MCII and GIZ workshop on

"INNOVATIVE INSURANCE SOLUTIONS FOR CLIMATE CHANGE IN A COMPREHENSIVE RISK MANAGEMENT APPROACH – DEVELOPING A TOOLKIT "

FACT SHEET

HOW CAN COUNTRIES APPROACH CLIMATE RISK COMPREHENSIVELY TO FIT THEIR LOCAL CONTEXT?

There are a range of approaches that governments can take to manage their climate risks such as risk prevention and reduction, risk transfer tools such as insurance, and other forms of risk management mechanisms such as funds for flood protection or contingency planning. This set of approaches can be applied in various combinations and at different scales depending on the local context. In order to build climate risk resilience and meet development priorities, countries need to first conduct an *ex ante* risk assessment and have a good understanding of the population needs. After this, countries can subsequently tailor their comprehensive approaches in light of the specific country circumstances. For instance:

- At the community level, combinations of tools like early warning, risk reduction, and social safety nets can contribute to helping families and individuals manage climate-related risks because these tools can be tailored to local risk management needs[1]. Safety nets, insurance, and other risk transfer tools can be designed in a way to protect livelihoods (e.g., provision of quick cash payouts help small enterprises get up-and-running quickly and protect against business interruption).

- At the national level, governments can consider devising a comprehensive approach linked with risk transfer in order to protect their federal budget reserves from dramatic fluctuations related to climate variability (e.g., sudden-onset extreme events such as storms). In this context, insurance payments can provide immediate post-disaster liquidity to national governments and individuals in case of weather impacts.[2]

- Some governments may want to access a multi-regional or multi-country approach that diversifies their risks regionally and even globally. Such approaches can reduce the costs of climate risks, provide reliable and timely assistance that is targeted to country-driven needs, appropriate and viable contingency planning and preparedness, and in case of risk financing, reduce the dependence of countries on often unreliable and untimely ad hoc external assistance.[3]

On May 12th and 13th MCII and GIZ hosted an expert workshop to better assist decision makers and climate negotiators in exploring ways to implement climate risk insurance solutions in a comprehensive approach in policy and practice. The workshop was a follow-up to last year's workshop and featured over 30 participants- including policy makers and practitioners from NGO's, development organizations, private and public sector - with expertise in weather risk and agricultural insurance, disaster risk management, and adaptation. It provided participants from across the globe a space to engage with each other and share their lessons learned from existing climate-related insurance approaches. Based on different country scenarios, ad-hoc working groups were established and discussed: the steps needed, stakeholders, challenges, and solutions to successfully implement insurance as part of a comprehensive climate risk management approach at various scales and under different conditions.

1 For example, see the R4 Rural Resilience Initiative that assists farmers in building their resilience to climate change by integrating risk reduction, credit and savings: http://www.wfp.org/news/news-release/scaling-innovative-climate-change-adaptation-and-insurance-solutions-senegalc

2 Haiti received a payment of US $7.75 M from CCRIF 14 days after an extreme event in January 2010: See:http://www.ccrif.org/news/haitian-government-receives-us775m-ccrif-payout

3 See for example the Africa Risk Capacity and the Caribbean Catastrophic Risk Financing initiative at: http://www.ccrif.org/content/about-us and http://www.africanriskcapacity.org/ respectively.

WHAT SEQUENCE OF KEY ACTIVITIES AND MEASURES ARE NEEDED FOR DESIGNING A COMPREHENSIVE CLIMATE RISK MANAGEMENT APPROACH?

A comprehensive climate risk management approach combines ex ante risk assessment to gather information with a subsequent decision on how to manage and finance these risks. Sequencing of key activities starts with risk and needs assessment, followed by strategy design, making improvements to the enabling environment and finally implementation and ongoing monitoring and adjustment as needed to fit changing conditions:

PHASE 1: RISK AND NEEDS ASSESSMENT →

- → Risk analysis to identify, assess and map risks based on historical data, analyse future hazard trends, risk modelling, vulnerability assessment, and information on costs and benefits of different risk management options.
- → A needs assessment is the basis for setting up a comprehensive climate risk management approach to cater to the real needs of vulnerable communities.
- → Stakeholder mapping and expert consultations ensure that relevant actors are involved at the early design stages and at the appropriate stages of implementation

PHASE 2: STRATEGY DESIGN →

- → Risk layering approach to separate risks into different segments according to their potential frequency and severity to determine how the different risk segments can be responded to:

  1. Select appropriate risk reduction measures (e.g., early warning, better building codes, improving agricultural practices, etc.) for high frequency and low severity risk.

