



Munich Climate Insurance Initiative



UNITED NATIONS
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UNU-EHS

Institute for Environment
and Human Security



Workshop Report

Risk management and insurance solutions in face of climate change: The way forward in Poznan and Copenhagen¹

Bonn, October 30, 2008

Contents

1. INTRODUCTION	2
1.1 WORKSHOP OBJECTIVES AND OVERVIEW	2
2. CLIMATE RISKS: IS INSURANCE A VIABLE ADAPTATION MECHANISM?	2
2.1 INSURANCE REDUCES UNCERTAINTY, BUILDS RESILIENCE TO CLIMATE RISKS	3
2.2 INSURANCE PRINCIPLES GUIDE DECISIONS ABOUT INVESTMENTS IN ADAPTATION ALTERNATIVES ...	3
2.3 INSURANCE PART OF A WIDER SPECTRUM OF ADAPTATION ACTIVITIES	3
3. INSURANCE IN THE CONTEXT OF THE UNFCCC CLIMATE NEGOTIATIONS	4
3.1 INSURANCE MENTIONED IN CLIMATE NEGOTIATIONS FOR A DECADE OR MORE	4
3.2 INSURANCE CONSIDERATIONS FOR CLIMATE NEGOTIATIONS.....	4
3.2.1 <i>Insurance proposals on the table for Poznan and Copenhagen</i>	5
3.2.3 <i>Agreement on broad principles, but need for more in-depth discussions</i>	6
3.2.2 <i>How to foster discussion between Parties and Insurance Sector?</i>	6
4. GOVERNMENT & BUSINESS PERSPECTIVES ON ADAPTATION & INSURANCE.....	7
4.1 SWISS SUBMISSION HIGHLIGHTS PREVENTION AND INSURANCE	7
4.2 INSURANCE SECTOR OFFERS EXPERTISE, INTERESTED IN DEVELOPING NEW MARKETS	7
5. NEXT STEPS TO POZNAN AND BEYOND.....	8
5.1 FOR POZNAN: LINK PREVENTION AND INSURANCE IN ADAPTATION.....	8
5.2 LEADING UP TO COPENHAGEN: INSURANCE MECHANISM(S) PART OF THE COPENHAGEN ARCHITECTURE.....	8
5.3 BEYOND COPENHAGEN: INSURANCE DESIGN AND CONSULTATION WITH INSURANCE SECTOR	8
ANNEX 1: PARTICIPANTS	9
ANNEX 2: PROGRAM AND INFORMATION ABOUT THE ORGANIZERS	10

¹ This workshop was organized by the Munich Climate Insurance Initiative (MCII), and Germanwatch and hosted by the United Nations University Institute for Environment and Human Security (UNU-EHS). The workshop was held at the UN Campus in Bonn, Germany on 30 October 2008. This report was issued on 15 November 2008. Comments welcome (contact warner@ehs.unu.edu).

1. Introduction

Climate-related risks, in particular extreme weather events, play an important role in the climate change debate. The management of these risks—through disaster preparedness and climate change adaptation—can create positive synergies and opportunities for progress in the climate negotiations. The UN climate change conference in Poznan (1 - 12 December 2008), will highlight this issue.²

MCII and Germanwatch organized an expert meeting in Bonn on 30 October to discuss approaches and questions to help Parties, observer organizations, the insurance sector, and relevant societal groups and NGOs prepare for the upcoming UNFCCC negotiations in Poznan.³ Each of these groups was represented among participants and some of their comments are reflected in this workshop report.

This report summarizes the major points from *discussions* at the expert workshop and points to *next steps* for the climate risk insurance discussion as climate negotiators move towards COP 14 in Poznan and beyond. All power point presentations from the workshop can be found on the MCII website www.climateinsurance.org.

1.1 Workshop objectives and overview

Two key challenges for international cooperation will be to link insurance with incentives to prevent disasters, and to find ways to deliver workable climate insurance solutions to benefit those most vulnerable to the adverse impacts of climate change. Thus, two main objectives guided the workshop discussions.

