



MCII and GIZ Working Report on

**“INNOVATIVE INSURANCE SOLUTIONS FOR CLIMATE CHANGE:
HOW TO INTEGRATE CLIMATE RISK INSURANCE INTO A
COMPREHENSIVE CLIMATE RISK MANAGEMENT APPROACH”**

FACT SHEET

**WHY IS IT IMPORTANT TO THINK ABOUT INNOVATIVE SOLUTIONS
TO MANAGING CLIMATE RISKS NOW?**

The IPCC Special Report on Managing the Risks of Extreme Events and Disasters noted that climate change along with socio-economic development leads to a worldwide increase in the frequency and severity of extreme weather events and natural catastrophes. Developing countries and their communities are struggling with the recovery process, and their ability to absorb the losses from these events. In order to manage the impact of catastrophes on the affected population, governments usually provide post-disaster aid programmes, but they are often not timely or financially efficient. This puts additional stress on national budgets and introduces an element of uncertainty on the affected populations.

Risk management and insurance have been increasingly highlighted as a means to pro-actively manage climate change-related risks. There has also been repeated interest from Parties to the UNFCCC to generate more knowledge, practical examples and capacity support for climate risk management and insurance. In response, MCII and GIZ published a working report in November 2013 on integrated climate risk management including climate risk insurance. The report demonstrates that the inclusion of insurance solutions within national climate change risk sharing and management strategies can support efforts to adjust to and manage the consequences of climate change and build climate risk resilience – if it is designed and implemented as part of an integrated climate risk management strategy involving a balanced mix of approaches.

WHAT DOES THE REPORT CONTRIBUTE?

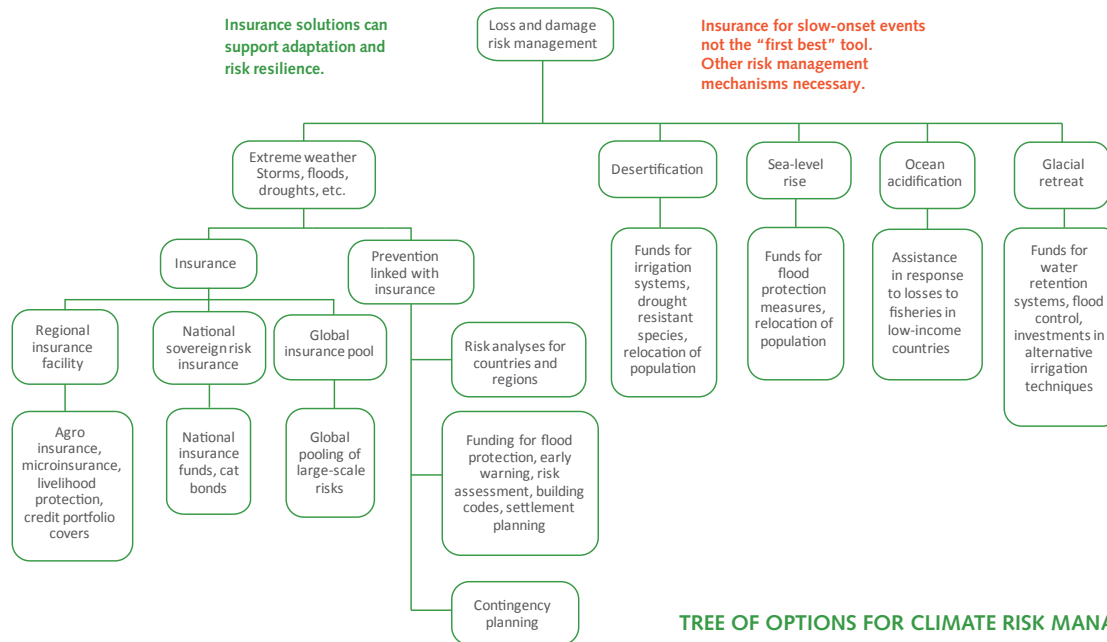
The working report aims to support decision makers as they explore methods for implementing climate risk insurance solutions in both policy and practice as part of an integrated climate risk management approach, by:

- Gathering lessons learned from existing climate risk-related insurance approaches, considering limitations, challenges and current good practices.
- Offering examples of comprehensive climate risk insurance approaches linking climate risk information, prevention, risk reduction and risk transfer in assisting low-income groups and emerging economies to manage climate risks.
- Providing policy relevance to the UNFCCC discussions on adaptation and loss and damage and other important international policy windows (e.g., Post-2015 Framework for Disaster Risk reduction, post-2015 Development Agenda, UNFCCC climate deals, etc.).

WHAT ARE THE KEY FINDINGS OF THE REPORT?

The integrated climate risk management approach is comprised of three elements: information and data collection, risk prevention/reduction and risk transfer. It first combines an *ex ante* risk assessment to gather information for properly assessing the underlying risk, informing the decision-making process on the most appropriate risk management strategy and increasing risk awareness. Risk prevention/reduction are *ex ante* risk management strategies which include measures such as early warning systems, better building codes and enforcement, and improving agricultural practices or investments in infrastructure. The risk transfer instruments, such as insurance, transfer the financial losses associated with risks that cannot be prevented or reduced. A combination of these management tools can lead to a reduction in costs and an increase in the benefits of using limited private and public funds.

The working report also highlights that risk retention and transfer alone would be unlikely to sufficiently address the dire effects of climate change. The Figure below illustrates how insurance is not generally feasible for slow-onset events and therefore other risk management mechanisms are necessary.



TREE OF OPTIONS FOR CLIMATE RISK MANAGEMENT

Source: Derived from MCII Policy Brief: Warner et al., 2012.

WHAT FACTORS ARE NEEDED TO CREATE AN ENABLING ENVIRONMENT FOR ADDRESSING CLIMATE RISKS?

After pointing out commonly observed challenges with the implementation of insurance approaches as well as highlighting the benefits of applying insurance solutions in a climate risk management context, the working report shows that insurance can play a meaningful role in managing climate-related risk if certain preconditions are satisfied:

- Appropriate regulatory environment and oversight.
- Public champions and complimentary role of key actors.
- Availability of data and hazard mapping.
- Establishment of cost-effective distribution channels.
- Appropriate back-up mechanisms, including reinsurance.
- Risk management education.

The working paper also offers current examples and more detailed analysis of each of these preconditions.

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

There are opportunities and possible strategies for the international community that support the design and implementation of country-driven comprehensive climate risk management strategies and approaches that comprise risk transfer and risk-sharing mechanisms, including:

- Foster a better understanding of combinations of tools and approaches.
- Facilitate a regional and international dialogue to advance policy coherence on integrated climate risk management.
- Replicate good practices across and between countries.
- Provide guidance on how to overcome operational challenges in setting up weather-based insurance in developing countries.
- Financial support through existing programmes guided by Art.3 of the UNFCCC Framework Convention (e.g., Green Climate Fund, Adaptation Fund and other finance channels).

ABOUT THE PROJECT

The Munich Climate Insurance Initiative (MCII) and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) are collaborating on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) through its International Climate Initiative (ICI) on a project to better assist policy makers and climate negotiators in finding ways to implement climate risk insurance solutions in an integrated climate risk management approach. For more information see: <http://www.climateinsurance.org> and <http://www.giz.de/en/>.

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