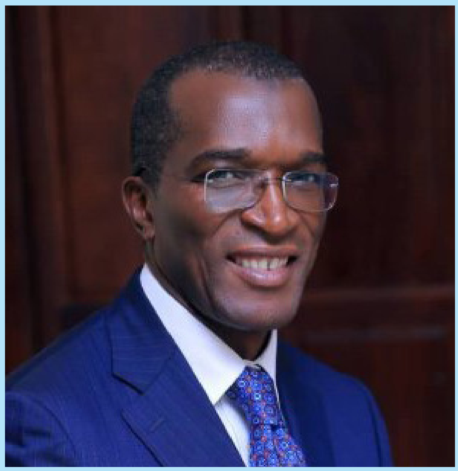
Leveraging technology and innovation

Patrick Nyaga, the Group Chief Executive Officer at the regional insurer, CIC, says climatic catastrophes witnessed lately from droughts, floods, heatwaves and rising sea levels mean there is an increased level of risk, hence the need for better and data-informed response.

Writing recently in *Business Daily*, a Kenyan publication, Nyaga noted that by leveraging technology and data analytics, insurers can develop innovative solutions that address emerging risks and promote resilience in the face of environmental and social disruptions.

"Moreover, insurers can incentivise policyholders to adopt sustainable practices by offering tailored products that reward eco-friendly behaviours," he said, adding that in order to promote social inclusion through ESG-driven practices, underwriters should develop solutions that cater to the needs of underserved communities.


Akinyemi Awodumila, a partner at Deloitte E.Africa


IRA CEO Ibrahim Kaddunabbi Lubega


CIC Group CEO Patrick Nyaga

"ESG-aligned corporate governance is critical for building trust and accountability within the insurance industry. Sound governance practices ensure ethical decision-making, transparent operations, and responsible risk management," he said.

Nyaga says by adhering to these principles, insurance companies can build stronger relationships with their customers, regulators, and other stakeholders, as good governance practices inspire investor confidence and attract responsible investments, enabling insurers to access capital for sustainable business growth.

Similarly, Akinyemi Awodumila, a partner at Deloitte East Africa, says like any other, the insurance industry stands to reap significant benefits from embracing environmental, social, and governance (ESG) in strategy execution. From an underwriting perspective, Awodumila, says insurers should include ESG stress testing on their portfolio that incorporates climate scenario analysis data.

He says carrying out stress testing will enable underwriters to understand the potential impact of ESG on their reserving and capital levels, which will then impact product pricing and portfolio selection.

"It also allows insurers to tailor their policies better to their customer's needs, giving them a competitive advantage with customers," he said. "From a capital and risk control perspective, insurers can apply ESG scenario analysis to understand the capital levels required for planning purposes."

He adds that insurers also need to include ESG considerations in supplier decisions, such as building a net-zero supplier standard and ESG scoring. Insurers, he said, should also consider developing a sustainable claims management standard for all categories of claims.

He says successful integration of ESG across an insurer should also include governance roles and commitments, with clarity on roles and responsibilities. He emphasizes the need for accountability across every level of the organisation, starting with the executive leadership.

"ESG should be cascaded across every operation and functional area of the insurer, and insurers must make adequate investments towards a data management strategy and reporting, which is fundamental for decision-making internally and communicating with internal and external stakeholders," he said.

Overall, insurance industry followers argue that for insurers that are still hesitant, the message is clear: ESG is no longer a niche or a trend but a critical business strategy. They say companies that fail to integrate these factors into their operations risk missing growth opportunities, alienating customers, and facing reputational damage. They also claim that embracing ESG can help insurers not only manage risks more effectively but also differentiate themselves in a crowded market. IPL