

COP27: How the insurance industry can help the Middle East face climate change



The Middle East is [heating faster](#) than most of the rest of the planet. Some 60% of the region is already [living under extreme water stress](#), while natural disasters have cost the region \$1 billion per year since 2018. [At the current pace of climate change](#), these challenges are only likely to intensify.

In recent years, climate risk has been steadily climbing the agenda in the Middle East – and for good reason. In 2021, [Oman was hit by a deadly tropical cyclone](#), badly impacting both its people and its economy. Earlier this year, [flooding on the UAE coast shut down export facilities and terminals](#), threatening supply chains. The science is clear that climate change exacerbates the risk of extreme weather events.

Meanwhile, a warming sea is worrying industries and the community at large – both of which rely heavily on channeling seawater for cooling within existing infrastructure. Renewable energy projects – such as solar farms that are susceptible to the increasing hail storms and flooding – are [facing damaging exposure to climate change](#), even as they race to be part of the solution.

Modelling for the future

How will clients' older assets - designed and built to earlier criteria - withstand some of the imminent changes? This is where modelling is vital to grasp the impact of various scenarios around natural catastrophes. When clients understand their risks of catastrophe exposure through modelling, it's easier for them to work with insurers who will want those questions answered.

Modelling helps insurers to understand the bottleneck risks and whether to insure the design of the project - and insure loss if it fails. By putting together these risk allocation models way upstream, when the project is still a spreadsheet on a screen, we can help clients model many factors, including lifecycle costs, risk allocation costs, and how much risk will lie with the bank or fund.

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How can insurers help?

Insurance is vital for the future of sustainable business. As a sector, it is on an exponential learning curve, developing new tools to manage ever-evolving forecasts of risk. Our clients have ambitions to build trillions of dollars of megawatts of renewable energy around the world. For us and for the developers, risk managers, consultants, lenders, advisors, banks, brokers, and the market, the new commodity is time. How do we get this energy live and trading quickly and efficiently?

It's therefore crucial to share knowledge. The industry needs to share data around emerging and accelerating transition technologies so insurance is an enabler rather than a source of friction in the financing, construction and operation of these solutions.

The insurance industry has increasingly pivoted from transactional to consultative, discussing risk at a much deeper level.

A decade and a half ago insurers' focus was narrow – concentrating on a specific industry and its operational risks. Today insurers need to have a more holistic approach.

As well as using local knowledge pertaining to Middle Eastern culture, geography, and climate, insurers and business owners alike in the region are also looking to worldwide trends and insights.

Supporting the transition to renewables

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The transition to a sustainable future requires finance. In the Middle East it's likely a lot of sovereign wealth funds will provide funds, rather than open market lenders, but it's still relevant for insurers to help with risk allocation modelling.

The industry can provide insights into risk reduction: issues we have seen with certain solar panels, or construction problems, for example. Advisors can weigh insurability, as they would likely have seen renewable systems elsewhere in their portfolio.

Without insurance, businesses cannot invest in innovation, so our industry plays a crucial enabling role on the road to a net-zero economy. As we approach COP27, we should remember the scale of the challenge, and the opportunity for us to push ourselves to make sure there is a healthy insurance market for the low carbon technologies the Middle East – and the world – so urgently needs.

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