Climate Risk Insurance in the Context of the Sendai Framework

Background

Extreme weather events have increased dramatically over the past few decades. Both the 2014 IPCC\(^1\) Report and the WorldRiskReport\(^2\) show that vulnerable countries face a financial and human resource constraint that limits their ability to prevent and recover quickly from such events. Inadequate disaster preparedness increases the risk of losses which often have to be absorbed by poor households, vulnerable communities and small to medium businesses. This challenge presents an opportunity for public and private sector actors, particularly the insurance industry, to play a role in integrated disaster risk management, to support countries in their efforts towards achieving disaster resilience.

2015 was a year of political convergence in the international disaster risk management (DRM) and climate adaptation policy debate due to the recognition of the role risk transfer solutions play in building resilience. The Sendai Framework for Disaster Risk Reduction includes risk transfer and insurance mechanisms (paragraph 30a and 31b, A/conf.224/CR.P.1)\(^3\), and insurance-related approaches are featured in the Paris agreement (UNFCCC COP21, 1/CP.21: Article 3, Para 48; Paris Agreement: Article 8, Para 4). Under the Warsaw International Mechanism on Loss and Damage, the Executive Committee is tasked to establish a clearinghouse on risk transfer. Climate Risk Insurance (CRI), approaches as promoted by MCII, would directly contribute to SDG 1, 2, 9, 11, 13, and 17.\(^4\) The core commitments 4 and 5 generated through the World Humanitarian Summit called for more proactive approaches to meet vulnerable people’s needs and investment in humanity.\(^5\)

Furthermore, current political commitments are generating investments such as the G7 “InsuResilience” initiative as well as the African Risk Capacity (ARC) or the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). To scale-up these emerging programmes, it is important to understand how governments can benefit from integrating risk transfer solutions into their investment strategies and planning efforts on disaster risk prevention, reduction, preparedness, and resilient recovery.

Risk transfer approaches have been identified as a key factor in assisting vulnerable countries to effectively respond to and recover from a disaster. At the same time, insurance-related solutions should not be seen as a stand-alone mechanism, but they need to be combined with other elements of DRM. A strategic integration can generate synergies and will also increase insurance effectiveness. The expected added value at the micro, meso, and macro level is even higher when considering financial risk transfer approaches already in the DRM planning process.

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\(^3\) A/conf.224/CR.P.1

\(^4\) Climate risk insurance contributes to the following Sustainable Development Goals: 1-No poverty, 2-no hunger, 9-industrial innovation and infrastructure, 11-Sustainable cities and communities, 13-climate action and 17-partnership for the goal.

\(^5\) Core commitment 4 “changing people’s lives from delivery aid to ending need” calls for innovative way to meets people’s immediate needs, while at the same time reducing risk and vulnerability. While the core commitment 5 – “Invest in Humanity” calls for partnership, including the private sector, and creating a more enabling environment.
Aligning CRI with the Priority Actions of the Sendai Framework

The Sendai Framework explicitly identified climate change as an underlying risk driver. CRI-related approaches are concrete tools to address these risks and can play a central role in the Framework's priority actions in the following context:

- **Priority Action 1**: “Understanding disaster risk”. CRI approaches generate disaster risk identification, and assessment data needed to inform decision-making for future investment plans.

- **Priority Action 2**: “Strengthening disaster risk governance to manage disaster risk”. Applying CRI related approaches requires the development of rules and regulatory frameworks that demand transparency and accountability, and in turn contributes to a system with reliable disaster risk management strategies.

- **Priority Action 3**: “Investing in disaster risk reduction for resilience”. Disaster risk reduction strategies can be made a requirement in the design of prudent CRI solutions to incentivize risk reduction. Insurance policies can mandate compliance with certain criteria such as the enforcement and development of building codes, or reconstruction and resilient recovery practices as a condition to offering coverage.

- **Priority Action 4**: “Enhancing disaster preparedness for effective response and to ‘Build Back Better’ in recovery, rehabilitation and reconstruction”. Timeliness and reliability of insurance payouts is critical to continued progress in development gains and preventing vulnerable populations from moving beyond the poverty line.