1. First, the workshop aimed to **build awareness** and facilitate exchange of experiences in using insurance mechanisms to address adaptation to climate change. The program was designed to explore links between risk reduction and insurance, survey the insurance and adaptation landscape at the macro, meso, and micro level.
2. The second objective of the workshop was to examine insurance mechanisms within the **context of the UNFCCC climate negotiations**. To fulfill this objective, the UNFCCC presented an overview about the history of insurance in the Convention, and looked ahead to the AWG-LCA risk management workshop that will be held at COP 14 in Poznan. The Munich Climate Insurance Initiative briefly presented its submission on climate risk insurance, and experts from the insurance sector and Parties shared their perspectives on insurance and climate adaptation

2. Climate risks: Is insurance a viable adaptation mechanism?

Increasingly, insurance mechanisms are being designed and implemented at the macro, meso, and micro scale to address current weather risks. At all levels these schemes are often public private partnerships, while increasingly microinsurance schemes for weather-related risks are offered commercially (an indicator of growing market opportunities at this level). Three experts from research, humanitarian, and UN organizations presented information about these recent developments to inform Parties and observer organizations about the possibilities—and limitations—of insurance mechanisms to support adaptation to climate risks.

² The 4th plenary workshop of the Ad-hoc Working Group on Long-Term Cooperative Action (AWG-LCA), the key forum for the negotiations on a Copenhagen agreement, will exchange government and expert views on possible approaches and frameworks for risk management and risk sharing, including insurance.

³ The international expert network Munich Climate Insurance Initiative (MCII) recently prepared a submission outlining possible elements of an international insurance mechanism.

2.1 Insurance reduces uncertainty, builds resilience to climate risks

A powerful argument for putting insurance mechanisms into a post 2012 agreement is that such tools reduce uncertainty around the management of climate risks. This is relevant for regional and country governments in managing budgets and planning for the use of limited resources (macro and meso level insurance schemes). Insurance mechanisms at the macro level, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), have been designed to reduce the uncertainty of governments facing extreme weather risks.⁴ At the microinsurance level, the provision of insurance for weather-related risks also helps the poor better manage their limited resources (such as livestock, seed stock, land) and has been shown in some cases to contribute to poverty reduction of up to 10% in some areas.

Insurance mechanisms also build resilience to climate risks. An expert from the humanitarian community emphasized that prevention and insurance mechanisms reduce vulnerability of people to climate risks. There is a pressing need to move from reactive *ex post* disaster management approaches to more *ex ante*, pre-disaster activities like a coordinated blend of prevention and risk transfer. A unique opportunity now arises in the climate negotiations to link prevention, humanitarian activities, and insurance to build resilience to climate risks.

2.2 Insurance principles guide decisions about investments in adaptation alternatives

Insurance principles—risk pricing, risk mapping, and risk reduction—are essential in guiding decisions about investments in adaptation alternatives. This is especially true in a time of financial crisis and competing demands for resources devoted to addressing climate change—including both mitigation and adaptation. Participants at the MCII Germanwatch workshop discussed that *insurance mechanisms encourage the correct pricing of risk*, including the cost of a range of activities as settling in areas prone to climate risks or the benefits of engaging in risk reduction activities such as flood management or building reinforcements. Pricing risk also helps decision makers gauge where the greatest benefits will accrue for their investments.

It was noted that the *Hyogo Framework for Disaster Risk Reduction* (2005) encourages risk reduction as an integral part of disaster management, including risk assessment and risk transfer mechanisms. More awareness is needed about the importance of these principles in guiding adaptation planning and investment. Insurance principles that guide the pricing of risks can help guide these decisions at the appropriate level, and among the many competing social and economic demands facing Parties and regional groupings.

