

# Sustainable Insurance: an African perspective

Environmental, social and governance factors are becoming increasingly material to the insurance industry, especially in Africa and other developing countries. To understand the impact of these factors Santam, together with the UN Environment Programme's Principles for Sustainable Insurance (PSI), hosted an inaugural seminar in Johannesburg on 16 and 17 April 2018. It opened up a conversation and exploration amongst leading practitioners and thinkers within the African insurance ecosystem. Participants shared experiences and ideas on how to grow a resilient, sustainable, responsible and profitable sector. The conversation honed in on the following three mission critical themes.

## 1. RISK PROTECTION GAP

In the context of the insurance industry, the risk protection gap is the difference between the insurance covers that are economically beneficial to have and the cover that is actually in place should a loss event occur. A large proportion of developing-country populations, especially the lower-income groups, are currently uninsured, leaving them squarely in this risk protection gap and therefore financially vulnerable. Furthermore, as uninsured loss events materialise, the resources available for buying appropriate insurance cover diminish. So the risk protection gap widens. Compounding this challenge are the growing environmental changes, such as climate change, that exacerbate the potential loss exposure of the uninsured. We are seeing this already in the form of more frequent and intense storms, flooding and wildfires. Once a financial loss has been incurred, the uninsured have to rebuild financial resources from scratch, often calling on the help of an already resource-constrained state, thus setting back investments in long-term sustainable development.

Standard insurance business models cannot close the risk protection gap, or even prevent it widening. What becomes possible, however, if the industry collaborates with other critically interested parties – in government, communities and elsewhere in the private sector?

## 2. CITIES

Current demographic trends reflect rural populations steadily migrating to cities. City authorities are under pressure to keep up with infrastructure and meet demands for other resources and services triggered by rapid urban development. Furthermore, governments face the pressure of being the insurer of last resort for low-income groups, as explained above. The volatile contexts of African cities (e.g. governance challenges, resource and capacity constraints, poor basic infrastructure) can result in high risks and uninsurability. In South Africa, for example, a negative spiral is evident in smaller towns where the municipalities are becoming less financially sustainable, with gaps in service delivery. This increases their relative "riskiness", making them less attractive to stakeholders and triggering a cycle where investment and critical skills are more difficult to attract. This results in poor service delivery and infrastructure, limiting economic growth and employment opportunities, limiting revenue collection ability, etc.

The traditional role of insurers servicing municipalities is not addressing this systemic decline. Since it is clearly in the industry's interest that the continent's cities remain insurable, how best can the industry innovate and engage to change course?

## 3. FOOD SYSTEMS

Sustainable food systems and agriculture are considered to be the basis for any credible future economic development in Africa. Ecologically sensitive and socially inclusive food systems can support Africa's shift to a sustainable development pathway.



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On the African continent, the dominant farming model is small (including subsistence) to medium-scale, with some very large industrial-scale farms in some locations. Climate risk and other challenges present a risk to the food system on the continent. However, given the natural resources of the continent, food and farming also hold tremendous potential for the continent in view of the global demands of the urbanised world. Against this backdrop smallholder farmers face enormous obstacles to becoming sustainable and viable. These include accessing financial services, routes to market and professional advice in an affordable and timely way, and currently the integration between such providers is limited. Consequently, emerging small-scale farmers across Africa do not reflect many impactful successes.

Might services provided by the insurance ecosystem become a significant catalyst to support the growth of a genuinely resilient African agriculture sector, for example through parametric insurance products or shared-value coalitions on data (i.e. as weather, hydrological or geographic)? And what collaborations might open up new possibilities?

The April 2018 event in Johannesburg generated much animated and inspired dialogue, leading to a number of innovative ideas. The insurance ecosystem conversation is now continuing and deepening. Please find a list of upcoming events and resources below. By attending the event in Lagos or commenting on the Global ESG in General Insurance Underwriting guide you can add your voice to help shape sustainable insurance in Africa.

## EVENTS

- **UNEP PSI Second Africa Market Event**, Lagos, 29 to 30 April.  
Annual United Nations Environment Programme's Principles for Sustainable Insurance (PSI) Market Event.  
<https://www.unepfi.org/psi/psi-continental-re-event/>
- **Risk Protection Gap Laboratory**, Johannesburg, 16 to 17 April.  
An exploratory conversation among senior stakeholders within and beyond the industry to move forward the UN Principles for Sustainable Insurance in South Africa. To learn more, contact [Glenda.Hanna@santam.co.za](mailto:Glenda.Hanna@santam.co.za)

## RESOURCES

- **CSIR's Green Book**  
Open-access online climate risk-profiling and adaptation tool to assist municipalities across South Africa to assess their climate risks and implement adaptation measures to develop climate-resilient human settlements.  
<https://greenbook.co.za/>
- **Embedding Project Community Resilience Guide**  
This guide shares five in-depth case studies of companies engaging in partnerships for community resilience in South Africa, noting key lessons.  
<https://www.embeddingproject.org/resources/partnering-for-community-resilience-south-african-case-studies>
- **Global ESG in Underwriting Guide**  
The first ESG guide for the global insurance industry was released in February 2019 and is open for public consultation till 30 June 2019.  
<https://www.unepfi.org/psi/underwriting-ESG-risks/>
- **Knysna Fires Research**  
Research documenting learnings around the Knysna fires is being consolidated and will be launched on 15 April 2019. Please contact [Marilyn.Boltney@santam.co.za](mailto:Marilyn.Boltney@santam.co.za) if you would like a copy of the research.

