




THE NAIROBI  
DECLARATION ON  
SUSTAINABLE  
INSURANCE

## Webinar 3: Climate-related Risks for Insurers



January 2025

Tedd George










## Meet your trainer: Tedd George

**Tedd George**

- More than 20 years of banking sector experience, focused on research/strategic advisory in emerging markets.
- Expertise in trade & commodities financing, syndicated loans & fintech.
- Extensive experience in delivering high-level training to professionals, including on structured commodity trade finance and ESG/sustainability issues.
- Thought leader on intersection of ESG and disruptive technology.



## Course programme

<b>Day 1</b>	• Webinar 1: Sustainability Risk Concepts	
<b>Day 2</b>	• Webinar 2: Dependencies and Impacts for insurers' clients	
<b>Day 3</b>	• Webinar 3: Climate-related Risks for Insurers	
<b>Day 4</b>	• Webinar 4: Sustainable Underwriting	
<b>Day 5</b>	• Webinar 5: Sustainable Investments	
<b>Day 6</b>	• Webinar 6: Sustainable Finance Reporting and Disclosures	



## Skills you will learn



### This webinar will help you to:

- evaluate climate's physical impact, assessing climate risks on counterparties and portfolios, including uninsurability.
- identify transition risks, analyzing policy and market shifts affecting client operations.
- ensure climate regulatory compliance, developing processes for regulatory adherence, transition plans, and prudential standards.



## Agenda



- 1 Identify physical climate risks
- 2 Identify transition climate risks
- 3 Comply with climate-related regulations
- 4 Wrap up and Q&A



## Implementing the FSD ESG Roadmap



- 1 **Develop ESG approach**
  - Evaluate ESG risks.
  - Determine ambition level.
  - Identify gaps.
- 2 **Define client/portfolio risk framework and appetite**
  - Integrate ESG into existing client risk framework
  - Define risk appetite.
  - Engage clients on risk mitigation
- 3 **Assess and escalate climate risk**
  - Identify physical risks
  - Identify transition risks
  - Comply with climate-related regulation
- 4 **Integrate ESG into core operations - Underwriting**
  - Underwriting practices.
  - Product development and claim management.
  - Client engagement.
- 5 **Integrate ESG into core operations - Investment**
  - Investment practices.
  - Sustainable product development.
  - Client engagement
- 6 **Governance framework, monitoring and reporting**
  - Develop governance structure.
  - Set KPIs.
  - Establish reporting mechanisms

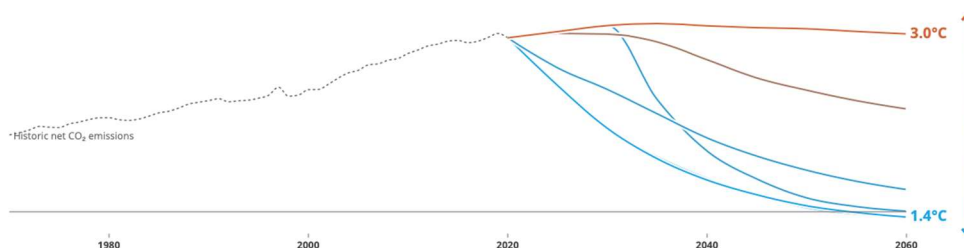


## Step 3: Assess and escalate climate risk

### Assess and escalate climate risk

- Identify physical risks:
  - Evaluate the impacts of climate-related physical risks on counterparties and portfolios, including the risk of uninsurability due to extreme physical risk.
- Identify transition risks:
  - Analyze transition risks from policy change and market shifts that could affect client operations and insurance needs.
- Comply with climate-related regulation:
  - Establish processes to meet regulatory requirements related to climate, including development of transition plan and adherence to prudential standards, escalating as needed.

## Climate risks: physical and transition



### The choices we face now

**Transition risks:** Associated to transitioning to a lower-carbon economy, which may entail extensive policy, legal, technology and market changes.