2.3 Insurance part of a wider spectrum of adaptation activities

The UNFCCC process has acknowledged that insurance can have a part in adaptation. Participants in the workshop agreed that insurance is part of a wider spectrum of adaptation alternatives, rather than the “silver bullet” that will overcome all climate-related risks. Insurance experts at the workshop stressed that managing increasing risks of global warming starts with risk reduction. However, because it is likely that the effects of current global warming are “locked in” for the coming 20 years, mitigation *is not the sole solution*. Prevention activities, with a heavy focus on vulnerability reduction is also needed, including reducing settlements in high-risk areas, different or better building codes or infrastructural investments, etc. Finally, among adaptation activities, comes the management of residual climate risks. Since it is not possible to prevent all of the risks climate change may bring,

⁴ The CCRIF is a regional pool designed to insure public infrastructure against pre-defined levels of weather risks. The mechanism has raised awareness of the ability of insurance mechanisms to improve governments’ ability to plan and budget for weather-related risks.

insurance has a role to reduce uncertainty in planning and budgeting, increase human security, and provide further incentives for risk reduction and climate risk management. Insurance is one link in the chain of risk management.

Participants also discussed some of the technical details of the different levels of insurance for climate risks presented in this segment. Some highlights included:

- **Macro:** For highly correlated risks, a global system to diversify risks geographically could help ensure the viability of insurance systems of a country or region.
- **Meso:** Macro and meso-level insurance mechanisms for climate risks are particularly important because at lower levels those who are less responsible for climate change effects have to pay for it. In growing insurance markets it is important to create an enabling environment for insurance to grow sustainably, meaning avoiding distorting prices and building trust in the system.
- **Micro⁵:** Insurance is no permanent source of funding: everyone needs to know the rules and understand that they do not get payouts every year, need longer term experience in weather indexed products to assess the degree to which microinsurance promotes adaptation to climate risks.

3. Insurance in the context of the UNFCCC climate negotiations

The opportunity now arises to examine the ability of insurance mechanisms to facilitate adaptation. Insurance solutions may be part of the UNFCCC climate negotiations from now leading up to the Copenhagen talks that will lay down the elements for the post 2012 agreement. Presentations were made by the UNFCCC, MCII and Germanwatch.

3.1 Insurance mentioned in climate negotiations for a decade or more

Insurance has been mentioned in the climate negotiations for well over a decade. The Bali Action Plan specifically calls for “consideration of risk sharing and transfer mechanisms, such as insurance” as a means to address loss and damage in developing countries particularly vulnerable to climate change (Decision -/CP.13, BAP). The BAP strengthens the mandate to consider insurance instruments as set out by Article 4.8 of the UN Framework Convention on Climate Change (UNFCCC) and Article 3.14 of the Kyoto Protocol.

3.2 Insurance considerations for climate negotiations

Attention now focuses on getting *more concrete insurance mechanism* suggestions for the climate negotiations, and how to foster more dialogue with the insurance sector. The climate negotiations have the opportunity to create a framework that allows insurance activities to grow. This is an incentive that may mobilize greater participation from the insurance sector.

The timing of the AWG-LCA risk management workshop in Poznan presents a special *opportunity for dialogue* on insurance mechanisms to facilitate adaptation. Linking with risk reduction in this wider adaptation framework is critical. It is also important for any proposal related to insurance to offer something to Parties from both developing and developed countries. Many Party and observer submissions, including a submission from MCII outlining an insurance mechanism, have been tabled for discussion. Early in 2009 a UNFCCC

⁵ Tools such as microinsurance can contribute to the ability of poor people to manage weather risks. In a recent project on index drought insurance in India (livelihood cycle for farmers), it has been observed that debt loads are decreased for poor farmers. Tools like microinsurance can incentivize risk reduction behavior, and help encourage vulnerability reduction. Three experts noted that evidence on microinsurance (particularly weather indexed tools) is still being gathered, and that design of the mechanism is critical: insurance schemes can support adaptation as well as mal-adaptation. The essential element is for all involved not to substitute insurance for a more comprehensive climate risk management approach. Insurance mechanisms—macro, meso, or micro—must be part of a larger adaptation strategy.

workshop on climate risk assessment may include insurance mechanisms, and work is needed before this point to clarify the spectrum of alternatives for Parties.

