Global insurance industry statement on

Adapting to climate change in developing countries

Four leading insurance climate change initiatives, whose combined membership includes more than a hundred of the world's leading insurers across Africa, Asia, Europe, North and South America, and Oceania, have combined their members' expertise to present this Statement. ClimateWise, The Geneva Association, the Munich Climate Insurance Initiative (MCII) and leading insurance companies within the United Nations Environment Programme Finance Initiative (UNEP FI) are collaborating to highlight the huge potential benefits of using government action to enable the knowledge and expertise from the insurance industry to play its fullest role in risk management in developing countries, particularly those most vulnerable to the impacts of climate change. This government action includes implementing national risk management processes and using limited government investment to measure and reduce those risks.

Climate change science underscores the imperative for societies to urgently mitigate greenhouse gas emissions. The insurance industry is facilitating investments to harness new technologies and help move towards a low carbon economy. However, it is clear that a massive scheme of adaptation measures will also be needed, especially in the most vulnerable countries – countries that have contributed least to climate change but will suffer worst from its effects. Insurance solutions have the potential to provide tangible results for the most vulnerable countries and soften the blow of climate-related disasters.

Governments must recognise that they and all stakeholders, including the insurance industry, have a common interest in enhancing welfare and sustainable growth in the developing world. They should therefore take into account the need for, and opportunity of, stronger global collaboration to respond to this challenge and take steps to reduce climate-related risk in the developing world, particularly for the most vulnerable communities.

Insurance is one of a broad scope of risk management approaches that can facilitate adaptation to climate change and shore up sustainable development.

In particular, the insurance industry can support adaptation efforts through:

- **Expertise in risk management**, particularly in areas such as risk and vulnerability assessment, putting a price tag on risk, and the design of risk reduction and risk transfer activities
- **Prioritising adaptation measures** by enhancing adaptive capacity and advising on the cost-effectiveness of resilience measures
- **Incentivising loss reduction** by informing economic actors about the risks they face, advising them on risk mitigation options and providing them with existing insurance options for loss reduction
- **Developing new insurance products** which cover risks affected by climate and weather events, such as human health, crop yields and animal diseases
- **Raising awareness among the many stakeholders of the insurance industry** – including governments and regulators, clients and business partners, business and industry, civil society and academia – about the impacts of climate change, the adaptation needs of those most at risk, and the role that the insurance industry can play in advancing adaptation, as described in this Statement.

International climate negotiators and governments are looking towards insurance as one of a set of solutions to reduce the impact of climate change on the developing world. However, governments must act to create an enabling environment in which insurance can operate effectively.

To date, governments still have much work to do to implement commitments already made at the 2005 World Conference on Disaster Reduction to effectively address the nature and scope of risks, especially those facing developing countries. Notwithstanding missing the potential opportunity to improve the lives of millions, continued government failure to implement loss prevention and risk transfer measures could have significant consequences such as the potential loss of life, a perpetuation of the poverty trap, mass migration and a potential increase in widespread disease.

Effective government support and implementation of risk management measures is the critical path in addressing these issues and the creation of an environment in which insurance can work effectively. We therefore call on governments to:

- Support proposals to **catalyse adaptation efforts through risk management, loss prevention and risk transfer**, particularly in those countries most vulnerable to the impacts of climate change
- Consider language such as the following for **Paragraph 8** of the Adaptation negotiating text under the United Nations Framework Convention on Climate Change:

  a. *"Enhancing climate change related disaster risk reduction strategies, considering the Hyogo Framework for Action where appropriate; early warning systems; risk assessment, and management and sharing and transfer mechanisms such as insurance….at local, national, subregional and regional levels, as appropriate, to address loss and damage associated with climate change impacts in those developing countries that are particularly vulnerable to the adverse effects of climate change…"* [1]

  b. *"Decides to elaborate modalities and procedures for the international mechanism to address loss and damage, for adoption by the Conference of the Parties at its seventeenth session;"* [2]

- **In practical terms**, we call on governments to:

  a. Engage in risk reduction activities by taking action on the already agreed Hyogo Framework for Action 2005-2015 for disaster risk reduction. These include appointing a national risk officer with the mandate to develop a holistic risk management culture, facilitating community, regional and state level loss reduction activities, climate-proofing existing infrastructure investments and putting in place appropriate zoning and building codes and enforcing these – all of which will contribute tangibly to managing risks and loss potential

  b. Provide a suitable enabling environment for risk management, including insurance, through good corporate governance frameworks and those systems necessary for financial market services to function for all levels of society and across appropriate time horizons

  c. Invest in systematic and reliable risk exposure data, both historic and forward-looking, which is made freely available to the public, with multiple adaptation applications

  d. Act on lessons learned about the role of Government in convening and seeding regional public-private partnerships such as the Caribbean Catastrophe Risk Insurance Facility and microinsurance systems which address risk reduction for weather-related risks

