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THE CURRENT STATE AND FUTURE OUTLOOK OF ENVIRONMENTAL INSURANCE IN AFRICA

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In today's world, businesses are increasingly concerned about their environmental impact due to regulations and growing attention to climate change and other environmental, social, and governance (ESG) issues. To address potential environmental liabilities, many companies have turned to the environmental insurance market. In this article, we explore the current state of the environmental insurance market and its relevance to Africa.

The Evolution of the Environmental Insurance Market:

Over the past four decades, the environmental insurance market has undergone significant growth and transformation. Initially, the market emerged as a response to fill the gap left by pollution exclusions in general liability policies. These policies were not designed to cover liabilities related to issues such as asbestos which has been an issue in Africa, particularly due to its widespread use in various industries – including construction, shipbuilding, automotive, and mining - in the past. Over time, the health risks associated with asbestos exposure became evident as the inhalation of asbestos fibers can lead to serious and often fatal health conditions. As awareness of the health risks grew, regulations and restrictions on the use of asbestos were implemented in many countries to phase out and ban the use of asbestos in Africa. However, the legacy of past asbestos use still poses challenges, as there are existing buildings and infrastructure that contain asbestos-containing materials (ACMs). As the market matured, coverage expanded, and the number of carriers offering environmental insurance increased exponentially.

Industries and Buyers of Environmental Insurance:

While businesses involved in chemical handling and fuel storage are considered key customers for environmental insurance, the reality is that all industries can benefit from this coverage. While environmental insurance is not mandatory for most industries, it is often purchased as a result of contractual requirements or as part of good risk management practices. Industries with higher hazard risks, such as those dealing with chemicals and petroleum, have a higher purchase rate due to their understanding of the need for risk mitigation. Additionally, sectors like real estate, property managers, and portfolio holders recognize the importance of environmental insurance, particularly when buying or selling properties, as it helps mitigate unknown environmental conditions that may arise during or even after transactions. However, despite the potential benefits, the overall uptake



of environmental insurance in Africa and globally remains relatively low, indicating room for growth and greater awareness of the risks involved.

Underestimated Environmental Exposures:

Risk managers often underestimate or undervalue certain environmental exposures, leading to potential liabilities. One example is Legionella, a waterborne bacterium that can lead to serious health issues and even death. While there are maintenance practices that can help mitigate outbreaks, Legionella continues to resurface in places such as apartments, hotels, nursing homes, and recreational areas. Waste generation is another underestimated exposure, where businesses may believe they have disposed of their materials adequately and responsibly. However, they can still be held responsible if the waste contaminates neighboring properties, emphasizing the importance of cradle-to-grave responsibility and the need for comprehensive environmental insurance coverage.

While the specific details may vary across different regions and countries in Africa, a few other underestimated environmental exposures relevant to the continent:

- **Indoor Air Pollution:** Indoor air pollution, often resulting from the use of solid fuels for cooking and heating is a significant health concern. Traditional cooking methods, such as open fires and inefficient stoves, can release harmful pollutants, including particulate matter and carbon monoxide, which can lead to respiratory problems and other health issues.
- **Contaminated Water Sources:** Access to safe and clean drinking water remains a challenge in various parts of Africa. Contamination of water sources by pollutants, pathogens, and chemicals can result in waterborne diseases, such as cholera, typhoid, and diarrhea.
- **E-Waste:** The improper disposal and recycling of electronic waste (e-waste) pose environmental and health risks in Africa. Discarded electronic devices often end up in informal recycling sites, where they are dismantled and processed without proper safety measures. This can lead to the release of hazardous substances like lead, mercury, and cadmium, which can contaminate soil, water, and air, affecting both human health and the environment.
- **Pesticide Exposure:** Agriculture is a significant sector in many African countries, and the use of pesticides is common. However, inadequate regulation, improper handling, and limited knowledge of safe pesticide use can result in unintended exposures. Farmworkers and communities near agricultural areas may face risks from pesticide residues in food, contaminated water sources, and direct exposure during application.
- **Industrial Pollution:** Rapid industrialization in some African countries can lead to increased pollution levels. Industries such as mining, manufacturing, and energy production can release pollutants into the air, soil, and water, impacting both human and environmental health. Exposure to pollutants like heavy metals, particulate matter, and toxic chemicals can have adverse effects on local communities.

These are all general examples, and the specific environmental exposures and their magnitude can vary across different countries and regions within Africa. Efforts are being made by governments, organizations, and communities to address these challenges through improved regulations, environmental management practices, and public awareness campaigns.

ESG Risks and Increased Interest in Environmental Insurance:

The growing recognition of environmental, social, and governance (ESG) risks has sparked increased interest in environmental insurance, even so across the African continent. Businesses are becoming more aware of the potential environmental liabilities and risks associated with their operations, prompting them to seek comprehensive education and insurance solutions that go



beyond standard coverage. Challenges such as deforestation, wildlife conservation, community engagement, labour practices, and sustainable resource management need to be addressed and insurers are introducing initiatives tailored to the region's unique challenges and opportunities, such as coverage specifically designed for green building materials, which promotes sustainable construction practices and reduces environmental impact. Additionally, insurers may form partnerships with technology providers to address water losses, worker safety, and other industry-specific risks prevalent in Africa.

By incorporating ESG considerations into their insurance offerings, insurers in Africa are aligning themselves with the changing demands of businesses and society. This approach not only helps mitigate potential environmental risks but also supports sustainable development and responsible business practices across the continent. As Africa continues to experience economic growth and development, the integration of ESG principles into insurance products and services becomes crucial in promoting a more resilient and sustainable business environment.

Differentiation and Integration of Technology:

To remain competitive, environmental insurance companies are differentiating themselves by offering tailored risk management strategies and solutions. Distinguished insurers have dedicated teams of underwriters, risk engineers, and claim handlers who leverage analytics, experience, and partnerships with technology providers. Furthermore, technology integration is particularly crucial as it enables insurers to assess risks accurately, monitor exposures, and implement proactive risk management measures. By addressing specific client needs, insurers can provide comprehensive and customized coverage.

The Future of Environmental Insurance:

The environmental insurance market is poised for growth as businesses face increasing pressure to address environmental and ESG risks. As regulations continue to evolve and societies become more aware of environmental impacts, the demand for environmental insurance is likely to continue to increase. Insurance companies will need to adapt to the changing landscape, incorporating new coverages and risk management strategies to address emerging environmental issues. Additionally, technological advancements will play a vital role in enhancing risk assessment and mitigation processes. The future of environmental insurance holds promise as businesses strive for sustainable practices and risk transfer mechanisms to protect their operations and the environment.

The environmental insurance market has grown significantly over the years, with increasing relevance and demand worldwide. In Africa, while the uptake rate of environmental insurance remains relatively low, there is considerable potential for expansion. As businesses face growing ESG concerns and regulations, environmental insurance offers an important risk management tool. The unique characteristics of the African market, including regional differences and emerging risks, should be considered when developing and promoting environmental insurance products. By integrating technology, staying ahead of emerging environmental issues, and offering tailored solutions, insurers can position themselves for success in the evolving environmental insurance landscape. Insurance specialists will need to be more than transactional insurance providers; they need to be partners in risk management for their clients.