منتدى التغيرات المناخية
Forum sur les changements climatiques
Climate Change Forum

Disaster Risk Reduction and Insurance

According to the Framework Convention and the Kyoto Protocol (KP), insurance is a key tool to manage and reduce risk and adapt to Climate Change adverse effects, in particular in agriculture activities. If the changes in climate patterns cannot be addressed by insurance mechanisms, it can reduce the impact of foreseen increased variability in the weather and occurrence of extreme events such as droughts or flood.
However, current insurance systems in the agricultural field are not fitted to face the extent of climate change-related disasters predicted, and their products are often not available in developing countries or not affordable for the small-holders who are the most vulnerable. It is at present being discussed what role the insurance sector could play within the post-2012 climate agreement and whether it could be supported through funding in the context of the KP Adaptation funds.
This section relates the last findings in insurance products and systems that represent options to integrate this tool, and its co-benefits in term of risk reduction, in adaptation strategies.

Innovative Insurance Systems - Facing the Magnitude of Climate Change

The Caribbean Island States recently formed the world's first multi-country catastrophe insurance pool, reinsured in the capital markets, to provide governments with immediate liquidity in the aftermath of hurricanes or earthquakes.

The World Bank and other institutions are exploring the possibility of extending the benefits of similar pooled risk transfer solutions to other regions, such as Asia and South-eastern Europe.

The Munich Climate Insurance Initiative's fifth submission at the Bonn Talks last June proposed the adoption of a Climate Risk Management Mechanism (CRMM). It includes a Prevention Pillar and a two-tier Insurance Pillar designed to assist countries, and especially the most vulnerable ones, in addressing rising medium and high level climate-related risks. The proposed CRMM structure allows the transfer of risks through financial mechanisms and calls for the integration in national adaptation strategies (inc. National Adaptation Programme of Actions when suitable) of the following: (i) prevention measures to reduce climate-related risks; (ii) a Climate Insurance Assistance Facility (CIAF) to provide countries technical and financial support in accessing regional private or public-private insurance systems for middle layers of acute climate-related risk; (iii) a Climate Insurance Pool (CIP) to absorb high layers of climate-related risks and; (iv) a Chronic Risk Management Facility (CRMF) to plan for and absorb a proportion of chronic climate-related risks
The cost of this CRMM, which would be subject to the Conference of the Parties authority and guidance, would be borne by establishing a funding arrangement based on the principle of common but differentiated responsibilities and respective capabilities.

In industrialized countries, the private sector has a long experience in linking link risk reduction and insurance. This approach includes:

- Risk awareness raising and provision of information (including on risk reducing measures benefits)
- Risk pricing: premiums that reflect the level of risk (i.e. price differentiation)
- Establishing enabling conditions and appropriate regulations
- Direct financing of risk reduction measures, either through investments or loans
- Risk reduction as a pre-condition for insurance

Adapted to small-holders farmers, insurance products can create the same type of virtuous circle. Attention must be paid to the perverse effects that governmental subsidiaries policies can have on this latter by promoting mal-adaptation in some cases. If the role of private sector in future insurance and risk reduction systems is not defined yet, any pattern shall take into consideration that issue to articulate public and private interventions efficiently.

Innovative Insurance products – Protecting the most vulnerable

The penetration of agricultural insurance, and especially catastrophe insurance, in developing countries is low despite the sector's economic importance, with premiums accounting for only 0.01 percent of GDP. The barriers to the development of risk transfer schemes for the poor include: a lack of reliable information for pricing risk, affordability, accessibility, low levels of awareness, and sustainability of the schemes themselves.
Innovative insurance tools, such as index-based insurance, are interesting alternative to address some of these issues as they lower transaction costs, making it more affordable. In Ethiopia, the World Food Programme (WFP) issued a novel weather-index insurance scheme assuring sufficient funds to the government to protect the livelihoods of vulnerable drought-exposed populations.
Adopting a participatory approach can be a valuable option when determining the best index. In Bolivia, the Fundación PROFIN uses yields from reference farmers, chosen by the community, 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.
Insurance combined with loans can greatly improve the credit-worthiness of participating farmers and enables them to increase their farm productivity. In Malawi a combination of sufficient weather stations and startup assistance from the World Bank and WFP bundles loans and weather insurance for nearly 1000 smallholder farmers enabling them to buy affordable index-based drought insurance.

In the NENA region, the most important threats faced in agriculture are droughts and floods. In these arid or semi-arid countries, when officials understand that it is crucial to safeguard their farmers, they are reluctant to integrate these two climate-related risks in traditional peril-based insurance policy. Index-based insurance products may offer new perspectives for the region to manage these low or middle layer risks. The private sector could play an important role, in particular in the development of regional and national systems of weather forecast and the establishment of communication channels to inform farmers. The adoption of a CRMM within the KP could facilitate such development, while improving the region's resilience to higher climate-related risks.

References:

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