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How insurance can help address the economic impact of El Niño

As climate-related exposures evolve, insurance will remain a critical risk transfer mechanism for managing financial uncertainty arising from weather-related disruptions, supporting recovery across businesses, communities and households.

El Niño, as we know, is a periodic warming of sea surface temperatures in the central and eastern Pacific Ocean and is one of the most influential drivers of global weather patterns.

El Niño is no longer a distant climate phenomenon, but it is an economic disruptor that India cannot afford to underestimate. While the phenomenon originates far from India, it has a significant bearing on the country's climate, particularly the southwest monsoon. El Niño conditions are often associated with disruptions in rainfall patterns, leading to uneven rainfall distribution, prolonged dry spells, heatwaves, water stress, or, in some regions, episodes of extreme rainfall. Such weather anomalies can have cascading effects on economic activity, impacting agricultural output, supply chains, infrastructure, workforce productivity and business operations across sectors.

The implications of such disruptions extend beyond immediate weather-related losses. Delayed production, interrupted logistics, income losses and operational downtime are emerging as equally significant concerns. This is where insurance plays an important role in helping individuals and businesses manage the financial impact of weather-related disruptions.

Crop and Parametric Insurance

Agriculture remains one of the sectors most exposed to the effects of El Niño. Variations in rainfall patterns can disrupt sowing schedules, affect crop yields and create income uncertainty for millions dependent on farming and allied activities. You will be interested to know that, according to the Economic Survey 2023-24, the agriculture sector provides livelihood support to approximately 42 percent of India's population and contributes more than 18 percent to the country's GDP.

In such situations, crop insurance plays an important role in reducing the financial impact of adverse weather events by providing financial support against losses arising from deficient rainfall, excess rainfall and other climatic uncertainties.

Parametric insurance solutions are also gaining relevance as businesses and communities seek more responsive ways to manage weather-related risks. Unlike traditional insurance, these solutions are linked to predefined weather triggers such as rainfall levels, temperature thresholds or drought conditions, enabling payouts when specified parameters are met. This can be particularly valuable in situations where timely financial support is critical, whether it is a heatwave affecting labour-intensive industries, a rainfall deficit impacting agricultural output or extreme weather events disrupting business operations. With their ability to provide quicker financial assistance upon predefined triggers, parametric solutions are increasingly relevant across sectors ranging from agriculture and logistics to infrastructure and MSMEs.

Managing supply chain and business disruptions

The impact of El Niño often extends into manufacturing, trade and logistics networks. Flooded transport routes, extreme heat conditions and weather-related delays can affect the movement of goods, disrupt production schedules, resulting in financial losses for businesses.

Marine cargo insurance can help protect goods in transit against weather-related risks, while business interruption insurance can support businesses facing loss of income arising from covered disruptions. Together, these solutions can help organisations manage the financial impact of operational interruptions and maintain business continuity during periods of weather-related uncertainty.

Climate risk and India's MSME sector

As per the Government of India Annual Report 2024-25, the MSME sector, comprising more than 8.5 crore enterprises, has emerged as a key contributor to India's economic growth, accounting for over 30 per cent of the country's GDP. For MSMEs, even a short period of operational disruption can affect cash flows, customer commitments and business viability. Extreme weather events can damage premises, equipment, and inventory, and interrupt day-to-day operations. Insurance solutions that combine property protection with business interruption coverage can help MSMEs manage both physical losses and the financial impact of operational downtime, enabling quicker resumption of business activities following a disruption.

Infrastructure under increasing weather stress

Climate volatility is also creating new challenges for infrastructure and energy assets. Roads, bridges, transmission networks and industrial facilities are increasingly exposed to weather-related stress. Engineering insurance solutions can support businesses and project developers in managing risks associated with construction, machinery breakdown and operational disruptions. Similarly, as India's renewable energy sector expands, specialised insurance products are becoming increasingly relevant for solar and wind assets exposed to changing weather patterns.

Protecting outdoor and gig economy workers

According to a Niti Aayog report, about 77 lakh people worked in the gig economy in 2020–21, and India's gig workforce is projected to grow from 1 crore in 2024–25 to 2.35 crore by 2029–30. The growing gig economy presents another dimension of climate exposure. Millions of delivery partners, ride-hailing drivers and independent workers spend significant time outdoors and are directly affected by extreme heat, heavy rainfall and severe weather conditions. These disruptions can affect both safety and earnings. Personal accident insurance and protection solutions designed for flexible workforces can provide important financial support when weather events interfere with livelihoods.

The broader lesson from El Niño is that climate volatility is creating new forms of financial exposure across sectors of the economy. From agriculture and logistics to MSMEs and the gig workforce, weather-related disruptions can affect livelihoods, operations and economic activity. At the same time, heatwaves, waterborne illnesses and other climate-related health concerns can place an unexpected financial burden on families, while flooding, landslides and severe weather events can cause damage to homes and personal assets. Alongside specialised solutions such as crop, engineering, marine and parametric insurance, health and home insurance continue to play an important role in helping individuals and businesses manage these risks.

As climate-related exposures evolve, insurance will remain a critical risk transfer mechanism for managing financial uncertainty arising from weather-related disruptions, supporting recovery across businesses, communities and households.

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