  2. Combine risk transfer instruments such as insurance and risk reduction for low frequency and medium severity risk.

  3. Select other forms of risk management mechanisms (e.g., fund for irrigation systems, relocation of population, funds for flood protection, investments in alternative irrigation techniques, etc.) for very low frequency and high severity risk.

- → Engage relevant actors in the feedback process on design of the risk management measures (e.g., link insurers, distribution channels and regulators) to make sure responsibilities are clearly set out.

PHASE 3: IMPLEMENTATION

- → Ensure steps 1–3 are met and implemented at the appropriate levels.
- → Continue to foster country ownership and capacity building of country and local actors.
- → Monitor and evaluate respective projects to generate feedback and ensure that the target group and given objectives have been reached.
- → Provide lessons learned and good practice at the country level.
- → Public communication/media to raise awareness amongst the vulnerable target groups, enhance consumer protection and public outreach.

ENABLING ENVIRONMENT

- → Get political buy-in from government & relevant decision makers (i.e. Minister of Finance, etc.).
- → Obtain and enhance appropriate data and hazard mapping to better monitor the impact of the proposed measures.
- → Establish trustworthy and efficient distribution channels through education and outreach.
- → Provide support services (e.g., technology, loss assessment, actuaries, training institutions) and mobilize resources (investments/donor support) for implementation.
- → Explore appropriate back-up mechanisms (e.g., reinsurance, donor support).
- → Provide risk management education.
- → Approval of policies on measures to be implemented under national finance / insurance regulations (e.g., microinsurance regulations).
- → Foster country ownership and capacity building of country and local actors.

WHAT ACTORS ARE INVOLVED IN PROVIDING CLIMATE RISK MANAGEMENT SOLUTIONS?

A range of actors contribute to the various stages of the development of a comprehensive climate risk management approach including:

BODY TO GUIDE DEVELOPMENT & IMPLEMENTATION:

Steers and coordinates key activities for the respective country (e.g.appropriate ministries, representatives of public & private sector) supported by technical groups in the Phases below.*

PHASE 1: RISK AND NEEDS ASSESSMENT

Risk assessment and analysis could be performed under the National Meteorological Service and Disaster Mitigation Facility along with research Institutions, donor or financial providers and insurance representatives.

Needs assessment could include the Central Statistics Office, NGO's working with target groups, social aggregators, public and private sector specific experts (e.g., agriculture extension services, financial service providers), relevant Ministries (e.g., Development, Agriculture, etc.).

Data services offered by research institutes, Met Offices, insurance companies, regional climate services, WMO, NASA, etc.

PHASE 2: STRATEGY DESIGN

Risk reduction can include the Disaster Mitigation Facility (e.g., emergency response agency) and Central Statistics Office along with research institutes, building industry, public works (building codes, infrastructure department, etc.), Ministry of Education (e.g., early warning strategy, risk awareness campaign,etc.).

Risk transfer can include the Ministry of Finance, financial service Institutions (banks, credit unions, investment groups, cooperatives), insurance and reinsurance associations, and insurance companies

Other risk management measures can include research and academic groups, disaster risk management offices, the Ministry of Development and Planning, civil society organizations, (e.g., Red Cross), mobile phone providers, technical response units, etc.

International support may include multi-lateral donors (World Bank, development banks, etc), and development cooperation (GIZ, USAID, DFID, etc), international policy frameworks (UNFCCC, Hyogo, UNCCD,etc).

PHASE 3: IMPLEMENTATION

Risk analysis, risk reduction, risk transfer and other risk management measures: Implemented by the respective actors set-out in Phase 1 and 2.

Monitoring and evaluation can be coordinated by a collaboration between researchers and practitioners. Continuous reporting back loop to the Steering Body is essential

Media for public outreach and communication

Long term planning may be conducted by Ministry of Development, Members of Parliament, and Ministry of Environment.