**CRI contributions to the Global Targets**

Risk management as a core business of insurance ranges from identifying, assessing, and reducing risk to pricing, carrying and sharing risk. Over decades, the insurance industry has built up expertise to assess, manage, share and carry risks in line with ensuring disaster prevention, preparedness, response, and recovery. Therefore effective CRI related approaches would align with the Global Targets by:

a) Reducing direct disaster economic loss in relation to global gross domestic product (GDP) by 2030.

b) Substantially reducing disaster damage to critical infrastructure and disruption of basic services, among them health and educational facilities, including through developing their resilience by 2030.

c) Substantially increasing the number of countries with national and local disaster risk reduction strategies by 2020.

d) Substantially enhancing international cooperation to developing countries through adequate and sustainable support to complement their national actions for implementation of this Framework by 2030.

e) Substantially increasing the availability of and access to multi-hazard early warning systems and disaster risk information and assessments to the people by 2030.
MCII’s Policy Perspectives and Recommendations on the 2017 Cancun Platform

A) To better tailor risk transfer approaches to the needs and demands of vulnerable population and countries, MCII has developed 7 key principles on how to effectively design and implement insurance for the most vulnerable:

1. **Comprehensive Needs-Based Solutions.** Solutions to protect the poor and vulnerable from extreme weather events must be tailored to local needs and conditions. It is imperative to embed insurance in comprehensive risk management strategies that improve resilience.

2. **Client Value.** Providing reliable coverage that is valuable to the insured is crucial for the take-up of insurance products.

3. **Affordability.** Measures to increase the affordability for poor and vulnerable people are paramount to the success of an insurance scheme and also important to satisfy equity concerns.

4. **Accessibility.** Efficient and cost-effective delivery channels that are aligned with the local context are key for reaching scale.

5. **Participation, Transparency and Accountability.** Successful insurance schemes are based on the inclusive, meaningful and accountable involvement of (potential) beneficiaries and other relevant local level stakeholders (in the design, implementation and review of insurance products), creating trust and providing a basis for local ownership and political buy-in.

6. **Sustainability.** Safeguarding economic, social and ecological sustainability is crucial for the long-term success of insurance schemes.

7. **Enabling Environment.** It is vital to actively build an enabling environment that accommodates and fosters pro-poor insurance solutions.

B) Insurance approaches should be embedded within an overall disaster risk management framework to prevent new and reduce existing disaster risk through the implementation of integrated climate risk management approaches. This integrated approach comprises of information and data collection, and ex-ante risk management strategies such as early warning system, improved building codes and infrastructure enforcement as the first step. While as a second step, risk transfer instruments such as insurance are used to address residual risk that cannot be otherwise prevented or reduced.

C) A well-designed climate risk insurance approach, integrated into a comprehensive disaster risk management approach, requires private public partnerships that can enable information sharing and planning to overcome challenges during implementation. It is important to define clear roles and responsibilities to ensure a pathway to disaster-resilience is created at a micro, meso and macro level.

D) Expectation for the Global Platform on Disaster Risk Reduction 2017: The Sendai Framework is now operational with actors taking up their roles in implementing it. MCII’s expectation is that climate risk insurance related

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issues will be reflected and communicated to be an integral tool to better foster resilience at the Platform’s respective sessions.

Authors: Kehinde Balogun, Michael Zissener, Sönke Kreft

The Munich Climate Insurance Initiative (MCII) is a leading innovation laboratory on climate change and insurance. It was launched over 10 years ago in response to the growing realization that insurance-related solutions can play a role in adaptation to climate change, as advocated in the Framework Convention and the Kyoto Protocol. MCII, through its unique set-up, provides a forum and gathering point for insurance-related expertise on climate change impacts. The Initiative brings together insurers, experts on climate change and adaptation, NGOs and researchers intent on finding effective and fair solutions to the risks posed by climate change, as well as sustainable approaches that create incentive structures for risk and poverty reduction. MCII is hosted by the United Nations University Institute for Environment and Human Security (UNU-EHS) in Bonn, Germany.