Market mechanisms are already operating to create and grow insurance practices in developing countries. However, without a suitable enabling economic and regulatory framework, insurance risk management mechanisms are falling considerably short of their potential to deliver adaptation benefits. By working together, governments have the means and capability to leverage this potential, increase protection of individuals and the economy, reduce weather impacts and foster growth through the implementation of insurance risk management systems.

1 Paragraph 4e of the current draft UNFCCC negotiation text. See UNFCCC (2010) Second iteration of the text to facilitate negotiations prepared by the Chair of the AWG-LCA FCCC/AWGLCA/2010/8. http://unfccc.int/resource/docs/2010/awglca11/eng/08.pdf

2 Paragraph 8, Option 1 of the current draft UNFCCC negotiation text. See UNFCCC (2010) Second iteration of the text to facilitate negotiations prepared by the Chair of the AWG-LCA FCCC/AWGLCA/2010/8. http://unfccc.int/resource/docs/2010/awglca11/eng/08.pdf

Examples of where insurance has already provided effective risk management solutions in developing countries, particularly those most vulnerable to the impacts of climate change, include:

1. **The Caribbean Catastrophe Risk Insurance Facility (CCRIF)** is a public-private partnership designed to limit the financial impact of hurricanes and earthquakes for 16 Caribbean governments. Established in 2007, the facility provides short-term liquidity (within 23 weeks) to participating governments when the policy is triggered by a catastrophe, such as the 2010 Haitian earthquake. The facility uses a parametric mechanism to determine the potential future risk and trigger a payout whenever a pre-defined modelled loss level is exceeded. By pooling the risks of its members, CCRIF serves as a risk aggregator and can provide insurance coverage at a comparatively low premium for otherwise mostly uninsured catastrophe risks borne by sovereigns. CCRIF member states decide on the level of coverage for each peril insured. This facility illustrates that dialogue between governments and insurers can create tailored, institutionally light and flexible solutions for particular regions. **For more information, visit www.ccrif.org.**
2. **Horn of Africa Risk Transfer for Adaptation (HARITA)** is a parametric insurance scheme that brings together climate change risk mitigation and crop insurance for farmers and has been rolled out in four communities in Northern Ethiopia. Underwritten by a local company, and reinsured by a global reinsurer, it uses a rainfall index to trigger compensation for farmers growing the Ethiopian staple grain crop of Teff in case of drought. It is unique, however, in allowing farmers to pay for their premiums through labour on projects that will mitigate the effect of climate change in their area, such as tree planting. To turn the labour into monetary value, the scheme takes advantage of a national government "cash for work" programme, which enables it to reach the most vulnerable farmers. HARITA therefore integrates insurance with both risk reduction and credit provision. By allowing very vulnerable farmers to pay their premiums through risk-reducing labour, farmers benefit even when there is no payout because these risk reduction activities will help minimise vulnerability to drought and improve yields. Lack of cash is the main reason that people do not participate in insurance schemes. Using this government national cash for work programme is a way to address this issue and to scale up the size of the programme. The programme will roll out to the Tigray region in 2011. Nationally about six million farmers grow Teff. The backers also want to extend cover to other crops such as wheat and sorghum. **For more information, visit www.oxfamamerica.org/articles/weather-insurance-offers-ethiopian-farmers-hope-despite-drought.**
3. In **Mongolia**, the World Bank and other organisations have been actively involved in developing programmes for sustainable livelihoods that emphasise pastoral risk management including early warning systems and risk preparedness actions, access to supplementary feed and grazing reserves, coordination of pastureland use, and conflict management. These measures were combined with efforts to extend the outreach of microfinance services to herders, and community-prioritised investments in basic infrastructure. An index-based microinsurance coverage helps reduce the administrative costs of insurance, making it more affordable. Microinsurance and complementary interventions in a wider risk management framework in Mongolia are therefore helping reduce herders' vulnerability to climate and non-climate hazards. The main objectives of the insurance scheme, provided by the Government of Mongolia in partnership with local private insurance companies and banking organisations, is to provide insurance coverage against catastrophic livestock mortality events to complement household-level risk management strategies for smaller livestock mortality losses. The programme involves the domestic insurance market while protecting it against extreme losses, and also limits the government's fiscal exposure to loss and damage. Participating herders pay premiums and if the livestock mortality during a harsh winter storm is 30%, payouts are triggered. Herders bear the cost of smaller losses which are not likely to affect their business in the long term. This self-insurance for livestock mortality, with rates of up to 6%, leads to risk-reducing behaviour by the herders because of the strong incentive to engage in activities that may decrease the mortality risk of their livestock. This index insurance does not cover every single livestock loss due to winter conditions – it is about addressing consequential losses and extra costs that come with a harsh winter, killing large numbers of adult animals. **For more information, visit www.globalagrisk.com.**

