

Chapter 12

Climate Change and Insurance Business in Developing Economies

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ABSTRACT

The capacity of insurance systems to reduce immediate losses caused by disasters through the provision of financial security against extreme weather conditions such as hurricanes, tropical cyclones, droughts, and floods avails an opportunity to developing countries for reduction of poverty and steady economic growth. The process of negotiating premium creates a platform for incentives to reduce risk and adapt to the climate change. There are opportunities for donors to combine resources so as to support the vulnerable communities with measures to reduce risk. In this research work, the scholar examines the process of financing disaster risk in developing countries, insurance of disaster in developing economy, advantages of disaster insurance, cost and risks involved in the insurance business, the concept of adaptation in insurance system, proposal of the Munich climate insurance initiative, the impact of insurance on the reduction of greenhouse gasses, and the globalisation of climate change risk.

CLIMATE CHANGE AND INSURANCE BUSINESS IN DEVELOPING ECONOMY

The impact of climate change generates intense and more frequent natural disasters such as destruction of business environments and homes at outrageous rates. These occurrences exert risk on the food system in a particular nation. According to McKinsey and Company (2020), the economic havoc caused by hurricane Harvey in 2017 was approximately \$125 billion while the Australian bushfires in 2019 destroyed several animals which led to loss of \$4.4 billion in damage. The issue of climate change is a prominent problem poised against insurance business across the globe. Insurance business is one of the

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largest financial sectors in the world as everyone endeavour to secure their pivotal lives and possession. The roles of the insurance sector in an economy is not to be undermined as it reimburses the insured from loses on properties, health, crops, life and myriads of loses from basic parts of life. It is expedient to reveal that further changes in the universal climate are presumed to occur in the next ten years. Hence, the concern of insurance business is no longer individual catastrophic occurrences but the relationship between human system and global climate. Insurance business can generally be referred to as an activity of a provision against losses.

According to Jarzabkowski, Chalkias, Clarke and Iyahan (2019), Insurance business produces capital flow to promote recovery of societies from disasters. Also, the application of insurance delivers financial resilience. Obviously, the absence of suitable insurance enables the burden of losses to fall largely on governments, citizens and organisations. Insurance is a non-monolithic business with quite a considerable regional variation in coverage of risks, exposure to damages and rendering of services within and among countries. This business partakes in a public-private patch work for the spread of risk across societies, properties, lives, possessions and a large geographical zone. Insurance is the result of a man's effort to mitigate financial problems in the face of dangers to his life, person and estate (LAWSA, 2018). According to Patankar and Patwardhan (2016), insurance provides adequate financial security to reduce setbacks to economic, societal and technological advancements. Hence, it's a tool for safeguarding a society's developmental gains.

After much emphasis on insurance from varying scholars, there is a need for an exaggeration of climate change and its impact on this business. For maximum efficacy, insurance needs to be included in a long-term, broad climate adaptation strategy. Climate adaptation involves the reduction of vulnerability to hazard and the delivery of systems to respond and recover and financial resilience to the remaining risks. Climate change is altering weather patterns and increasing the intensity of adverse weather condition. It may be a cause of adverse weather condition like flooding, hail and drought. The effects of climate change are systematic considering the adverse impact on local economies and impending market failures which are directly linked to consumers and insurers. More so, incessant catastrophic events in relation to meeting regulatory requirements can threaten the firms' business models and increase the cost of insuring certain risk. The effects of climate change on risks insurance hasn't gone unnoticed as the world is plagued by one or another climate change abrupt condition, climate change variation creates risks to a policy holder's insurable asset and a further problem of how to underwrite the problem brought about by this situation. It can be further stated that climate change displays both financial and management threat on insurance business across the globe.

The amount paid out by insurance industries for weather related disasters in the developing nations are three times the amount made available by international aid (Evans, 2004). Climate change will increase variability, intensity and frequencies of weather related problems(IPCC,2007).This can be said to occur because of land use and increasing settlement of people in weather catastrophic regions, a basic example is the coastal regions are affected by windstorm while fertile river basins are vulnerable to floods. King (2018) has attributed the cause of climate change disrupt to greenhouse gasses emission from the developed nation affecting the developing nation or basically its neighbouring nations and therefore demand for payment of damages by these developed economy as a basic compensation and to encourage the developing nations to create an interest in protecting themselves against global warming and its effects.

According to IPCC (2014), since the pre-industrial period there has been an increase in gas house emission, this activity is driven by economic and population growth and are recognised as high as ever in recent times. On the other hand, the effect of gas house emission drivers and other emission has been

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