

# UNFCCC Expert Meeting on Adaptation for Small Island Developing States

## Insurance-Related Mechanisms for SIDS



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# Introduction

- **What kind of insurance are we talking about?**
- **Two broad concepts in play – both valid**
- **Standard insurance** (risk management, risk transfer, risk pooling - insurance, reinsurance, private/public property, life, hazard, wind, flood) – here challenge is insurability, accessibility, affordability
- **Mechanism/fund** to assist particularly vulnerable small island states address the direct impacts of climate change – e.g., sea level rise (old AOSIS proposal)

# 1. Standard Insurance

Unique challenges of SIDS:

- Small populations, small physical size and relative isolation, high risk of extreme weather events, limited economic assets in many countries, housing stock often “uninsurable”
- Lack of private sector interest in insurance in Pacific
- Unavailable or unaffordable insurance impacts sustainable development, foreign investment, recovery from extreme events, key sectors of economies
- Majority of government assets are not insured or underinsured (self-insured)

# Differences between regions

- SIDS share common characteristics – small, isolated, low economies of scale, yet
- **Caribbean** has advanced insurance markets
  - But insurance is becoming unavailable, unaffordable as a result of climate-related extreme weather events
  - Reinsurance is expensive and cyclical, and reinsurance prices within the region are affected by situations outside the region.
- **Pacific** has undeveloped insurance markets
  - Insurance sector is far younger than in the Caribbean
  - Some countries have no insurance, or extremely low insurance penetration
  - Little legislation to regulate the provision of insurance
  - Governments bear risks of extreme weather events as a result

# Examples of impacts on Pacific island economies

- Cyclone Ofa, Samoa, 1990, US\$120 million,
  - 25% of Samoa's GDP
- Cyclone Val, Samoa, 1991 – US\$200 million
  - 45% of Samoa's GDP
- Cyclone Kina, 1993, Fiji redeployed F\$40 million from capital budget to address impacts
  - 32% of govt's capital budget
  - Insured loss 50 million, 40 million insured by int'l market – then in 1994, reinsurance rates went up 300% due to increased incidence of int'l disasters
- Cyclone Heta, 2004, Niue, \$23 million for small country (no insurance)
- Cyclones in Cooks, floods in Fiji...

- Many potential losses from extreme weather events are beyond the capacity of individuals, companies and even government
- National GDPs can be devastated by single event or sequence of events
- Insurance can smooth these impacts, but unaffordable in a context of increasingly frequent and severe weather events
- Some element of ***international subsidization or international collective loss sharing*** likely to be needed to address these issues consistent with Articles 4.8 and 4.4

## 2. AOSIS International Insurance Pool Proposal (1991)

- Collective loss sharing scheme (based on int'l conventions that address transboundary harm)
- Fund to compensate victims of sea-level rise
- Mandatory contributions from industrialized countries based on GNP and relative GHG emissions
- Compensation where selecting the least-climate sensitive development option involves incurring additional expense, and where insurance not available for damage from climate change

- Administering authority would handle claims, and also consider where damage might have been reasonably avoided
  - Insured values, negotiated with an Authority
  - Address claims for retreat and accommodation measures (protection/adaptation was saved for the UNFCCC's Financial Mechanism)
- Trigger for claims:
  - rate and absolute level of global mean SLR reaches agreed figures;
  - relative mean SLR of insured area in vulnerable country reaches agreed level

- Basic concept of AOSIS proposal still valid (polluter pays, collective loss sharing) though aspects of original design may be problematic (e.g, valuing assets and addressing claims)
- A way to look at this today could be
  - ***a fund created through a levy on actual GHG emissions*** (AAUs as a proxy? Levy on private actors?)
  - to address the costs of ***protecting against/adapting to*** a fixed amount of sea level rise/storm surge (e.g., 1 meter).