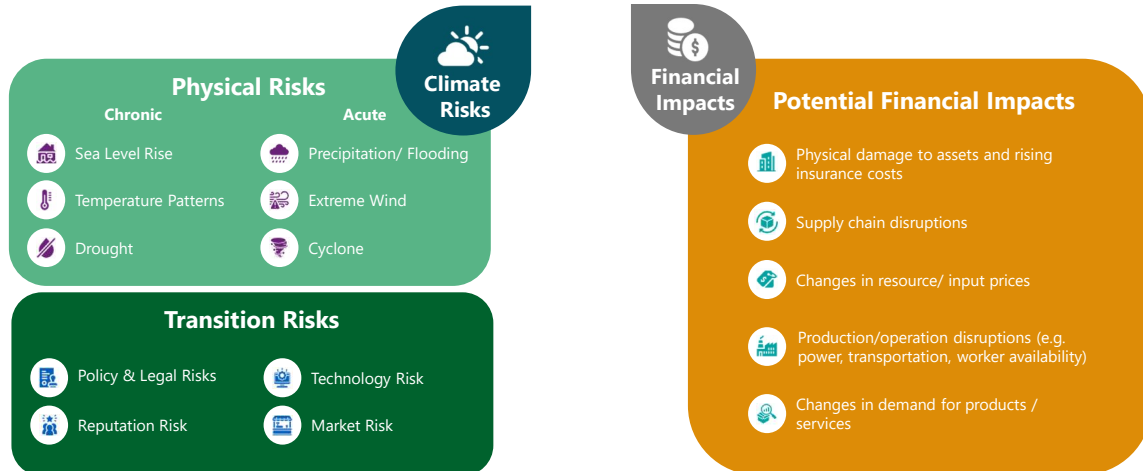
Strong mitigation

'Aggressive' mitigation

Greater transition risk

Source: NGFS

## Climate risks for the financial sector



## How climate can impact insurers



### Physical Risk Impact on Underwriting:

- Increased claims due to property damage from extreme weather events.
- Properties in high-risk areas may become uninsurable.
- Longer-term climate shifts can alter risk assessments, requiring adjustments in underwriting criteria and pricing models.

### Transition Risk Impact on Underwriting:

- Regulatory changes aimed at reducing carbon emissions can affect valuation of insured properties / businesses.
- Companies not aligned with low-carbon transitions may face increased operational costs, impacting insurability.

### Impact on Investment:

- Physical risks can diminish asset values leading to reduced returns.
- Transition risks can result in market volatility as sectors adapt to new regulations, affecting performance.

Source: Actuaries Institute



## Agenda – webinar 3



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## Identify physical risks



### Assess and escalate climate risk

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## Insurers facing climate change risks

Short & medium term:

- increased frequency and severity of extreme weather events (droughts, floods, wildfires) pose immediate risks and loss exposure.

Long term:

- rising sea levels, desertification, and melting glaciers.



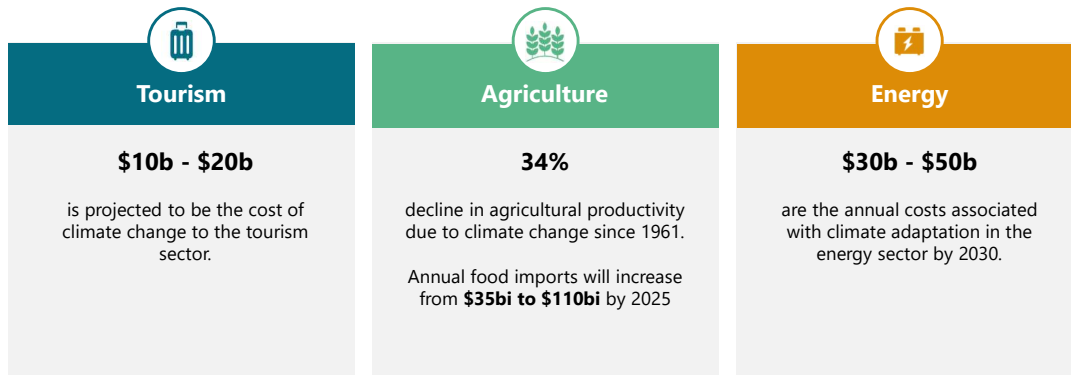
KwaZulu-Natal (S Africa) floods:  
USD 1.8 billion in insured losses