ENABLING ENVIRONMENT

- Public champions (e.g., relevant ministries and public climate and disaster risk management initiatives).
- Public-private partnership approaches involving insurance companies and governments.
- International development partners (i.e., bilateral and multilateral donors and Non Governmental Organizations) development cooperation, and international policy frameworks.
- Research and academic institutes.

*For a regional approach an intergovernmental negotiations group can be set-up to discuss issues affecting all respective countries in the risk pool (e.g., cross-boundary issue such as water).

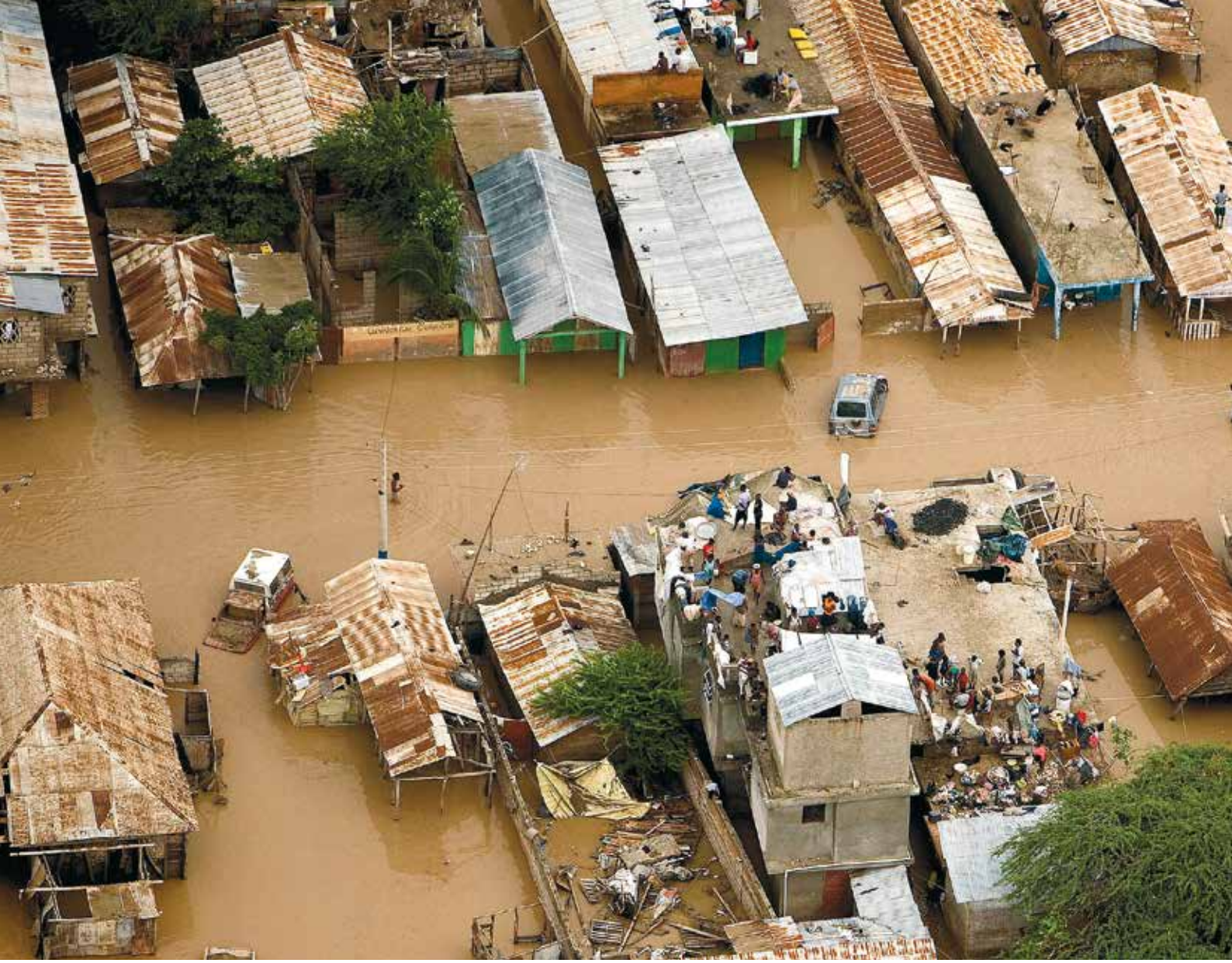
WHAT ARE THE ISSUES FOR IMPLEMENTATION AND HOW TO NAVIGATE THROUGH THESE CHALLENGES?

