

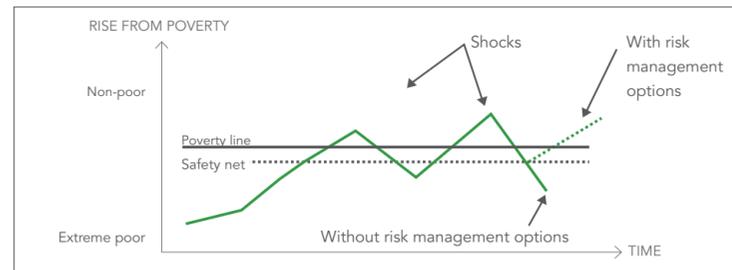
InsuResilience – the Initiative on Climate Risk Insurance

Global partnership tackling climate risks, insurance, and poverty

Climate resilient pathways

Science confirms that climate change is intensifying the frequency and intensity of storms, floods, and extreme temperatures (IPCC 5th Assessment Report 2014 and Special Report on Extreme Events 2012). The adverse effects of climate change are not evenly distributed across the world because of differing exposures, vulnerabilities, and coping capabilities. Worldwide, the poorest people bear a disproportionate burden of climate stress, yet they have contributed least to drivers of climate change. Because the risks often fall more heavily on those least able to reduce or recover from them, leaders of G7 countries and others have recognized the relevance of tools like insurance which enable avoiding, reducing, and sharing the risks related to climate extremes.

At the 2015 Summit in Elmau, the G7 announced a Climate Risk Insurance Initiative (“InsuResilience”) that works with target partner countries, civil society, and local and international private insurance industries to help improve the resilience of poor people to climate stressors. In this way, the G7 countries demonstrate their commitment to sustainable development and improving the ability of vulnerable countries and people to manage climate risks. The graph below shows how insurance-related tools safeguard against shocks that slow the ascent from poverty.



Source: Modified by MCII based on: Cohen and Sebstad (2006) in Protecting the poor: A microinsurance compendium. Volume 1. Based on McCord 2005

400 million

InsuResilience aims to increase, by up to 400 million, the number of people in the most vulnerable developing countries who have access to direct or indirect insurance coverage against the negative impact of climate change related hazards. Currently only about 100 million people in developing countries are covered by insurance schemes against climate risks. By 2020 the initiative strives to increase their number up to 500 million. The figure below illustrates the gap today: few poor people in the global south have adequate access to insurance.



Source: Munich Re, Property insurance premium (non-life including health), per capita in 2012 © 2012 Münchener Rückversicherungs-Gesellschaft, Geo Risks Research, NatCatSERVICE

Reaching poor and vulnerable people with climate risk insurance

At the historic Climate Conference COP21 in Paris, G7 leaders join other Heads of State to point the way to climate-resilient development pathways. As part of its global commitment, G7 plans to design and implement the InsuResilience Initiative. The Munich Climate Insurance Initiative (MCII) partners with InsuResilience and contributes knowledge from science, policy, and insurance practice to support stakeholder dialogue, and to ensure that InsuResilience accounts for the needs of vulnerable people in the process. This document shares insights gathered by MCII expert interviews with thought leaders and innovators from primary and reinsurance companies, pioneers using risk transfer to reshape humanitarian assistance, and practitioners at the vanguard of risk management and adaptation. It explores what new thinking and action is needed for InsuResilience to meet its ambitious goal to reach 400 million people with direct and indirect insurance by 2020.

Why is the InsuResilience Initiative important?

Climate risk insurance can help alleviate human suffering while decreasing loss of livelihoods and reducing people’s risk of slipping into poverty or remaining poor. Additionally, insurance can lower the cost and optimize the timing of meeting post-disaster funding needs without compromising development goals; thereby supporting fiscal stability.

The principle of insurance – sharing the burden of risk and transferring it to lessen the impacts of unexpected events – underlies InsuResilience’s aim: to intensify support particularly for vulnerable countries’ own efforts to manage climate change related disaster risk and to build resilience.

- Direct insurance schemes help vulnerable and poor people reduce development setbacks related to unexpected climate extremes (like using savings, taking children out of school, eating seed stock), and enable productive decisions by creating a secure investment environment.
- Indirect insurance schemes provide country payouts after an event, in addition to identifying and pricing risks, building risk management into national planning, and the possibility of contributing to creating contingency plans that protect the poor against climatic disturbances.

Climate risk insurance for the poor

Success factors and enabling conditions for “InsuResilience” – the Initiative on Climate Risk Insurance

Findings from MCII expert interviews



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This factsheet was prepared by the Munich Climate Insurance Initiative (MCII), and commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ).

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Success factors: Implementing climate risk insurance for the poor

In interviews with MCII, experts reflected on **4 success factors** needed to reach the poor with climate risk insurance. Experts shared lessons learned and good practice from existing efforts.