3.2.1 Insurance proposals on the table for Poznan and Copenhagen

Parties and observers have outlined *possible architecture on insurance mechanisms* in the adaptation deliberations. Numerous proposals have been put forward mentioning insurance, most recently by Barbados and the Cook Islands on behalf of the 40+ countries of the Alliance of Small Island States (AOSIS), Switzerland, Mexico, some countries of the European Union and further ideas from Bangladesh (for the LDCs), China, India, Argentina, the Philippines, Malaysia, Saudi Arabia and other countries. A presentation by the UNFCCC summarized some of the recent submissions related to insurance (available at www.climate-insurance.org).⁶ Two major categories can be observed in submissions:

- Views on adaptation planning and implementation with general mention of insurance
- Views of Parties on adaptation and risk transfer, with specific mention of insurance mechanisms (some outline of how mechanisms could be framed).

To complement these proposals, MCII contributes additional suggestions about the role for insurance instruments. Specifically, MCII proposes a climate risk management module including insurance. This module can play a part in a wider adaptation strategy to help Parties address the negative effects of climate change. The figure below illustrates the two proposed pillars of a climate risk management module: a prevention pillar and an insurance pillar.⁷

Climate risk management module within post-2012 adaptation strategy



The first part of the module is a **Prevention Pillar** emphasizing risk reduction. The second part of the module is an **Insurance Pillar** with two tiers. Each tier addresses one portion—or layer—of climate-related risks. The first tier of the Insurance Pillar takes the form of a *Climate Insurance Pool (CIP)* that would absorb a pre-defined proportion of high-level risks of disaster losses, particularly in vulnerable countries, at no cost to the beneficiary countries. The second tier of the Insurance Pillar, a *Climate Insurance Assistance Facility*, would address middle-level risk and facilitate public safety nets and public-private insurance

⁶ The Secretariat is organizing the 4th AWG-LCA workshop on risk management and risk reduction for Poznan. The Secretariat noted that it is now receiving expressions of interest from Parties that want to give presentations. It was also noted that an information note about the workshop and information about technical papers would be available before Poznan. A key (background) question for this workshop is how to engage the private sector in the process—to leverage expertise and facilitate greater investment and resources for adaptation (question of who pays for adaptation activities in general and insurance in particular).

⁷ Thinking behind the MCII submission was informed by Party submissions that deal with insurance, particularly the Swiss submission which also features prevention and insurance pillars. Many experts from Parties, the insurance sector, international financial institutions, humanitarian organizations, and other key groups offered their valuable insights in shaping the MCII proposal. We welcome additional comments.

solutions. Low-level losses would continue to be borne by exposed communities, and are therefore not addressed in this proposal.⁸

3.2.3 Agreement on broad principles, but need for more in-depth discussions

Workshop participants noted that there is likely agreement on risk management and insurance in principle, but at a more substantive level there may be real differences lurking. One Party delegate emphasized that more work on details surrounding insurance alternatives will be needed during Poznan to move the discussions forward. Parties need information about the issues of importance to them—experts need to provide information about insurance mechanisms and the trade-offs embedded in the design details. One Party delegate also commented that it would be interesting to understand where the best adaptation results could be expected (i.e. from which insurance alternatives and at what level). Further, it must be clearly articulated how risk reduction/prevention activities and insurance complement each other in principle and in practice.

Parties will need to become more concrete about what design elements and details need to be looked at more closely, especially in the critical months leading up to Copenhagen. The process and dialogue should include the private insurance sector, relevant national level groups, and humanitarian and development organizations so that implementation later will be smoothed and complementary to existing structures and programs.