There are some limitations that countries might need to address when implementing a comprehensive climate risk management approach – the following table presents some of the possible solutions:

LIMITATIONS	OPPORTUNITIES
High turn-over rate among government officials.	Identify champions on a technical level to ensure government officials have expertise in risk management, finance and possibly actuarial expertise. Along with this, more focus on knowledge management is needed.
Governments want to invest into something more visible and short-term (e.g., short-term responses such as disaster relief in case of immediate disasters) as opposed to long-term strategies (e.g., investing in infrastructure such as coastal defenses).	Find solutions on how to stay relevant and combine risk transfer solutions with other programmes (e.g., early warning system, contingency planning, etc.).
Different time horizons in the work of the public and private sector. Inhomogeneous, inadequate, or inappropriate data. Scaling-up of small pilot projects over large areas.	Need role models in both the public and private sector and positive examples of comprehensive climate risk management approaches. Include private sector representative in the Body to Guide Development and Implementation. Set incentives in form of appropriate policies for the private sector Open-source initiatives for catastrophe risk models along with standardized hazard maps to reduce the costs of risk analysis, satellite data and simulation models, commitment and defined standards for the public and private sector to follow to improve the data quality and geographical resolution. Sustainable public engagement with relevant stakeholders like private sector and civil society for pro-active management of climate risks, projects should be flexible and generic to fit the local context,[4] and climate risk management should be part of wider development goals such as food security or initiatives that aim at building resilience.[5]

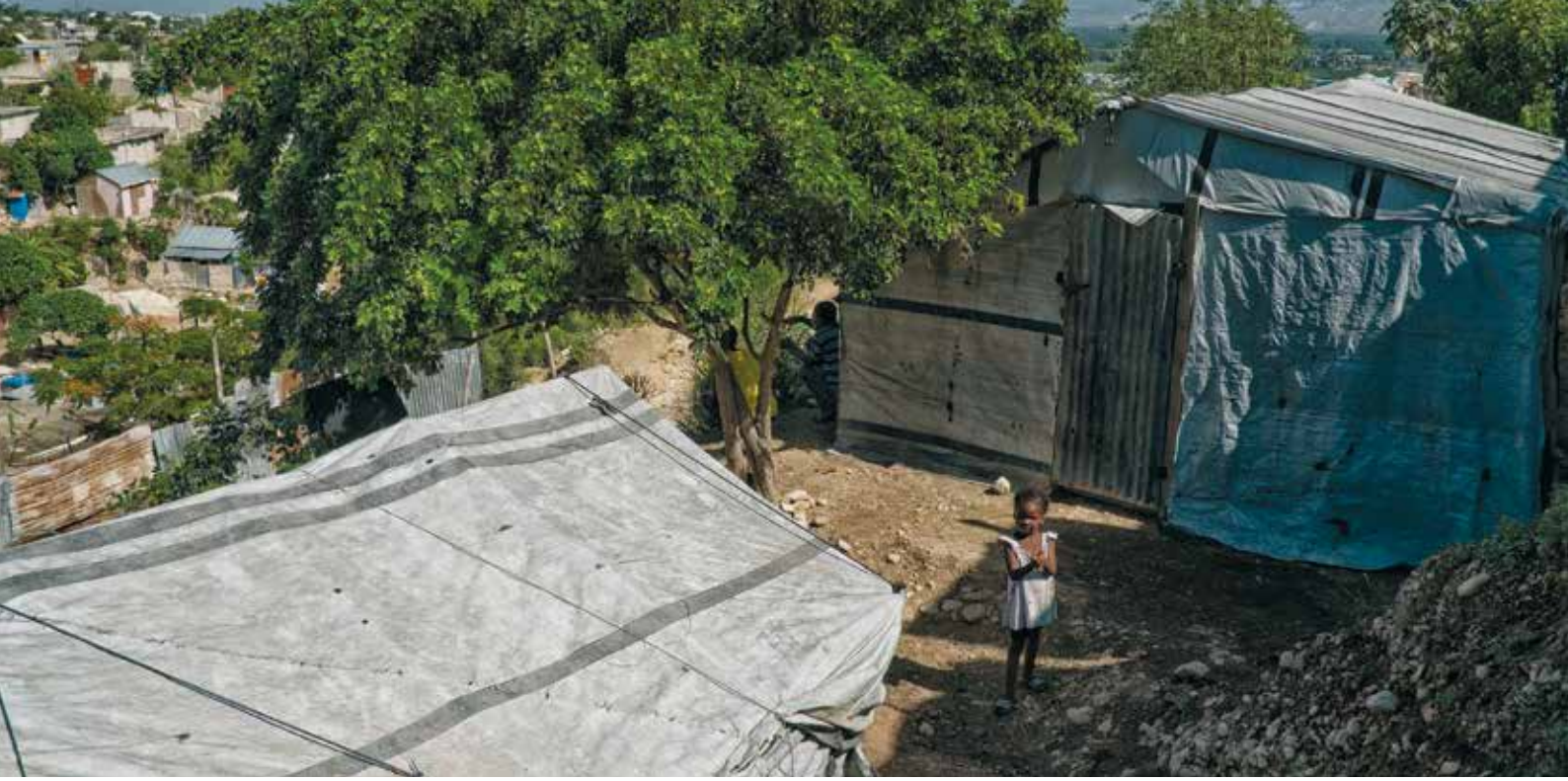
4 See the handbook on climate risk insurance in the Caribbean: http://www.climate-insurance.org/upload/pdf/20131219_MCII_Carib_Handbook_web.pdf

