MCII/GIZ Workshop

Innovative Insurance Solutions for Climate Change in a Comprehensive Risk Management Approach: Developing a Toolkit
Partners:

- MCII hosted at UNU-EHS
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Donor:

Overview of how our research helps to support policy

- **Expert workshop 2013**
  - MCII and GIZ Expert Workshop on Innovative Insurance Solutions for Climate Change.

- **Bonn Climate Conference 2013 and COP 19**
  - Working report.
  - Delegate meeting.
  - MCII Side-Event.

- **Post- COP19 to 2014**
  - Expert workshop 2014
  - Final publication.
  - Consultation with delegates in the lead up to Lima.
Innovative Insurance for Climate Change

- Providing lessons learned from existing climate risk-related insurance approaches, considering limitations, challenges and current good practices.

- Giving examples of comprehensive climate risk insurance approaches linking climate risk information, prevention, risk reduction and risk transfer in helping low-income groups and emerging economies manage climate risks.

- Policy relevance to the UNFCCC discussions on adaptation and loss and damage and other important international policy windows (e.g., Post-2015 Framework for Disaster Risk reduction, post-2015 Development Agenda, UNFCCC climate deals, etc.).
Warsaw International Mechanism on Loss and Damage

- The relevance of risk management and insurance as a means to manage climate related risks has continuously been highlighted in recent years by the scientific, practice, and policy communities (IPCC SREX 2012, GAR 2013, UNFCCC 3.CP18).

- Most recently, the Nineteenth Session of the Conference of the Parties (COP 19) of the United Nations Framework Convention on Climate Change (UNFCCC) (November 2013), Parties established the Warsaw International Mechanism on Loss and Damage with request to set-up an Executive Committee.

- The Committee has been assigned a two-year work plan, with specific consideration to developing a comprehensive risk management approach including risk transfer tools to address loss and damage as outlined in the Doha decision (3.CP/18), paragraphs 6 and 7.
Warsaw International Mechanism on Loss and Damage: The Road ahead

The Warsaw International Mechanism creates the space and opportunity in the coming three years to create an evidence base that will help us start to figure out:

“What can be done to help vulnerable communities when they face barriers and limits to adaptation? How can that understanding be channeled back into effective policy and practice at the appropriate level? And how can that understanding also contribute to the wider policy adjustments that are part of the 2015 milestone year to align policy priorities with 21st century realities?”
The case for insurance in managing climate risks

- Risk transfer instruments such as insurance are commonly used to manage risks that would be too large for companies or individuals to cover on their own.

- Insurance can serve as an adaptation measure, but it should be designed and implemented as part of an integrated climate risk management strategy involving a balanced mix of approaches.

- Layered approach to risk management separates risks into different segments according to their potential frequency and severity considering the different actors in financing the losses.
Risk layering approach to support decision-making process in climate risk management

Source: MCII and GIZ, own design, elaborated from World Bank (2011)
Risk information, reduction, and transfer: integrated climate risk management:

- Information and data collection are the basis for properly assessing the underlying risk, informing the decision-making process on the most appropriate risk management strategy and increasing risk awareness.

- Risk prevention/reduction measures are *ex-ante* risk management strategies and should be taken as a first step towards effective risk management.

- Risk transfer instruments, such as insurance, transfer the financial losses associated with risks that cannot be prevented or reduced.

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**Integrated Climate Risk Management Approach**

- **Prevention & Risk Reduction**
  - Preventive measures such as community-based efforts, improved agricultural practices and national disaster management plans are ways of reducing risks.

- **Risk Transfer**
  - Insurance solutions are instruments of risk transfer. They should be adopted as a complementary tool to risk prevention and reduction measures for managing risks which cannot be prevented or reduced efficiently.

- **Information**
  - A comprehensive risk assessment provides the basis for an informed decision on the appropriate measures to prevent, reduce or transfer disaster-related losses. The data gathered during this process can also enhance risk awareness.

Source: GIZ, own design

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**Innovative Insurance Solutions for Climate Change**
Opportunities and challenges of insurance solutions in the context of climate risk management

Opportunities

- Incentivize loss reduction and resilience building behavior
- Decision making support
- Provision of protection to take risk and pursue opportunities

Challenges

- Costs of insurance and complexity
- Establishing cost-effective distribution channels
- Scaling-up small pilot projects
- Slow-onset events
Early warning and insurance in the Caribbean: Comprehensive approach to manage risk

The Climate Risk Adaptation and Insurance in the Caribbean project:

- Employs an early warning system and risk reduction information in combination with weather-index-based insurance products aimed at low-income individuals and lending institutions exposed to climate stressors.
- Remote sensing data is used to monitor daily rainfall levels and wind speed.
- Customers receive weather warnings and advice via SMS phone texts, allowing them to take precautionary measures and reduce exposure before a storm hits.
- Training and education modules to help them better understand the insurance product and improve insurance literacy.

The overall goal of this project is to incentivize sustainable adaptation measures by incorporating climate risk insurance within a broader framework of disaster risk reduction strategies.
Enabling environment for applying insurance as a tool to address climate risk

- Appropriate regulatory environment and oversight (e.g., Insurance Core Principles).
- Public champions and complimentary role of key actors (e.g., public-private partnership and risk pooling in the Caribbean).
- Availability of data and hazard mapping (e.g., RIICE project and innovative use of remote sensing technology).
- Establishment of cost-effective distribution channels (e.g., LPP in the Caribbean and the use of credit union and cooperative banks).
- Appropriate back-up mechanisms (including reinsurance).
- Risk management education (e.g., insurance literacy in Peru).
Opportunities and strategies for the international community

- Foster a better understanding on combination of tools and approaches.
- Facilitate a regional and international dialogue to advance policy coherence on integrated climate risk management.
- Replicate good practices across and between countries.
- Providing guidance on how to overcome operational challenges in setting up weather-based insurance in developing countries.
- Financial support through existing adaptation programmes guided by Artc.3 of the UNFCCC Framework Convention (e.g., Green Climate Fund, Adaptation Fund and other measures).
Thank you for your attention!
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