Climate Risk Insurance: A tool for climate risk management and poverty reduction

*Over the last 30 years, flood and tropical storm damage affected 1.5 million persons directly and caused over USD 5 billion in damage**

Climate change is a reality that can no longer be denied. As extreme weather events such as droughts, floods, hurricanes and storms increase in frequency and intensity, they place significant stress on societies and natural systems. These events lead to loss of income and productive potential, forcing affected low-income individuals to resort to a variety of desperate coping strategies that include: reducing food consumption, taking children out of school, borrowing money and selling assets. *These strategies diminish their ability to cope with current and future climate change impacts.* As a result, there is a growing need to explore meaningful options for managing and transferring risks associated with climate change. One feasible measure to support adaptation to climate change is climate risk insurance.

FROM VULNERABILITY TO RESILIENCE BUILDING

The impacts of loss and damage associated with climate change can set back development by potentially increasing not only the incidence, but also the severity of poverty. Poverty and vulnerability are deeply intertwined: the poor have low adaptive capacity because they have fewer resources to cope with climate risk; this resource base is further diminished with every extreme weather event, thus deepening their poverty. *By compensating for damages caused by extreme weather events, climate risk insurance helps individuals break out of this vicious circle of poverty and vulnerability.* Increasing people's ability to manage, as well as to mitigate climate risk by spreading it among people and across time can significantly reduce their vulnerability and contribute to their long-term social and economic well-being, especially as part of a menu of options to incentivize risk aware behaviour.

** Lashley, J. 2012. Weather-related insurance and risk management. A demand study in the Caribbean. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Munich Climate Insurance Initiative (MCII) e.V. Eschborn, Bonn*

REDUCING LOSS AND DAMAGE FROM CLIMATE STRESSORS

As climate change continues to go unchecked, weather extremes and disaster losses are expected to increase in the future. *Climate risk insurance has the potential to reduce the catastrophic impact of disasters, enable a timely recovery and contribute to sustainable, climate resilient development:*

1. By assessing risks and potential losses, *insurance can support climate risk management* by mapping, analysing, prioritizing and pricing risk.

2. By reducing vulnerability and incentivizing risk reducing behaviour, insurance contributes to increasing resilience.

3. At the national and the local level, *insurance helps create a space of certainty within which investments and planning can be undertaken.* This allows for climate-resilient investments in climate sensitive sectors such as tourism and agriculture as well as in job creation and market development.

4. Insurance provides reliable and timely financial relief for recovery of livelihoods and reconstruction, thus providing security in the post-disaster period.

CLIMATE RISK INSURANCE

What it is and what it can and cannot do

Climate risk insurance is aimed at low-income individuals who are exposed to weather-related risks (e.g. subsistence farmers). *Climate risk insurance – if applied in tandem with other risk reduction measures – can offset the negative impacts of extreme weather events, such as storms, floods and droughts, by supporting adaptation and increasing the risk resilience of vulnerable people.* However, climate risk insurance may not be appropriate for some slow-onset climate-induced events or processes (e.g. sea level rise, desertification) or for disastrous events that occur with very high frequency (e.g. recurrent flooding).

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