3.2.2 How to foster discussion between Parties and Insurance Sector?

Another Party delegate echoed these sentiments, noting that the Insurance Sector and other private sector voices need to be brought in. This delegate noted that the non-profit side of corporations tend to participate (if at all) in the climate negotiations, but so far the incentives for the business side to participate or make investments has been limited. The question was posed about what incentives are in the system to encourage dialogue with the insurance sector. Another expert then mentioned that it is not only participation in dialogue, but the very existence of insurance markets for climate risks that still needs to grow.

An insurance sector expert commented that corporations are investing more resources today in climate change and related risks (mostly in-kind knowledge). The interest is there on the financial services sector side and some pilots are going on. Yet often the private sector is undertaking adaptation activities without being engaged in the climate negotiations process, so these activities go somewhat undetected. The design and implementation know-how are in place in the private sector. Yet commercial insurance operations are limited in developing countries so far because of limited resources to pay for the premiums.⁹ Growing the market for risk transfer is expected to facilitate adaptation to climate change, and foster more resilient development in general. These developments will be facilitated by more concrete dialogue between Parties and stakeholders including the insurance sector, civil society, etc. with the UNFCCC in a catalytic role.

⁸ The full MCII submission for Poznan can be viewed on the UNFCCC website (submissions for Poznan by non-government observers) and at www.climate-insurance.org. The MCII submission for Poznan includes an executive summary, a draft article as an example of what insurance could look like in the Copenhagen agreement (as a point of departure for greater debate and discussion), the proposed insurance scheme, and answers to Party questions posed about this model at the Accra climate talks in August 2008.

⁹ Participants in the workshop also noted that more discussion is needed about resource generation for insurance mechanisms such as climate risk pools or other insurance mechanisms. Negotiators would like to know the trade-offs of different sources of money (public sector, adaptation fund, donor, etc.), and the trade-offs of different mechanisms. More concrete dialogue is also needed among Parties, with technical input where requested from the private sector, about compensation, liability, and equity.

4. Government & Business Perspectives on Adaptation & Insurance

The final segment of the expert workshop on insurance and adaptation examined government and business perspectives. The Lead Delegate of the Swiss Delegation and a representative from the reinsurance industry made presentations and led the discussion.

4.1 Swiss submission highlights prevention and insurance

The presentation and discussion focused on the two-pillar approach (prevention and insurance) outlined by the Swiss submission. The Swiss proposal and those submissions following this line of thinking are innovative because they outline the possibility of separating the source of premium finance and the beneficiaries of insurance cover. Risk reduction/prevention activities play a key role in the Swiss scheme.

The Swiss proposal includes a discussion of financing and the need to raise predictable and adequate levels of funding for adaptation activities including insurance, on basis of common but differentiated responsibilities and polluter pays principles.¹⁰ Perhaps more important than the amount each country pays into the risk transfer scheme or how these resources are generated is the awareness that is raised in doing so—and the greater attention paid to risk management and risk reduction by attaching a price to these activities using insurance principles. The full Swiss submission can be found on the UNFCCC website, and at www.climate-insurance.org.

4.2 Insurance sector offers expertise, interested in developing new markets

The insurance sector also has a vested interest in the management of climate risks. The changes in frequency and intensities of weather events affects underwriting risk management, and a clear association of losses and the increase of extreme events has been observed in the data.¹¹ Since there is virtually no cover for least developed country population (low financial potential), there is a strong need for an initiative that promotes insurance solutions in developing countries. Many insurance companies are interested in finding ways to manage these climate risks in ways that facilitate sustainable business. Further, the global insurance market is very competitive and companies seek new markets. Climate risks do pose challenges, but also opportunities for new markets and new clients in the future.

In discussions that followed these two presentations of government and business perspectives, questions arose about specific details of implementation.¹² At this point, an optimal solution is neither possible nor necessary. What is needed for the climate negotiations is to see that costs are lowered by investing ex ante in risk management, including insurance. Experts agreed that details must be worked out, but that for negotiations it was more important at this point in time to find consensus about the level at which insurance will be provided. An NGO participant highlighted the usefulness of working within

¹⁰ The Swiss proposal outlines alternatives for how insurance premiums might be paid for by Parties. Those that emit higher emissions also contribute proportionally more to finance and otherwise support adaptation activities including insurance. All countries participating in the kind of scheme suggested in the Swiss proposal have to make some kind of contribution.