Use insurance to meet the needs of the target group and secure development goals

Exposure to climate risks cause significant financial losses for the poor. These households also face high uncertainty about whether and when losses might happen. Insurance approaches for the poor should address the most pressing needs – uncertainty to livelihoods, food security and development aspirations – that get in the way of opportunities to reduce poverty.

A participatory approach

Successful insurance schemes are based on the effective involvement of all relevant actors, providing the basis for a meaningful long-term partnership. Facilitating stakeholder dialogue is a first step in this process. It is crucial to include **beneficiaries** in the co-design and implementation of insurance solutions to assure products truly match needs. Target group ownership is essential for effective use of insurance as a risk management tool. **Civil society** can help engage the target group, build capacity through training, build trust with financial intermediaries, and monitor and evaluate scheme governance and implementation. The risk management expertise of the **private sector** must be utilized to assess risks, design viable insurance products, and reach beneficiaries through effective distribution channels. The involvement of **governments** is key to political buy-in, ownership and integration of the insurance approaches in national planning, policies, and regulations (such as consumer protection). Governments can set incentives that facilitate insurance provision across a range of programs, including social protection and risk management, education, and agriculture. **Development cooperation** partners can support risk and needs assessments, product design, and other forms of technical support.

Capacity building

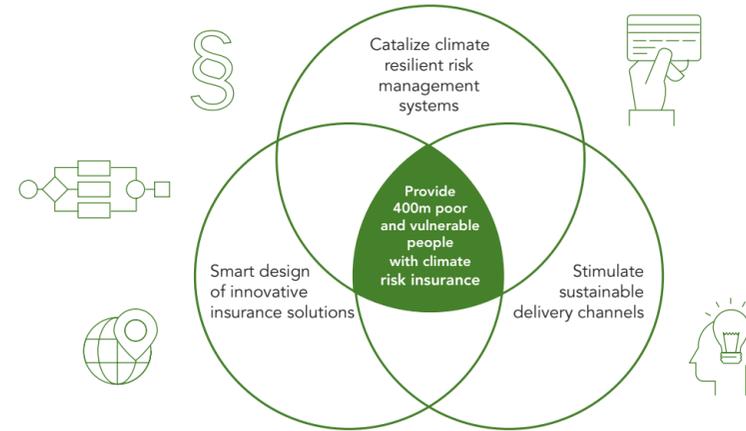
Reaching poor and vulnerable people with climate risk insurance requires significant capacity building measures, often involving actors not yet familiar with the tools or principles of insurance. **For beneficiaries:** Measures to improve financial literacy include knowledge of personal financial issues, skills to manage personal finances, and confidence to make sound financial decisions including building up savings, protecting themselves against risk, and investing prudently. Beneficiaries need specific understanding of index insurance, trust and transparency with insurance providers, and comprehensive knowledge of links between disaster risk reduction and insurance. **For local primary insurers:** Build capacity in catastrophe risk modeling to price risk-adequate premiums, train financial services experts with skills to access and market to new beneficiary groups and financial institutions that serve them (microfinance, credit unions, etc.), as well as capacity to manage claims and payments. **For distribution channels:** Build capacity of value chains, safety net programs, etc. to manage financial services such as hiring trained financial experts, building incentives to reduce risks, building capacity for marketing, enrollment, and claims management assistance. **For governments:** Building capacity in producing data that is required (socio-economic, losses, exposure, etc.), modeling weather risk, operational capacity and expertise, financial protection strategies, and systematically integrating contingency plans into policies (e.g. NAP, agricultural strategy plans, construction policies, etc.).

Sustainability and viability

To effectively chart climate resilient pathways, InsuResilience activities need to be sustainable and viable, both in economic and social terms. Planning beyond a 5 year timescale is crucial. Applying risk adequate premiums are one of the central elements for ensuring the viability of approaches and incentivisation of risk reduction measures.

Enabling conditions for comprehensive, sustainable climate risk insurance for the poor

Experts named **5 enabling conditions** for effective climate risk insurance. These conditions work together to foster climate resilient risk management, stimulate sustainable approaches to reach the target group, and create smartly designed insurance that meet their needs.



Locally driven and owned schemes

To safeguard that existing risk management approaches are enhanced, locally driven and owned schemes will help ensure that local needs and capacities are taken into account. Partnerships that link traditional risk management approaches and social cohesion with new ways of providing financial risk transfer (cooperatives, microfinance, and bundling with cell phone services) can add value to locally driven and owned schemes.

Foster financial inclusion

Poor people need access to tools like savings, loans, remittances, and insurance that help them smooth household consumption and break the cycle of poverty. Financial inclusion could be improved by identity cards, financial or bank accounts to make and receive insurance payments, and processes to establish a financial history. Insurance schemes need to be designed to receive premium payments in appropriate time intervals that are linked to the financial cycles of poor households. Similarly, schemes must make timely payouts after an insured event.

Incentivize climate adaptation and disaster risk reduction

Prevention and insurance should be closely linked with an ex ante climate risk management strategy that prioritizes reducing human and economic losses. Such activities include: Mapping risks and avoiding settlements in high-risk zones; Building hazard-resistant infrastructures and houses; Protecting and developing hazard buffers (forests, reefs, mangroves, etc.); Improving early warning and response systems; Mainstreaming risk reduction in National Adaptation Plans (NAPs).