Source: Artemis



## What African sectors are most exposed to physical risk?

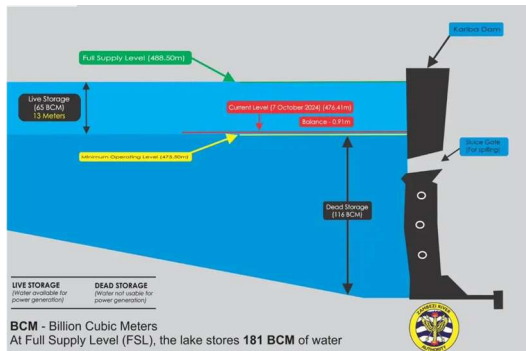


## CASE STUDY

## Physical impact of climate change can affect payout: Lake Kariba



Drought-driven power cuts leading to increase in business interruption claims.



- Due to drought, Kariba Dam, which powers the economies of Zambia and Zimbabwe, was as low as 13% capacity, causing blackouts affecting companies and population.
- Impact on insurers: surge in business interruption claims, which can lead to higher premiums for policies covering operational disruptions.

Source: The Guardian, The Watchers

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## Uninsurability due to extreme physical risks



Once insurance is no longer offered against certain risks (accessibility), in certain areas (availability) or at a reasonable price for homeowners (affordability), these areas are considered "uninsurable".

## Sectors at risk of uninsurability:

- **Coastal real estate:** in areas vulnerable to sea-level rise
- **Fossil fuel projects:** in sensitive ecosystems
- **Agriculture:** in regions facing severe water scarcity
- **Infrastructure:** in areas prone to recurring extreme weather events
- **Transportation:** in flood-prone regions.

## Insurers policies and practices:

- Innovative tools like analytics and satellite imagery improve climate risk assessments, enabling precise pricing and selective coverage.
- Making coverage decisions suburb-by-suburb or property-by-property basis, withdrawing from overexposed areas like KwaZulu-Natal (South Africa) due to flooding.

Source: Moonstone, Daily Investor

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## Identifying and mitigating physical risk at counterparty level

### Steps to integrate physical climate risk assessment and management

- 1 Screening for physical climate risks**  
 Determining if the counterparty's assets, operations and workforce are exposed and sensitive to physical climate risk drivers that may affect its performance.
 
- 2 Determining physical climate risk materiality**  
 Determining the materiality of physical climate risk to the counterparty's performance through a climate risk and vulnerability assessment.
 
- 3 Identifying adaptation and resilience (A&R) solutions**  
 Identifying A&R solutions to mitigate or avoid the identified material physical climate risks, and engaging with the counterparty to develop an Adaptation Action Plan.
 
- 4 Managing physical climate risks**  
 Monitoring performance in the implementation of A&R solutions agreed in the Adaptation Action Plan.
 

UNEP-FI



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## Identify transition risks

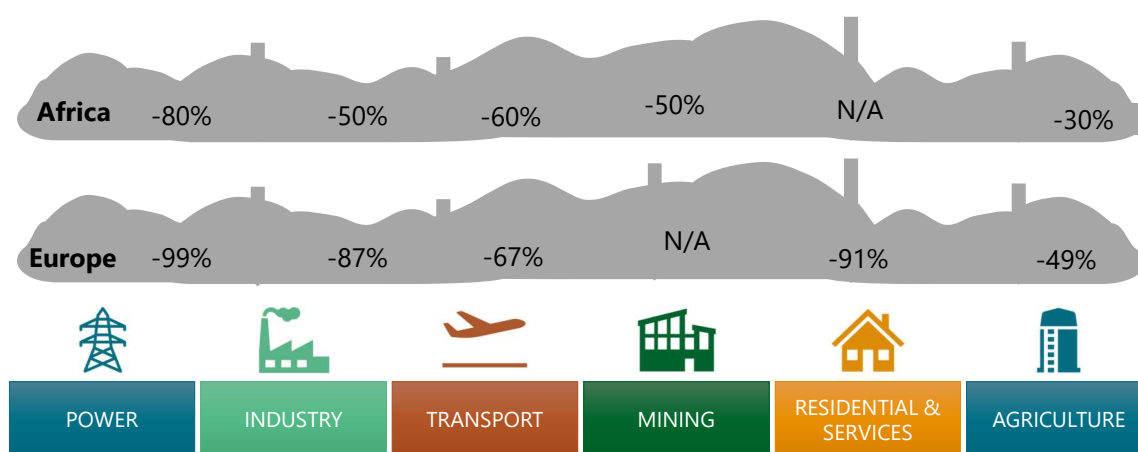


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## Transition: required carbon reduction costs (2050)