¹¹ The Munich Reinsurance company has maintained a database of losses of world wide catastrophes since 1980 (for major events since 1950) to serve as a basis for research on adverse effects of climate change. The worldwide evolution of loss events has changed (population pressure, rich- vs. poor countries, etc.) with the most severe impacts observed in low income countries. Munich Re and other companies have an interest to “invest” into adaptation related research and initiatives.

¹² Discussions indicate that emerging ideas about insurance and adaptation cover a wide spectrum and there is some willingness for differentiation among countries to reflect national development priorities. For some Parties investments in risk reduction may be optimal, and for some Parties investments in risk transfer (after risk reduction avenues have been implemented) may be necessary.

existing coordination mechanisms and finding areas of synergies. The potential of national and regional facilities, balanced with global funds will gain importance as discussions on insurance move forward (for scaling up of both resources and political support).

5. Next steps to Poznan and beyond

At the close of the workshop, participants at the workshop brainstormed possible steps to move the insurance discussion forward at Poznan and in the intermediate steps leading up to Copenhagen. These suggestions include the following points.

5.1 For Poznan: Link prevention and insurance in adaptation

- In the Poznan negotiations it is key to link prevention and risk reduction into a broader adaptation concept (AWG-LCA Risk Management Workshop)
- Parties should discuss whether they see a role for insurance mechanisms as part of adaptation, and also in country groupings. Specific questions and requests could be relayed to observers such as a MCII, which in turn could be worked out and relayed back to Parties for further discussion.
- Ideal if Negotiators in Poznan could recommend specific discussions about insurance for the talks leading up to Copenhagen (see below).

5.2 Leading up to Copenhagen: Insurance mechanism(s) part of the Copenhagen architecture

- Dialogue with public and private sector representatives leading up to April negotiations, if possible linked to ongoing UNFCCC activities. This dialogue could generate alternatives for insurance in a larger adaptation framework, finding commonalities in current Party and observer submissions and identifying new alternatives if needed.
- Designated time for discussion about alternatives for insurance within post 2012 agreement, preferably by April negotiations. Possibly including technical papers or submissions defining concepts and alternatives related to an insurance mechanism by June negotiations for Parties to discuss.
- Language in the 2012 agreement for insurance within a broader adaptation package, leaving enough room for Parties to define their interests and needs for an insurance mechanism (likely that details would be worked out following the 2012 agreement)

5.3 Beyond Copenhagen: Insurance Design and Consultation with Insurance Sector

- If expanded language on an insurance mechanism within a larger adaptation framework were included in the post 2012 agreement, the time after Copenhagen would be used to work out the details of design and implementation.
- This design would ideally be created in consultation with appropriate private and public entities and implemented by an independent expert body.

Much work still needs to be done to bridge the keyword “insurance” already in the Convention, the Kyoto Protocol, and the Bali Action Plan with more detailed plans dealing with risk management and insurance that would be useful in Copenhagen. The discussions are moving in the right direction. A broader base of consensus can and must be built among these stakeholders moving forward to Copenhagen and beyond.¹³

¹³ The organizers of the expert workshop, the Munich Climate Insurance Initiative and Germanwatch, welcome all comments—especially critical comments—that will help move this discussion forward and help build coalitions to put insurance related solutions in the post 2012 agreement.

