

Press Release issued by ARC Ltd.

Parametric insurance: an effective tool in helping Africa fight climate change

JOHANNESBURG, 1 NOVEMBER 2022 – Africa loses as much as [15% of its gross domestic product](#) per capita, every year, due to the impact of climate change. The socio-economic and environmental damage of drought, floods and cyclones further devastates a population where almost half live in extreme poverty (United Nations 2021).

With weather shocks increasing, African countries' climate financing is at only 11% of what is required, and according to the African Development Bank, some US\$1.6 trillion is needed for the continent to meet its nationally determined contributions (NDCs) – the climate action plan of Paris Agreement signatories to cut emissions and adapt to climate impacts.

Almost a year later, COP26 pledges of US\$100 billion in climate finance have been slow to materialise, and it is clear that Africa needs to become more self-reliant.

An alternative risk solution

Parametric insurance is an alternative risk solution that eases the financial blow of natural disasters on vulnerable nations. It uses satellite data to determine pre-emptively the impact of a disaster and the required compensation, in the form of an insurance pay out, when that disaster strikes. This enables governments to deploy emergency relief quickly, often within days, instead of waiting for months until damage assessments are complete.

On the African continent, parametric insurance is still new but slowly gaining momentum. The [African Risk Capacity \(ARC\) Group](#), a specialised agency of the African Union, has been making inroads since 2014, working with governments to create awareness, while motivating for the evolution of the appeals-based model to parametric insurance.

ARC also helps these governments improve their planning, preparedness and response to natural disasters. This is a significant differentiator among parametric insurers.

Pooling risk

Rapid urbanisation to under-resourced towns and cities has resulted in African countries' disaster risk profiles evolving to include both rural and urban challenges, according to the multi-donor partnership, Global Facility for Disaster Reduction and Recovery (GFDRR), which also helps countries manage and reduce their disaster risk. This, compounded by the prohibitive cost of insurance, means most African countries remain vulnerable and ill-prepared for weather calamities.

UN Secretary-General António Guterres in April last year urged countries to "[scale up catastrophe-triggered financial instruments such as risk pooling mechanisms](#)", citing the ARC Group as deserving of more investment. He also stressed that an adaption breakthrough was critical. ARC Group's financial affiliate, ARC Ltd., currently provides parametric insurance to 35 sovereign member states across Africa, but as CEO **Lesley Ndlovu** points out, there are 55 countries in Africa and to effectively fight climate change, more need to come into the parametric fold.

“One of our greatest challenges is to forge a better understanding of how parametric insurance fits into disaster risk management, while also addressing the cost of insurance premiums,” explains Ndlovu. “Our sovereign risk pools offer a solution, as countries share the risk and cost. Once our member states have completed a capacity-building programme, they become eligible to join a risk pool.”

Through ARC Ltd.’s [sovereign risk pooling](#), countries are grouped together, and the cost of their individual premiums is reduced. This is due to the risk being shared by the pool, as not all countries will experience natural disasters simultaneously. The funds go into an insurance coffer and are therefore available when needed. ARC Ltd. has paid out approximately US\$125 million in claims, since inception, half of which was to a single pool last year, making the value of Africa’s participation in parametric insurance undeniable.

Africa may be holding out hope for the outcomes of COP27 but with the massive climate funding shortfall it already faces, it has never been more critical for the continent to look to strategic partners who can assist from within, while acknowledging that parametric insurance may be the lifeline it has been seeking.

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For more information about ARC Group, or to arrange an interview, please contact **Claire Lathe** at claire@bigambitions.co.za.

About ARC Ltd.

The African Risk Capacity Limited (ARC Ltd.) is a financial affiliate of the African Risk Capacity (ARC) Group, a specialised agency of the African Union (AU), an initiative designed to improve current responses to climate-related food security emergencies.

ARC Ltd. is a mutual insurance facility comprised of its members, which have included Kenya, Mauritania, Niger, Senegal, Mali, Malawi, the Gambia, Burkina Faso, Chad, Zimbabwe, Togo, Madagascar, and Zambia.

The membership also includes its capital contributors who have provided premium subsidies, including USAID, FCDO, SDC, KFW/BMZ, IFAD, AFDB, WFP and STARTNETWORK.