5 For example, under the R4 Rural Resilience Initiative, existing social protection and safety nets offer critical platforms and vehicles for scaling-up risk management.



WHAT PRECONDITIONS ARE NEEDED FOR A COMPREHENSIVE CLIMATE RISK MANAGEMENT APPROACH THAT INCLUDES INSURANCE?

- Risk assessment to understand the exposure and vulnerability profile along with the current coping mechanisms of the target group.
- Selected measures need to be appropriately regulated (e.g., microinsurance regulation) and supervised and adjusted by the relevant actors if necessary.
- Public champions and complimentary roles of key actors including sustained public engagement with relevant stakeholders and public-private partnership approaches.
- Availability of data (e.g., weather data, socioeconomic data, open source historical data, future climate modeling, etc.) and hazard mapping to better monitor the impact of the proposed measures.
- Establishment of trustworthy distribution channels through education and outreach to cost-effectively reach the target population.
- Support services for implementation (e.g., technology, loss assessment, actuaries, training institutions).
- Appropriate back-up mechanisms including reinsurance and donor support.
- Risk management education (e.g., building the capacity of agricultural extension officers on risk transfer, helping local financial institutions understand climate risks to their portfolios, etc.).



WHAT CAN THE INTERNATIONAL COMMUNITY DO TO FACILITATE AN INTEGRATED CLIMATE RISK MANAGEMENT APPROACH?

- Encourage governments and communities to actively engage in risk reduction and resilience building measures as the priority for managing climate risks.
- Capacity building and fostering a better understanding that risk management works best when different risk management tools are combined and integrated and mutually supportive. These tools must be layered at various geographical levels, from local and national to regional and international for more cost-effective results.
- Facilitate regional and international dialogue to advance policy coherence and regulation on comprehensive climate risk management approaches at the local and national level to ensure long-term commitment from relative actors.
- Coordinate with bodies on technical matters related to assessment of risk such as Met Services, Climate Services Partnership, etc.
- Involve the expert community in committees and bodies that provide guidance on technical measures and design elements of risk transfer tools to incentivize risk reduction.
- Financial support to advance risk reduction, including climate insurance approaches through existing or new international programmes and channels.

ABOUT THE PROJECT:

The Munich Climate Insurance Initiative (MCII) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) collaborate on a project on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMUB) through its International Climate Initiative. The project's aim is to develop a strategic framework for low income countries and emerging economies in finding ways to implement climate risk insurance solutions in an integrated climate risk management approach.[6]

6 For more information see: http://www.climate-insurance.org/front_content.php?idart=3655

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