Regulatory frameworks and risk management policies

An insurance supervisor maintains trust and ensures consumer protection by overseeing all insurance activities. Reputable insurers will not engage without regulatory frameworks and guidelines for insurance licensing and operations. Governments can incentivize industry sector participation through tax exemptions on products for poor people. Furthermore, policies and measures for risk reduction and adaptation reduce the exposure to risks and can indirectly reduce premiums. Governments can strengthen provision of relevant data including hazard, asset exposure, agricultural production, and market demand assessments.

Provide sustainable, credible delivery channels

To reach the target group, experts recommend using aggregators like regional rural banks, mutual, refinancing banks, microfinance institutions, social protection pools of governments. Awareness building, marketing, and claims assistance need face-to-face interaction (e.g. by civil society organizations). A national identification system through which people can be identified and reached and mobile phone networks in remote areas can facilitate effective insurance enrollment. If regulators permit, premiums can also be collected through technology (e.g. mobile banking).

Lessons learned and good practice from existing efforts

Innovative direct and indirect insurance approaches today provide lessons learned and good practice that the G7 InsuResilience Initiative can draw from to upscale insurance provision to vulnerable and poor people. MCII expert interviews highlighted dozens of examples, including the two below.

DIRECT INSURANCE

Building insurance on safety net programmes – the R4 Initiative

Why? More than 2.3 billion people live with less than USD\$1.25 a day and depend on agriculture for their livelihoods. Vulnerability to climate-related shocks is a constant threat to their food security and wellbeing.

How? R4 currently reaches over 26,000 smallholder farmers in Ethiopia and Senegal through a combination of four risk management strategies: improved resource management through asset creation, insurance, livelihoods diversification, and microcredit and savings.

Lesson learned: Schemes are built into either existing social safety nets or disaster risk reduction schemes. Risk reduction is fostered through public works programmes in risk reduction infrastructure.

Results from R4 Evaluation

Compared to households not enrolled, families participating in R4 have:

- 123% more savings;
- 25% more oxen;
- some farmers had 254% more cereal stocks;
- only 8% reduction in food consumption after 2 consecutive 'bad harvest' years compared to 49% reduction for households not participating in R4.

Source: Expert interview with Richard Choularton, Chief of WFP Climate and Disaster Risk Reduction Programmes, based on recent R4 evaluation and WFP's Food Consumption Score.

INDIRECT INSURANCE

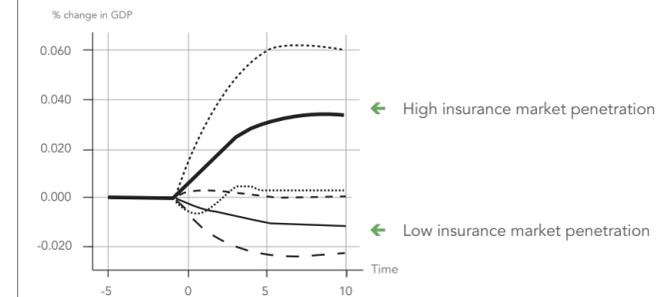
Merging approaches of disaster relief with risk pooling – the African Risk Capacity (ARC)

Why? Today, humanitarian assistance depends on ad-hoc post disaster campaigns. Only then can relief be mobilized for the people who need it most.

How? ARC is a regional risk management pool owned by the African Union. In the event of a severe drought the ARC provides a quick payout to the governments before vulnerable populations resort to negative coping mechanisms. The ARC requires a 'contingency plan' stating delivery mechanisms to the vulnerable population, integrated climate risk management mechanisms, and a monitoring system.

Lesson learned: The ARC ensures effective delivery of insurance benefits to the affected population and enhanced adaptation measures through its 'contingency plans'. These are linked to response mechanisms and can facilitate longer-term investments in increasing food security, disaster risk reduction and climate resilience. The ARC strengthens the disaster risk reduction (DRR) and adaptive capacity of the member countries for up to one year when developing the contingency plans. Its RiskView data base enables the governments to collect data, monitor weather conditions, and provide early warning.

GDP p.c. development in countries with different levels of insurance penetration. x 100 % trend deviation after a weather related catastrophe



Insurance pools like ARC and the Caribbean Catastrophe Risk Insurance Facility (CCRIF) help countries retain and transfer the appropriate risk layers, contributing to climate-resilient development. For example, in a comparative study of countries with different insurance market penetration by the World Bank, those countries with high insurance penetration after a large weather-related catastrophe managed to improve economic performance. In contrast, those countries with low insurance penetration suffered from negative GDP deviation, which, if not compensated by other growth factors, can exacerbate poverty traps and slow development.

Comparison of GDP (p.c.) after a weather-related loss event in countries with high- and low insurance penetration. Source: Melecky and Raddatz (2011)