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16 Aug 2018

Insurers beware, extreme weather is the new normal

By Jimmy John | 16 Aug 2018



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Extreme weather conditions resulting in severe drought and rainfall are the new normal and insurers will need quickly to factor in this risk to their products and come out with new products that will cover the risks arising from extreme climatic conditions.

India is witnessing extreme weather conditions of unprecedented proportion. From cloudbursts in the northern hill state of Himachal Pradesh, dust storms in Rajasthan and western Uttar Pradesh to devastating rainfall in Mumbai and Kerala, freak weather is making its presence felt across the country resulting in numerous deaths and destruction of land and property.

Severe climatic conditions here to stay

The month of July has been the wettest month in 2018 with one to three days of heavy downpour across several locations around the world. Several parts of India have also seen very heavy rainfall. The south Indian state of Karnataka received 366.5mm of rain in 24 hours and India's financial capital Mumbai also received a staggering 231.4mm of rain in 24 hours on 25 June. RMSI CEO and joint managing director Anup Jindal attributes these extreme climatic conditions across the world over the past few months to climate change. "Climate change is already driving an increase in rainfall extremes across most of the globe, even in arid regions and this trend will continue as the world warms up," he said.

Rise in sea surface temperature

The primary cause of the extreme weather conditions across the world are the near-to-average sea surface temperatures from early June across most of the Pacific Ocean causing the basin-wide equatorial upper ocean heat content to increase. "The scenario has facilitated the occurrence of extremely heavy rainfall at selected locations worldwide including India during June-July this year," said Mr Jindal. Apart from this, the pre-monsoon heating of the Indian sub-continent is more significant now during pre-monsoon or hot summer months. "This scenario supports strong convection leading to dust storms and thunderstorms and heavy downpours across the country at convectively favourable locations inland," he said. Mr Jindal predicts that the monsoon rainfall in the Indian sub-continent would become more erratic during the rainy season with more high intensity rainfall and longer dry breaks.

Insurers need to get ready

The insurance industry, which bears the brunt of the losses, needs to get proactive in both developing new products and securing itself from heavy losses. Mr Jindal believes insurers should support R&D in Indian companies to develop more robust forecasts of monsoon rainfall at both temporal and spatial scales based on well-tested scientific approaches in combination with technologies such as artificial intelligence and use of big data analytics.

"Parallel to this, the insurance industry should start planning to introduce products that provide covers against these extreme climatic conditions and the IRDAI should start thinking about policy changes needed to support such new products," said Mr Jindal. He highlighted the need for the industry to conceptualise and come out with specialised products for extreme rainfall and drought events.

Agriculture sector to bear the brunt

Temperatures in some western and central districts of India are expected to touch the 50 degrees C mark or more. "As is the case of rainfall, heatwave conditions have also prevailed not only in India but across several places in the world during April to June this year and the future projections also suggest that more frequent and intense temperature extremes are likely during hot summer months in India," said Mr Jindal. With rainfall and temperature being key climatic factors for sustaining the livelihood of farmers in India, the future does not bode well for the farming community.

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