4. **Weather insurance in Malawi**. The value of data collection in the establishment of insurance mechanisms is well demonstrated by a project in Malawi. A combination of sufficient weather stations and start-up assistance helped by the World Bank and World Food Programme helped start a pilot weather insurance project. The insurance pilot bundles loans and insurance for nearly 1000 smallholder farmers enabling them to buy affordable index-based drought insurance. The insurance is linked to loans and both improves the creditworthiness of participating farmers and enables them to increase their farm productivity. A challenge with such initiatives tends to be scalability: current schemes tend to cover only a few hundred or thousand farmers but with government assistance this could be scaled up. An initiative in India launched in 2007 offered insurance with crop loans and was taken up by 700,000 farmers.

5. **Index-based insurance to promote climate resilience in Bolivia.** An insurance scheme has been developed in four provinces in the north and central Altiplano regions of Bolivia that combines incentives for proactive risk reduction and an insurance index mechanism. In this scheme the index is based on the production levels of reference plots of farmland in areas which are geographically similar in terms of temperature, precipitation, humidity, and type of soil. A group of farmers identify a peer who is considered to use the best available methods. That farmer serves as a technical assistance agent to help other farmers reduce their risks and improve their yields. The system encourages other farmers to match the reference farmers in implementing risk reduction efforts to reduce the effects of drought, excess rains, hailstorms and frost. The reference farmer's land becomes the reference plot, the yields from which serve as an indicator of whether production levels have been adversely affected by environmental factors (triggering an insurance payout) or by other factors within the farmer's control. The objective becomes to perform or outperform the reference plot by improving agricultural practices and reducing risk of damage from weather hazards.

   For more information, visit www.fundacion-profin.org.

The insurance climate change initiatives represented in this Statement:

ClimateWise is the global collaboration of leading insurers focused on reducing the risks of climate change. Launched in 2007 by HRH The Prince of Wales, and facilitated by the University of Cambridge Programme for Sustainability Leadership, ClimateWise brings together over 40 international members from Europe, North America, Asia and Southern Africa all of whom abide by the ClimateWise Principles.

www.climatewise.org.uk
Contact: andrew.voysey@climatewise.org.uk | +44 20 7216 7530

The Geneva Association is the leading international insurance economics "think tank" on insurance and risk management issues. Its members are 90 CEOs of the world's leading re/insurers. The objectives of the Association's climate-linked research have been to identify and analyse issues of specific relevance to the insurance industry, such as the likely range of future claims costs, and external challenges to be addressed at the political, educational and social levels.

www.genevaassociation.org
Contact: anthony_kennaway@genevaassociation.org | +41 22 707 6606

The Munich Climate Insurance Initiative (MCII) was initiated by Munich Re in April 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the Framework Convention, the Kyoto Protocol and the Bali Action Plan.. This initiative is formed by insurers, climate change and adaptation experts, NGOs, and policy researchers intent on finding solutions to the risks posed by climate change – both on the negotiating floor and on-the-ground in developing countries.

www.climate-insurance.org
Contact: warner@ehs.unu.edu | +49 228 815 0226

The United Nations Environment Programme Finance Initiative (UNEP FI) is a strategic public-private partnership between UNEP and the global financial sector. UNEP works with nearly 200 insurers and reinsurers, banks and investment firms, and a range of partner organisations, to understand the impacts of environmental, social and governance issues on financial performance and sustainable development. Through a global programme encompassing research, training, events and regional activities, UNEP FI identifies, promotes and realises the adoption of best environmental and sustainability practice at all levels of institutional operations.

www.unepfi.org
Contact: butch.bacani@unep.org | +41 22 917 8777
remco.fischer@unep.org | +41 22 917 8685

Printed in the EU
using vegetable-based inks
on FSC-certified, Ecolabel
100% recycled paper