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An insurance plan for climate change victims

01 July 2009 by [Catherine Brahic](#)

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AS WESTERN governments dither at the negotiating table over how to help the world's poorest people cope with climate change, some unlikely saviours have stepped up to the plate: the giants of the global insurance industry.

As well as providing protection from the increasingly unpredictable weather, the premiums could also be a powerful way to get poor people to adapt to climate change by encouraging them to invest in measures like drought-resistant crops. Is this profit-driven endeavour too good to be true?

Each year, people in the small Ethiopian village of [Adi Ha](#) depend on the precise timing of the rain to grow teff, a sour-tasting grain they turn into the traditional injera flatbread. If the rains fail, so do their livelihoods.

Climate models forecast that droughts, floods, heatwaves and severe storms are destined to become more frequent, so what can poor farmers do? US and European farmers buy crop insurance to cope with extreme weather. But the cost of checking claims from smallholder farmers in developing countries is prohibitive, and so insurance companies have tended to steer clear of them.

Now a different type of insurance scheme is being rolled out in Adi Ha and many other places in Africa, Latin America and Asia, backed by corporate giants such as [Swiss Re](#) and [Munich Re](#). Instead of insuring against lost crops, "index insurance" protects farmers against the vagaries of the weather. For



Could insurance companies underwrite the risk of drought for poor farmers? (Image: Sipa Press/Rex Features)

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example, if rain gauges at local weather stations drop below a certain level, insurance companies can automatically transfer a payout to farmers without having to visit them.

Cover is tailored to each region. In Adi Ha, where farmers need the rains to start before a certain date, those who are insured will receive a payment if rains fail to come before an agreed cut-off date. In the hurricane-prone Caribbean, hotel owners can buy insurance that pays out if winds exceed a certain speed. The premiums can cost as little as a few dollars a year.

The scheme in Ethiopia is backed by Swiss Re, but like others of its kind, it only got off the ground because of the firm's collaborators, in this case [Oxfam](#) and the [International Research Institute for Climate and Society](#) (IRI) at Columbia University, New York.

Alliances between NGOs, charities and insurance firms may seem an unlikely match. "Oxfam went through a big soul-searching process before climbing on board microinsurance projects, and ultimately decided it made sense," says Marjorie Victor of Oxfam America. "Insurance companies have surprisingly aligned interests with NGOs when it comes to reducing risk." According to Molly Hellmuth of IRI, "the trick is to balance the needs of companies to make a profit with the needs of farmers".

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At a session on insurance and climate change held in March in Copenhagen, [Pablo Suarez](#), a researcher who has consulted on insurance projects for Oxfam and the [UN Development Programme](#), confessed that he initially approached the idea with a degree of scepticism, but now calls himself a "convert".

Heavyweight humanitarians are also backing the idea. Kofi Annan, former secretary-general of the UN and head of the [Global Humanitarian Forum](#), has said that "index insurance may hold answers for some of the more obstinate problems faced by the poor and the vulnerable". Insurance is being considered as part of the successor to the Kyoto protocol, to be hammered out at UN negotiations in December.

As in the west, insurance can also act as a powerful incentive for people to adapt their behaviour to climate change (see "[When it pays to cut emissions](#)"). "If I am a farmer and the insurance company tells me my premium will be cheaper if I plant sorghum which is drought-resistant, then that gives me an incentive," says Suarez.

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Some schemes are being bundled up with bank loans, allowing farmers to invest in drought-resistant seed or irrigation systems. Farmers in India who bought insurance with loans for better quality seed saw their yields increase up to four-fold in one growing season, and some of them use their profit to buy health insurance.

Despite the promise of projects so far, it would be a mistake to interpret insurance as a "silver bullet", say Koko Warner of the UN University, Tokyo, Japan, and colleagues. They point out there is no evidence yet that the schemes leave poor people less vulnerable, nor help them cope with the long-term effects of climate change such as sea-level rise and desertification. Premiums are renewed annually, so can only protect farmers from events in a coming year. As climate change renders some regions increasingly inhospitable, insurance may become unaffordable.

"Some people are going to be excluded," says Suarez. He points out that this is already true, for instance, in shanty towns in Dhaka, Bangladesh, which are flooded every year. "In those cases promoting insurance is not the right move," he says. "Insurers will not deliberately lose money."

When it pays to cut emissions

Insurance companies are putting increasing pressure on governments to cut emissions, and are giving their customers incentives to do the same.

The industry has a vested interest, because climate change worsens weather-related disasters, leading to mounting risk and payouts. In 2008, a high number of tropical cyclones helped drive overall natural disaster losses to the [third highest on record](#), according to Munich Re figures.

Examples include:

- UK insurer Fortis offers preferential mortgage rates for energy-efficient home upgrades
- Several companies offer premium discounts to hybrid car drivers
- Hurricane-resistant homes built in Florida are automatically eligible for insurance discounts
- UK insurers pressed their government to manage the growing flood risk; in exchange they agreed to continue to provide flood insurance to households and small businesses

However, some policies have made people take more risks. Under the US National Flood Insurance Program, the government subsidises private homeowner policies, so the price that homeowners pay doesn't reflect the full scale of flood risk.

Many have criticised the scheme for encouraging people to build on high-risk flood plains and there is evidence that the number of repeat claims from frequently flooded properties is growing.

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