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Our purpose at Atleha-edu is to help ordinary South Africans save and invest for a better tomorrow.

We do this through Financial Sector Code (FSC)-compliant awareness and interactive education programmes focused on retirement fund trustee, management committee member and fund member awareness and education initiatives, such as this article.

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HOW DISASTER RISK MITIGATION, REDUCTION AND CLIMATE RESILIENCE PROMOTE SUSTAINABLE INSURANCE

The frequency and intensity of natural disasters have increased significantly over the past decade due to climate change, resulting in devastating economic losses for both governments and insurers globally. Subsequently, insurance policyholders, insurance companies, regulators, and governments are under increasing pressure to ensure the necessary risk mitigation and management strategies are in place to ensure continued sustainable returns for their members, clients and investors over the long term.

While dealing with disasters historically focused on emergency response, it became increasingly apparent towards the end of the 20th century that the severity of natural disasters was increasing and that a more proactive manner of managing natural disaster risks would be required going forward. It was realised that the only way to prevent losses and lessen the effects of disasters is by reducing and managing conditions of hazard, exposure, and vulnerability before they even occur. This can be done by putting in place a number of measures, such as disaster risk mitigation, reduction, and climate resilience.

WHAT IS DISASTER RISK?

Disaster risk is the likelihood of a system, society, or community experiencing loss of life, injury, or destroyed or damaged property within a certain time period and is calculated as a function of hazard, exposure, vulnerability, and capacity.

DISASTER RISK REDUCTION

Mitigation is the action taken to reduce or minimise the adverse impacts of a hazardous event. The adverse impacts of disasters often cannot be prevented fully, but the severity thereof can be lessened by the planning and implementation of various strategies and actions.

DISASTER RISK MITIGATION

Disaster risk reduction is the concept and practice of reducing disaster risks through systematic efforts to analyse and reduce the causal factors of disasters. Examples include reducing exposure to hazards, lessening vulnerability of people and property, and early warning of adverse events.

CLIMATE RESILIENCE

Climate resilience is the ability to prepare for, recover from, and adapt to the impacts of our changing climate, such as ocean warming and acidification, extended periods of drought and extreme temperatures.

The importance of disaster risk mitigation and reduction and building climate resilience to support sustainable insurance

The insurance industry plays a key role in promoting and enabling resilience against natural disasters. It can provide financial protection to the insured and prevent negative financial hardship after a disaster. Providing funds and post-disaster liquidity immediately after the event can accelerate recovery. Insurance can also facilitate pre-disaster risk reduction through financial incentives and post-disaster risk reduction through additional mitigation funds embedded in recovery efforts.

However, in recent years insurers have suffered enormous financial losses due to the need to pay out increasing amounts for damages stemming from natural disasters and catastrophes. As a result, insurers have been pressed to re-evaluate various metrics used to assess the risks they insure. During the same period, as a result of uninsured economic losses increasing to record levels, policyholders were compelled to review their capacity to mitigate and transfer risk.

Practices and strategies to support disaster risk mitigation and reduction and building climate resilience

Practices and policy changes are being developed and implemented by insurance companies worldwide, both individually and in collaboration with non-profit organisations (NPOs). Changes to insurance policies and underwriting implemented by insurers will directly affect policyholders. A few global and local examples below serve as case studies to illustrate the point:

INTERNATIONAL: STATE OF CALIFORNIA

In California, as a result of the rise in the number and severity of runaway wildfires, insurers are increasingly reluctant to renew policies and if they do, premiums often double or triple.

To combat the skyrocketing insurance costs for those who reside in wildfire-prone areas, the State of California has released a new regulation that mandate that insurance companies reward home- and business owners who take wildfire safety and mitigation actions under the state's Safer from Wildfires framework, with insurance premium discounts.

LOCAL: WESTERN CAPE

In the Western Cape, the Knysna fires have resulted in the establishment of organisations and programmes whose main objective is to ensure South African citizens are better prepared for risks associated with climate change and disasters, such as the Climate and Disaster Resilience Fund (CDRF) and the Partnership for Risk and Resilience (P4RR).

How insurance companies can leverage sustainability risks and opportunities

Insurance companies are revising their underwriting policies to stop covering assets or operations that, in their opinion, pose a significant risk to the environment or burden the environment. A few other examples of how insurers could address concerns about sustainability are the following:

1. Developing a Climate Strategy that includes no longer providing underwriting policies for power generation and mining clients with a certain percentage of coal-based energy mix or metric tons of coal extracted per year.
2. Appoint a Chief Sustainability Officer to enhance the company's focus on ESG issues and to oversee its Office of Sustainability.
3. Reduce business support in underwriting and asset management to the 10 per cent of the world's most carbon-intensive oil and gas production companies.
4. Offering products and services that are applicable to sustainability issues, such as a Pollution Liability Insurance policy.

References

Bloomberg | Climate and Disaster Resilience Fund (CDRF) | Parliament of South Africa | Santam Insurance | PwC SwitzerlandCovington | UN Office for Disaster Risk Reduction (UNDRR) | RISK Management and Decision Processes Center

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