- In Caribbean workshop, cost to protect Jamaica from 1 metre SLR was estimated at US\$500 million
- CDM Share of Proceeds - € 325 million by 2012 for **all** countries
- Clear need to generate greater funds
- Link between GHGs and impacts now even more clear after the Fourth Assessment Report, link to sea level rise is undeniable

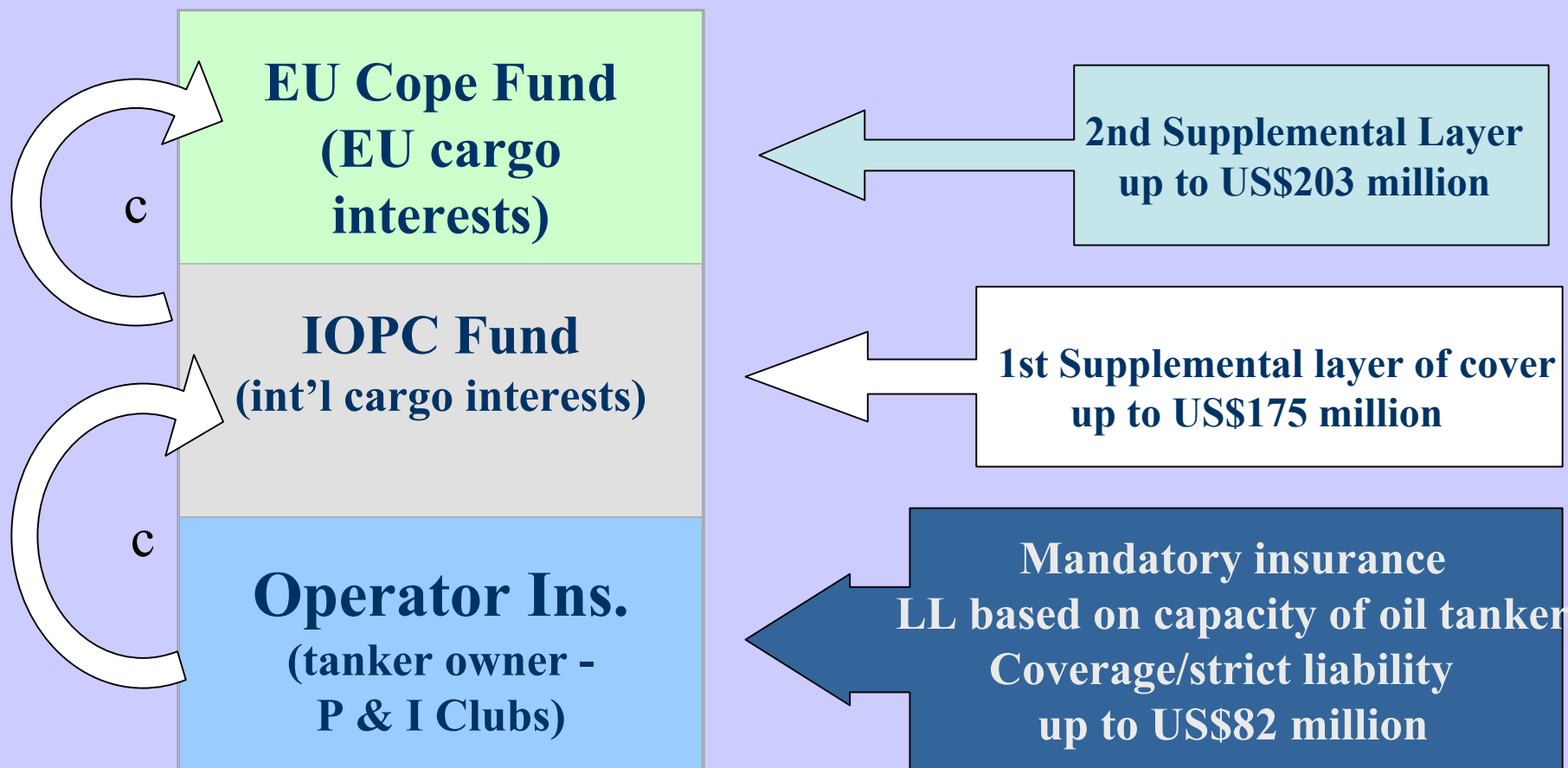
- Concept of 'insurance' has been embedded in Convention since 1992, but no action yet taken
- Slow onset problems not insurable in ordinary sense (sea level rise); impacts of rapid onset events not commercially insurable either for many SIDS (cyclones, hurricanes).
- Subsidization / collective loss sharing will be needed from international community to address these challenges.
- Insurance-related mechanisms, with support from international community, can spread and transfer the risk and provide incentives for risk reduction

