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# CELEBRATING PROFESSIONALISM IN AFRICA

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*'How insurance helps lock in sustainable development goals'*

By **Lesley Ndlovu**

Chief Executive Officer, African Risk Capacity Insurance

*'Celebrating professionalism in Africa'* is a pioneering series of case studies, published by the Chartered Insurance Institute, to showcase professional practice and innovation in insurance



# HOW INSURANCE HELPS LOCK IN SUSTAINABLE DEVELOPMENT GOALS



By **Lesley Ndlovu**  
Chief Executive Officer,

## THE CLIMATE CHALLENGE

For many Africans, a warming climate will impact the availability of basic necessities such as freshwater and food security. Climate change continues to exacerbate the frequency and severity of natural disasters such as drought, flood and tropical cyclones. The links between climate change and sustainable development are strong.

Poor and developing countries will be among those most adversely affected and least able to cope with the anticipated shocks to their social, economic and natural systems. Proactive disaster risk management is an effective mechanism for locking in development gains across the entire UN Sustainable Development Goal (SDG) framework, while reducing the losses and damage to a nation from natural disasters. This significantly reduces the need and amount of emergency humanitarian assistance required as is commonly accepted.

In addition, the spread of Covid-19 has turned a public health emergency into one of the worst international crises of our lifetimes. It has slowed or reversed progress on many of the SDGs and increased the pressure on domestic budgets.

National budgets are so stretched that most countries would not be able to effectively respond to a natural disaster, such as a drought, further compounding the pandemic's impacts.

After-the-event humanitarian aid, which is the traditional route to source additional funding following a natural disaster, could help, but is being stretched by increasing demand globally and is already unable to come close to meeting existing funding needs.

## WELL PLACED TO CONTRIBUTE

Naturally, the insurance industry is well placed to play a huge role in helping African countries to understand their climate-related risk exposures and the development of the contingency plans.

The funding of contingency plans is delivered primarily through parametric insurance policies for drought and tropical cyclone, leveraged by international reinsurance market access.

Insurance is the ideal financial protection too, which can be used to address relatively low-frequency but high-impact shocks.

Parametric insurance can help African countries to fund pre-prepared contingency plans for low-frequency, high-impact events. This is because it:

- Enables a rapid payout, within two weeks of a disaster being confirmed, because it doesn't have the lengthy and complicated claims adjustment process
- Leads to faster execution of the contingency plan
- Reduces the requirement for emergency humanitarian assistance.

Unlike conventional insurance, which is based on a claim verification process of the losses, parametric insurance uses payout-triggering mechanisms that rely on transparent and objectively measured indicators of natural disasters, such as the amount of rainfall, to determine the extent of a drought.

This approach mitigates some of the key issues that make conventional insurance unlikely to work in Africa, such as the lack of historical loss data required for assessing risk and profiling clients, and the high implementation costs.

The Water Requirement Satisfaction Index (WRSI) is one example of a parametric index that can be used for insurance purposes. The WRSI correlates the crop yields in a particular country to the level of rainfall received, then claims payout is calibrated based on the rainfall as measured by satellites. Other indices can be based on the level of soil moisture, the evapotranspiration of plants or historical benchmark yields.

## CHALLENGES

There are significant barriers that inhibit the growth and widespread use of insurance. In most instances, there isn't an abundance of spare capital or a legal mandate requiring the purchase of insurance.

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Parametric insurance uses payout-triggering mechanisms that rely on transparent and objectively measured indicators

This, coupled with limited knowledge and appreciation of insurance and budgetary constraints, presents barriers to the rapid growth of insurance coverage. The level of trust in insurance is quite low and the intended beneficiaries are reluctant to pay premiums.

## OPPORTUNITIES TO EXPAND THE USE OF INSURANCE

In Africa, agriculture contributes to a third of the GDP and employs two thirds of the workforce. Climate change is shifting agricultural seasons and increasing the frequency and severity of extreme weather events. Insurance penetration remains stubbornly low, meaning that the proportion of losses covered by insurance is extremely low.

There is a massive opportunity for the insurance industry to step up and provide solutions to reduce the protection gap. ○

**ARC is a specialist in parametric insurance and reinsurance solutions against natural catastrophes. Mr Ndlovu is writing in a personal capacity.**



## FURTHER READING



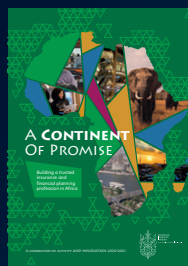
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