Source: WeESG adapted from European Commission





## Transition risk: potential impacts vary across sectors

HIGHER RISK

**GLENCORE**  
**Dejia Group**

LOWER RISK

**NORTHAM**  
PLATINUM HOLDINGS LIMITED

**mondi**

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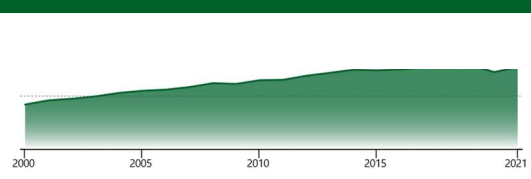
## Policy changes pose risks to fossil fuels-exposed sectors



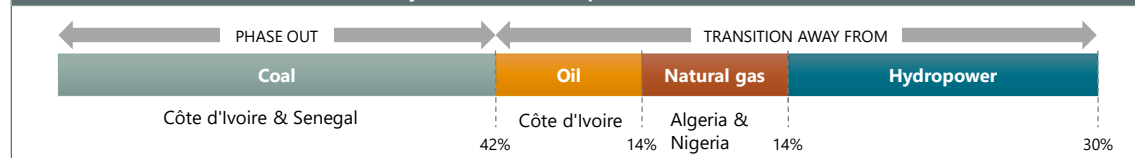
### Global agreements against fossil fuel

- 2021: COP26 in Glasgow agreed to phase down coal
- 2023: COP28 in Dubai agreed to transition out of fossil fuel in energy system

### CO2 emissions from fuel combustion are rising in Africa



### 70% of electricity and heat in Francophone Africa are from fossil fuel



Source: IEA

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## CASE STUDY



## Allianz's managing transition risks in the fossil fuel sector



Adapt business model and risk assessment strategies to address transition risks is key.



### Impact of fossil fuel exposure on Allianz:



#### Stranded assets

Declining valuations in fossil fuels; \$40T pledged to divest globally.



#### Regulatory pressure

Rising claims, stricter emissions rules, compliance challenges.



#### Reputation risk

Shift to sustainability; joined UN Net-Zero Asset Owner Alliance.



Source: UN PRI



## The importance of just transition



### Mitigation and adaptation are essential for poverty reduction

- Mitigating and adapting to climate change is crucial for reducing poverty.
- Potential economic growth, resilience building and promotion of sustainable agriculture.

### Potential negative impacts

- Widening regional and social inequalities due to uneven benefits from renewable energy projects.
- Increase of water scarcity issues, disproportionately impacting rural and vulnerable households, risking social tensions.



### THE PARADOX

Those most affected by climate change are also most impacted by transitioning to a low-carbon society.



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## Comply with climate-related regulation



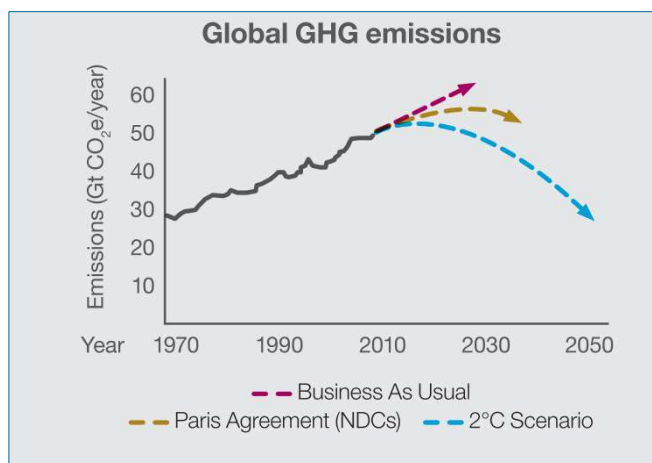
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## Paris Agreement: national implementation has implications for insurers



## Sustainable finance regulation in Africa



**South Africa:** EU-based taxonomy. JSE green bond segment.



**Kenya:** Sustainable Finance Initiative integrates ESG into banking practices. Green bond leader in East Africa.



**Nigeria:** Central Bank guidelines in progress but lacks mandate for intervention. Aligning with international standards.



