


Climate change strikes again

31 August 2023  Tim Johnson

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Climate change presents itself in various different ways such as cyclones, extreme rainfall, and the arctic melt. Amid summer, parts of the world are experiencing warmer, drier weather than usual resulting in what is called El Nino.

El Nino is a natural, temporary warming of part of the Pacific resulting in the shifting of global weather patterns. However, climate change is causing the strengthening of El Ninos, with scientists stating there is one in four chance it will expand to supersized levels.

Asia, where 90% of the world's rice is grown, is currently enduring an El Nino resulting in far less rainfall for crops. As such the average price of rice has risen to about 16% higher than last year's average. This is set to worsen global stocks after Pakistan, a major rice importer, endured significant floods last year.

Decreases in rice production has resulted primarily in food shortages, with India sending over 1 million tons to Indonesia, Senegal and Gambia. Additionally, sanctions on Russian exports have also disrupted shipments of the three major chemical fertilisers potash, phosphorus and nitrogen.

Considerations for insurers

The increase in extreme weather events causes disruption to agricultural production. This could result in a rise in disputes concerning unfulfilled contracts across supply chains. Additionally, this could increase business interruption claims from agricultural businesses themselves.

As such, insurers should review their policy wordings to ensure adequate protection is afforded to themselves and their insureds. Additionally, insurers may also wish to consider what risk management strategies are in place, such as alternative fertilisers and water reserves, as part of their underwriting process.

The disruptions in rice output could also lead to changes in trade policies such as the imposing of export restrictions or changing tariff rates, as in the case of China. Insurers should continue to monitor the situation and adapt their policy wordings accordingly.

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