# Lessons learned/best practices

- Under international law, ***States have the responsibility to ensure that activities within their jurisdiction or control do not cause damage*** to the environment of other States or to areas beyond the limits of their national jurisdiction.
- ***States also have a responsibility to redress damage*** if transboundary harm occurs (*Principle 21 Stockholm Declaration, Principle 2 Rio Declaration*)
- ***Many international law precedents exist for addressing transboundary impacts*** – offer lessons for designing a system to generate funding for adaptation from private sector (oil spill compensation fund, nuclear regime, HNS Convention, WIA Convention)

- ***Causal relationship*** between GHG emissions and climate change-related damage is not presently addressed in climate regime (Adaptation Fund Share of the Proceeds, voluntary funds not linked to emissions, no mitigation incentive created)
- **Principle 13 of the Rio Declaration**  
*"States shall ...cooperate in an expeditious and more determined manner to develop further international law regarding liability and compensation for adverse effects of environmental damage caused by activities within their jurisdiction or control to areas beyond their jurisdiction."*
- ***Many of other international law frameworks are structured like insurance schemes themselves,*** with layers of risk taken up by different actors who contribute to the problem – takes burden off govt's

# Oil Spill Regime: CLC and IOPC Conventions



# Roles of national actors

- Identify areas of risk (private/public sector partnerships between insurance sector and govts)
- Facilitate cost-effective distribution of risk (public sector (gov't) v. private sector)
- Provide incentives and means for risk reduction
- Develop safety nets for those less able to manage risk (e.g., insurance schemes for low income housing, highly exposed sectors)
- Develop appropriate regulatory frameworks
  - Insurance industry regulation
  - Building codes, zoning laws, land use planning

# Role of regional and international actors

- Provide financial support for the implementation of cost-effective solutions that require regional cooperation (across SIDS, across SIDS regions)
- Bring down the cost of reinsurance through regional risk pooling, regulatory approaches that can result in lower costs to insurance industry and to consumers
- Provide technical expertise in financial risk management for SIDS governments, access to capital markets, innovative risk transfer mechanisms
- Provide financial support to national or regional initiatives that require substantial start-up capital or financial backstopping (e.g., a layer of reinsurance cover, World Bank's contingent capital facilities)

# Role of UNFCCC process

## ■ **Generate greater adaptation funding**

- through appropriate burden sharing from Annex I Parties (e.g, levy against AAUs as proxy for GHG emissions, levy across all mechanisms, increased CDM levy)
- tapping private sector sources
- A portion of funds can be used to address insurance challenge, need for collective loss sharing

## ■ **Establish an insurance facility tailored to unique circumstances of SIDS**

- To support Multi-State risk pooling mechanisms (w/i and across SIDS regions);
- National/Regional Disaster/Catastrophe Funds, with financial backstopping from international community (e.g. contingent capital from the World Bank);
- Other insurance tools (e.g., micro-insurance, weather index insurance (windspeed, rainfall triggers))

- **Establish a forum/working group on insurance for all SIDS** – bring together experts on insurance, reinsurance, hazard assessment, financial risk management, disaster risk management, financial markets, government representatives to consider unique challenge of SIDS, and identify amount of funding needed to support a SIDS insurance facility
- **Consider other international legal frameworks and Convention processes that contain elements of solidarity, collective loss sharing, and risk transfer**, that might be adapted to serve as useful models for further work under the UNFCCC in accessing resources from the private sector to support insurance mechanisms and adaptation.

- **Financial and technical support to close gaps in national disaster databases** – information gathering and systems to track economic costs, social costs, persons affected by extreme weather events
- **Fund comprehensive hazard mapping of coastal areas** for SIDS

Kalahngan!  
(Meitaki maata!)