Annex 1: Participants

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Annex 2: Program and Information about the Organizers

Expert workshop

“Risk management and insurance solutions in face of climate change: The way forward in Poznan and Copenhagen”

30th October, 11:00 to 17:00
UN Campus, Room 2309
Hermann-Ehlers-Str. 10,
D-53113 Bonn

10.30	Registration and Coffee	
Session 1 11.00 to 13:00	Climate risks: Is insurance a viable adaptation mechanism?	
	Sven Harmeling Germanwatch	▪ Welcoming remarks
	Daniel Kull, IIASA	▪ Setting the scene: Climate change adaptation, prevention and insurance approaches on different levels (macro, meso, micro)
	Madeleen Helmer, Red Cross Red Crescent Climate Centre	▪ Links between risk reduction and insurance: Challenges and Opportunities
	Koko Warner, UNU EHS/MCII*	▪ Insurance Solutions for the poor: Different Risks, Different Scales
Discussion	Moderated by Sven Harmeling	▪ What is the role of insurance (micro and macro-level) for adaptation to climate change? ▪ Where are the practical links with prevention, risk reduction, and humanitarian work? ▪ Are there particular points where private or public-private partnerships are anticipated on the adaptation agenda, particularly around insurance?
13.00 to 14:00	Lunch	
Session 2 14.00 to 15:15	Insurance in the context of the UNFCCC climate negotiations	
	Miwa Kato, UNFCCC secretariat	▪ Insurance within the UNFCCC process
	Christoph Bals, Germanwatch and Munich Climate Insurance Initiative (MCII)	▪ Insurance Instruments for Adapting to Climate Risks – the MCII proposal for the Bali Action Plan; and frequently asked questions ▪

Discussion	Moderated by Koko Warner	<ul style="list-style-type: none"> ▪ What are the items on the agenda for Poznan related to insurance? ▪ What are the possible areas of progress for insurance and risk reduction? ▪ What are the milestones between now and Copenhagen, and what work must be done to move the insurance and risk reduction agenda forward?
15.15 to 15:30	Coffee break	
Session 3 15:30 to 16:45	Government & business perspectives on climate adaptation and insurance	
	Jose Romero, Federal office for the Environment**	<ul style="list-style-type: none"> ▪ A Swiss government perspective on an international insurance mechanism
	Dr. Peter Hoeppe, Munich Re	<ul style="list-style-type: none"> ▪ Climate equity and adaptation for the poor: the role of an international insurance mechanism from Munich RE's perspective
Expert Presentations		
Discussion	Moderated by Koko Warner	<ul style="list-style-type: none"> ▪ What are ways forward for an international insurance mechanism? ▪ What are key constraints and potentials for developing insurance as an adaptation mechanism? ▪ How to link different levels of insurance (i.e. macro, meso, micro insurance programs) in an international adaptation regime?
16:45 to 17:00	Christoph Bals, Germanwatch	<ul style="list-style-type: none"> ▪ Closing remarks

* to be confirmed, ** via telephone or video.

Information about the organizers

Germanwatch (www.germanwatch.org). Germanwatch is an independent, non-profit and non-governmental North-South Initiative. Since 1991, Germanwatch has served as a bridge between society and NGOs and the climate negotiations on issues related to mitigation and adaptation. Its work helps prepare the ground for policy dialogue in the North which preserve the interests of people in the South, including risk transfer solutions like insurance.

Munich Climate Insurance Initiative (MCII, www.climateinsurance.org). The Munich Climate Insurance Initiative (MCII) was launched by Munich Re in April 2005 in response to the growing realisation that insurance-related solutions can support the adaptation to climate change advocated in the Framework Convention and Kyoto Protocol. This initiative brings together insurers, experts on climate change and adaptation, NGOs and policy researchers intent on finding solutions to the risks posed by climate change. MCII was founded by representatives of Germanwatch, IIASA, Munich Re, the Munich Re Foundation, the Potsdam Institute for Climate Impact Research (PIK), the Swiss Federal Institute of Technology (SLF), TERI, the Tyndall Centre, the United Nations University Institute for Environment and Human Security (UNU-EHS), the World Bank, and independent experts.

United Nations University Institute for Environment and Human Security (UNU-EHS, www.ehs.unu.edu). UNU-EHS explores threats to human security arising from natural and human-induced hazards. The Institute spearheads research, capacity building and policy-relevant advisory activities relating to the broad interdisciplinary field of 'risk and vulnerability'.