Preparing Country Systems to Address Climate Risk

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Insurance acts as risk transfer mechanism, but even a potential for risk reduction exists

Insurance services can address...

**...Financial Risk**  
**Risk transfer**

- Indemnity based / Index based

**...Physical Risk**  
**Risk reduction**

- Educate and advise customers  
  (e.g. financial planning, planting patterns, building patterns etc.)

- Incentivize risk-reducing behaviour  
  (e.g. lower tariffs for implemented prevention measures, pay-out before event hits to finance immediate risk reduction)

- Inform about approaching risks  
  (e.g. weather alerts via mobile phone, radio etc.)

- Involvement in policy-making,  
  (e.g. land-use planning, building codes, risk monitoring e.g. via satellite images)

**On different levels:**
- Micro (Meso)
- Conventional
- National
- Transnational
Risk transfer should be used for two layers of risk in NAPs

High severity

More frequent

Less frequent

Low severity

Expected return period

Risk assessment is the first thing to do

Sound assessment of risk exposure
→ Support from insurance sector’s expertise?

Expected return period

Reinsurers and insurers develop models and assess risks

Model the un-modeled & assess the un-assessed

But, what is the demand?

• Include risk assessment as first step in NAPs and involve insurers

And, what is the business case?

• Enable PPPs for risk assessments

• Include insurance market development in NAPs to make clear that the modeling is part of developing an untapped market
Increasing insurance penetration is one of the next steps to do

Main hurdles for insurers to increase insurance penetration and support adaptation to climate change exist

**Institutional hurdles**

- Low familiarity with insurance; direct insurance reaches only a small fraction of vulnerable population
- Limited purchasing power to cover the cost of insurance
- Limited financial infrastructure
- Limited demand for insurance expertise in adaptation planning processes by governments and multilateral organizations; limited expertise available?
- Limited business case for insurers to participate in NAP processes

**Customer acceptance and understanding as hurdle**

- Missing understanding of financial concepts
- Customers expect government to protect them from extreme weather events
- Missing understanding of the level of risk, especially of reoccurring risks
- Reluctance to accept recommendations coming from the private sector
Questions?

Ideas?

Further information  acs.allianz.com

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Example for micro-insurance from Africa: Sahel Crop Insurance

Since 2011
- Insurance policy coupled with loan for seed purchase
- In 2013 over 15,000 farmers in Burkina Faso and Mali took out policies with Allianz Africa
- Index-based, easy payouts
- Basic financial education for farmers
- Caution: Feeling of security, incentivizing risky behavior

“When the rains failed I was really surprised when the insurance company came the long way to my village to bring me the news that I receive an insurance payment for my seed loan.”

BARTHELEMY KOHOUN
A FARMER FROM POUNDOU,
A VILLAGE OF 4,000 PEOPLE IN BURKINA FASO
Example for risk assessment and development of insurance market from Asia: RIICE

- Public-private partnership since 2012
- 7 Asian countries
- Development of remote-sensing system which serves as an early-warning system
- Basis for development of insurance market for smallholder rice farmers

“We want to transfer the financial risks that smallholder farmers face from natural catastrophes to the formal insurance market. Through the remote sensing technology we have a reliable and unbiased tool to calculate insurance premiums and evaluate the losses.”

AMER AHMED
ALLIANZ RE CEO
Example for national level insurance: Uruguay weather and oil price insurance

- A PPP between World Bank, Swiss Re and Allianz Risk Transfer
- Since 2014 in Uruguay
- First index-based weather insurance for hydroelectric power coupled with oil price
- Decreases the country’s financial exposure in times of drought
- Swiss Re Corporate Solutions and Allianz Risk Transfer took on a material part of the risk

"Combining protection against the risk of drought and high oil prices is something that works particularly well for hydropower companies [...] This transaction is a good example of how we can focus our financial and technical expertise, combined with experiences in other countries, to deliver solutions that meet specific client needs.

MADELYN ANTONCIC
Vice-President and Treasurer of the World Bank