MCII

Experts weigh in:
"What can countries do to utilise insurance to manage climate risks?"

Introduction

The IPCC 5th Assessment Report (AR5) noted that climate change along with socio-economic development leads to a worldwide increase in the frequency and severity of extreme weather events and natural catastrophes. Developing countries and their communities are struggling with the recovery process, and their ability to absorb the losses from these events.
In order to manage the impact of catastrophes and environmental change on the affected population, governments usually provide post-disaster aid and adaptation programmes, but they are often not timely or financially efficient.
This puts additional stress on national budgets and introduces an element of uncertainty on the affected populations.

Risk management including insurance has been increasingly highlighted as a means to pro-actively manage climate change-related risks. There has also been repeated interest from Parties to the UNFCCC to generate more knowledge, practical examples and capacity support for climate risk management and insurance. In response, we have asked prominent insurance experts worldwide to tell us what countries can do to utilize insurance to manage climate risks. Here is what they told us:

Community level perspectives on using insurance

"The insurance industry has tremendous potential to support equitable economic development, but it isn't living up to its potential. We need to dramatically expand access to better insurance services to build safety nets and enhance the resilience of low-income communities. To do that, we build trust, the trust that the policymakers and policyholders must have in insurance companies in order for the industry to live up to its potential to reduce poverty and support economic development."

Craig Churchill (Chair of the Microinsurance Network/Team Leader of the ILO's Microinsurance Innovation Facility, ILO)

National level perspectives on using insurance

"To increase countries' economic and fiscal resilience to climate change, governments should consider developing the capacity of domestic insurance market to provide coverage for catastrophic hazards. This typically involves stimulating demand for catastrophe insurance products through enactment of appropriate legal and regulatory framework along with public sector investments in insurance market infrastructure such as country wide risk models, property data bases, digital elevation and GIS maps. To ensure that insurance products offered by the local market are credit worthy governments should also invest in building domestic regulatory capacity in risk based supervision of catastrophe risk."

Eugene Gurenko (Lead Insurance and Risk Management Specialist, The World Bank)

Regional perspectives on using insurance

"Regional risk pools can also be centralised repositories of critical technical information on hazards, losses and impacts to inform better decision making and, in some instances, an important lever in defining national policy aimed at increasing resilience and better managing climate risk.

In addition to offering insurance products which address the liquidity constraints governments often face after a catastrophic event, CCRIF is also an important channel for greater awareness building and also research and development activities aimed at improving the risk management capacities of governments.

Insurance itself, as well as the associated risk analysis and management tools developed and utilised within the industry, can be useful in understanding and managing climate change risks at the national level. Regional risk pooling such as performed via the Caribbean Catastrophe Risk Insurance Facility (CCRIF) serves as a practical example of such use."

Ekhosuehi Iyahen & Simon Young (Caribbean Risk Managers Ltd., Facility Supervisor, Caribbean Catastrophe Risk Insurance Facility, CCRIF):

"In order to protect the resilience achieved through investments in the agricultural sector, countries need to ensure that future climate shocks do not erode such gains, and that the number of households falling into poverty, or depleting their assets, does not grow. This is where a tool such as ARC – a regional insurance pool linked to a Pan-African food security and contingency planning effort-- can offer the most value, providing dedicated contingency funds that can scale up safety net systems in a reliable, timely manner, allowing them to remain solvent and sustainable, protecting hard-won gains for households, and reducing the country's reliance on emergency appeals.

A core tenant of the ARC philosophy is that risk transfer is most effective when combined with resilience-improving investments and risk reduction and management efforts. As these activities will ultimately become drivers of cost savings both on response activities and premium payments, we believe the incentives are aligned such that ARC can fundamentally change the way that African countries manage and respond to climate risks.

Richard Wilcox (ARC Agency Director General, a.i., African Risk Capacity)

Private and public sector perspectives on using insurance

"Insurance is an under-utilized tool in the management of climate related risks. Insufficient use of insurance means government budgets and liquidity are impacted, and even national development priorities are put at risk, far more than is necessary. The insurance industry has the capital, expertise and innovative new products which can turn this situation around."

David Bresch (Global Head Sustainability, Swiss Re)

"New studies show that insurance against losses and damages caused by severe weather events can make national economies more resilient against a regression of their GDP after such events. In developing countries it has the potential to avoid that people fall into a poverty trap after repeated destructive weather related catastrophes. Smart insurance related risk management systems can combine disaster risk reduction measures with financial support to repair damages and compensate losses for the still unavoidable risks. Thus insurance related mechanisms should play an essential role in the design of an internationally binding climate protocol. The Munich Climate Insurance Initiative (MCII) has developed suggestions how to implement such insurance related mechanisms on regional and national levels within the UNFCCC process and calls upon the governments to show leadership in supporting the people suffering most from climate change to adapt to the increasing risks."

Peter Hoeppe (Head of Geo Risks Research/Corporate Climate Centre, Munich Re)

"As a leader in the insurance industry, AXA is committed to furthering our understanding of climate risk through refined risk mapping and models in order to better protect our clients and improve societal resilience. As governments meet at the United Nations Framework Convention on Climate Change in Warsaw, we would like to highlight the fact that addressing climate risks requires collective action supported by a clear regulatory framework on potential drivers of climate change and prevention of risks, in which insurance companies can operate. This framework needs to promote both mitigation measures, which help accelerate the development of cleaner energy and reduce carbon emissions, as well as adaptation measures, for example to help improve building codes and town planning. We also encourage public private partnerships to better align incentives for prevention and long-term risk reduction."

Alban de Mailly Nesle (Chief Risk Officer, AXA Group)

"Vital to the implementation of any insurance solution is a sound risk assessment. Ideally, this assessment is supported by hazard maps and historical experience, but data on past losses and asset exposure is essential. One challenge is that data is often sparse in developing country contexts. Here, Governments come into play, as they can often enable access to data and support 'open source' approaches through innovative partnerships; Government agencies can also strengthen technical expertise and they can define risk assessment and data standards in order to simplify insurance product development."

Silvio Tschudi (Retrocession Manager, Allianz SE)

Insurance is equivalent to a huge solidarity system in which all of the insureds carry the burden of those who are badly affected in the event of a loss. Microinsurance can absorb shocks of the poor and help them avoid the poverty trap after a catastrophic event – this is also true for weather disaster victims. Microinsurance is emerging in all continents with promising trends. We must also bear in mind that conventional insurance started little more than 2 centuries ago. Insurance is increasingly accepted as one important element of social security systems. Public-private partnerships and long-term commitments will prove to be a strong component of successful climate change adaptation.

Thomas Loster (Chairman, Munich Re Foundation, cc and insurance expert)

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