**Global partnership tackling climate risks, insurance, and poverty**

**Climate resilient pathways**

Science confirms that climate change is increasing 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 equally distributed across the world. Multi-hazard exposure, vulnerability, and coping capacities differ. While the poorest people in the developing world are disproportionately affected by climate extremes, they have contributed least to drivers of climate change. Because the risks often fall more heavily on poorer people’s inability to reduce or escape from them, leaders of G7 countries and others have recognized the existence of risks like climate change that pose a threat to all, which enable avoiding, reducing, and, thereby, shifting 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, and traditional and local and international private insurance industries to help improve the resilience of poor people to climate extremes. In this way, the G7 countries demonstrate their commitment to sustainable development and improving the ability of vulnerable countries to manage climate risks. The graph below shows how insurance-related tools safeguard against shocks that slow the ascent to RISE FROM POVERTY.

**Why is the InsuResilience Initiative important?**

Climate risk insurance can help alleviate human suffering while decreasing the risks people’s risk of slipping into poverty or remaining poor. Additionally, insurance can lower the cost and optimize the timing of investing 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 explicitly 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 events (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 subsidies 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.

**400 million**

Insurance services are increasing. 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 400 million. The figure below illustrates the gap today: few poor people in the global south have adequate access to insurance.

**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 vulnerable people in identifying and quantifying insurance needs for the needs of vulnerable people. This document shares insights gathered by MCII expert interviews with thought leaders and innovators from primary and reinsurance companies, pioneers using risk transfer and innovative solutions, 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.
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 face high uncertainty about wealth and assets. Climate shocks can make the poor more vulnerable to crises by eroding assets, reducing income, and increasing financial needs. Adaptation and recovery are more difficult for households lacking financial assets. Better financial resilience strengthens the likelihood of recovery.

A participatory approach

Successful insurance programs are based on the effective involvement of all relevant parties, providing the basis for a meaningful long-term partnership. Including stakeholders in dialogues is a step in this direction. It is critical to include the target group, which is often distinguished by a lack of understanding of climate risk insurance. Relying on the expertise of the target group existing is paramount for effective use of insurance as a risk management tool. Civil society can help the target group, build capacity through training, build trust with financial intermediaries, and invest in education, government, and implementation. The risk management aspects of the private sector must be создан to assess risks, manage climate risks, and influence policy decisions.

Capacity building

Raising poor and vulnerable people with climate risk insurance requires significant capacity building efforts, including the two below. MCII expert interviews highlighted dozens of examples, indicating the need for further research.

Sustainability and viability

To effectively get climate-ready partners, financial institutions need to be sustainable and viable. By definition, large-scale-insurance is typically not profitable over the long term. Small-scale programs need to be sustained to meet the long-term needs of the poor.

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

Experts named 5 enabling conditions for effective climate risk management. These conditions work together to foster market readiness.

Success factors:

- Implementing climate risk insurance to reach the target group, and create poverty-insured demand that meets their needs.
- Enabling conditions for comprehensive, sustainable climate risk insurance for the poor.
- A participatory approach.
- Capacity building.
- Sustainability and viability.

Local delivery and owned schemes

This is about choosing a delivery model that is appropriate and offers a robust and effective delivery mechanism. There are a variety of delivery models to choose from, each with its own advantages and disadvantages. Some models may be better suited to specific target groups or geographic areas than others. It is important to consider the specific needs and characteristics of the target group when selecting a delivery model.

Foster financial inclusion

People need access to both link savings, barter, remittances, and insurance that help them share household management and debt service costs. This will create opportunities that are linked to risk and reward. Insurance can be an effective tool for improving household management and reducing financial risk. It can also help improve household financial stability and reduce poverty.

Incentive climate adaptation and disaster risk reduction

Prevention and insurance should be closely linked with an ex ante climate risk management strategy that prioritizes adaptation and disaster risk reduction. It is important to ensure that the benefits of climate risk insurance are clearly communicated to the target group, and that they understand the role of insurance in managing risk and reducing vulnerabilities.

Regulatory frameworks and risk management policies

An insurance supervisor maintains trust and ensures consumer protection by overseeing all insurance activities. Regulatory frameworks will ensure regulatory supervision and guidance are in place and that proper management and supervision are being implemented. Governments can strengthen provision of relevant data including climate, market, agro-ecological, and market thermal assessment.

Provide sustainable, credible delivery channels

To reach the target group, experts indicated using agriculture-based rural banks, microfinance institutions, public sector organizations, and community-based organizations. Insurance can be delivered through community-based organizations, which can be comparable to insurance retailers, but with a focus on capitalization and risk management.

Lessons learned 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.