**Morocco:** Green finance guidelines to foster a regulatory environment that encourages sustainable investments. Attracting foreign green investments.



**Ghana:** Developing guidelines to support the transition to sustainable finance.



**Ethiopia:** National Bank has the legal authority to promote sustainability, but no specific sustainable finance laws yet.





## Climate risk regulation for insurers in Africa is still limited

### South Africa

The Prudential Authority issued guidance encouraging insurers to incorporate climate risks into governance, risk management, and solvency assessments. While not mandatory, this guidance is being increasingly adopted by insurers as a standard practice.

### Senegal

The government established the Compagnie Nationale d'Assurances Agricoles du Sénégal (CNAAS) in 2008 to provide agricultural insurance that incorporates climate risk management. This initiative focuses on protecting farmers against climate-induced losses, such as droughts.

### Malawi and Ethiopia

Programs like weather derivatives and parametric insurance for droughts have been implemented with support from multilateral organizations. These initiatives require insurers to develop expertise in climate data analysis and risk modeling.

### Regional Initiatives



**Africa Climate Risk Insurance Facility for Adaptation (ACRIFA):** aims to stimulate the development of climate risk insurance products by providing concessional capital insurers and reinsurers across Africa.

**The Global Shield Initiative,** supported by international donors, promotes the integration of climate risk into insurance frameworks at both macro (sovereign) and micro levels.



## What the future may hold: EU Solvency II requirements



### Governance and Risk Management

insurers must integrate climate risks into their governance frameworks, and diversify investments to avoid excessive accumulation of climate-related risks in their portfolios.



### Scenario Analysis and Stress Testing

use forward-looking scenario analysis and stress testing to assess the short- and long-term financial impacts of climate change on their business models.



### Capital Requirements for Climate-Exposed Assets

additional capital requirements for fossil fuel assets to reflect the heightened risks.



### Materiality Assessments

must conduct materiality assessments to evaluate exposure to climate risks in underwriting and investment. These assessments should guide strategic decision-making and risk appetite statements.



### Public Disclosures

required to disclose material climate-related risks aligned with TCFD.





## Transition plans: no regulation in Africa yet

### Transition plans

Strategic documents detailing how organizations, including insurers, will achieve climate-related goals by outlining actionable steps across their operations, governance, and financial decisions.

**Regulators increasingly mandate transition plans from insurers to ensure they:**

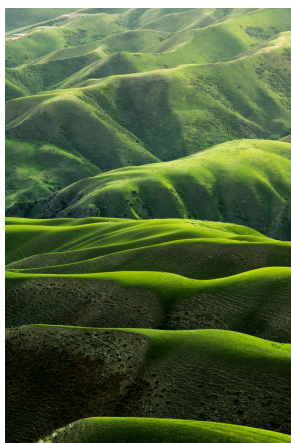
- ✓ manage climate risks,
- ✓ align with global sustainability goals, and
- ✓ maintain financial stability in the face of evolving environmental challenges.



Even as the regulatory framework for transition plans develops, their disclosure must not be viewed by businesses as merely a compliance exercise. Transition plans form a critical component of a firm's business strategy - helping to explain to their customers, shareholders and investors how they will adapt and grow as the global economy transitions to net zero.

*Introduction to Transition Plan  
Taskforce Disclosure Framework,  
October 2023*

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## Wrap up



### This webinar has looked at

- how to assess climate's physical impact on counterparties and portfolios, including uninsurability.
- policy analysis and market shifts, in order to identify transition risks affecting client operations.
- development of processes for climate regulatory compliance, including transition plans and prudential standards.



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