



A NEW CLIMATE OF RISK **How global warming is impacting the insurance sector**

One of the services that IFC provides is assistance to clients to assess their business exposures, and to structure appropriate, cost-effective methods to mitigate, treat, or transfer risks. This includes providing expertise on appropriate insurance coverage. Because we work with clients across a wide range of regions and sectors, we are well placed to help insurance providers adapt to new and emerging areas of risk. One potential area is climate change.

A study of the global impact of natural disasters from 1980 to 2004, conducted by Munich Re, showed that insured property losses were dominated by storm events and major earthquakes, for which insurers were poorly prepared. These exposures are most acute in the developing world, where vulnerability is high and preparedness is low. Climate change is a growing cause of natural disasters and is affecting the availability and affordability of insurance for consumers and businesses. Insurance claims from catastrophic weather events are rising 10 times faster than premiums.

The complexity of climate change protection is heightened by the fact that multiple events impacting the same area, such as the hurricanes which struck both North and Central America in

2005, dramatically increase the vulnerability of the area and the severity of impact. Storms and floods also bring disease, widening the impact of the initial event. Despite and because of the unpredictability of natural disasters, the insurance sector has a crucial role to play in helping businesses and communities prepare and recover.

At current growth rates, emerging markets will represent half of world insurance premiums by the middle of this century. Beyond worrying about who will bear the cost of climate change, public authorities, businesses, and insurers need to concentrate on prevention. This can mean providing products that meet changing customer needs as a result of global warming, or providing risk coverage to investment in solutions – such as renewable energy – thereby addressing the root causes of climate change.

The majority of small businesses that were impacted by the Indian Ocean tsunami of December 2004, particularly in the tourism sector, had little or no insurance in place to help rebuild their operations and recover lost expenses and revenue. IFC has since run risk and insurance awareness workshops for these businesses to highlight the importance of insurance and good risk management, and has also been working with local insurance markets to find ways to make insurance protection more readily available and affordable for this sector of society.