

Submission by Sarah Conway (SCF member, United States) to the Standing Committee on Finance on their Fourth Forum

Scope and purpose of the Forum

The Standing Committee's 2016 Forum presents an opportunity to highlight, share lessons learned, and discuss current and potential financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change. The Standing Committee decided to focus its 2016 forum on this topic following a request by the Executive Committee of the Warsaw International Mechanism for Loss and Damage (Excom). The Excom's invitation was in the context of advancing action area 7 of its 2015-2016 work plan, which focuses on:

Encourag[ing] comprehensive risk management by the diffusion of information related to financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change to facilitate finance in loss and damage situations in accordance with the policies of each developing country and region, taking into account the necessary national efforts to establish enabling environments. These financial instruments and tools may include: comprehensive risk management capacity with risk pooling and transfer; catastrophe risk insurance; contingency finance; climate-themed bonds and their certification; catastrophe bonds; and financing approaches to making development climate resilient, among other innovative financial instruments and tools.

To help advance the Excom's work in this regard, the forum should convene a range of stakeholders (e.g., government, international financial institutions, private sector, civil society) to enable a candid discussion on the role of financial instruments and tools that address the risks of loss and damage as part of comprehensive risk management.

Potential themes and topics

In order to provide essential framing for the Forum's sessions, there should be an opening presentation on what *risk* is and what it means to *address* the risks of loss and damage by unpacking each of these concepts. In discussing *risk*, the forum could draw on the IPCC's work in this area, which defines risk as the confluence of hazard, vulnerability, and exposure.¹ This opening presentation should then lay out the different categories of actions for *addressing* risk, including risk avoidance, risk reduction, risk internalization, and risk transfer. This would help set the stage for subsequent discussions that would examine the role of different financial instruments and tools in advancing each of these components of addressing risk. These sessions should also help participants understand which tools and instruments have the greatest potential across different developing country-contexts, sectors, and activities. For instance, they could discuss: What risks are insurable?; What risks are cost-effectively addressed through insurance, and which are best addressed through risk reduction measures?; and How can incentives for risk reduction be embedded in financial products like insurance and credit? Finally, the forum should also discuss the necessary enabling environments for effectively using financial instruments and tools to address the risk of loss and damage, incentivize comprehensive risk management and drive action to promote climate resilience and sustainable development.

¹ IPCC, Working Group II, Summary for Policymakers "Assessing and Managing the Risks of Climate Change," pg 3.

Potential instruments and tools to discuss could include:

- Data, science and knowledge sharing tools that help actors identify and assess risk;
- Instruments for enhancing institutional capacity (*e.g.* technical assistance, development policy loans) to facilitate policy or regulatory reform (*e.g.*, land-use policies, enabling environments, integration of climate risk into development planning);
- Bonds, including catastrophe bonds, resilience bonds, and infrastructure bonds;
- Insurance and risk transfer facilities, including the importance of designing these instruments to avoid moral hazard and promote action to reduce risks ex-ante, and other forms of contingency finance;
- Derivative markets for transferring risk (*e.g.*, commodity futures exchanges);
- Micro-insurance; and
- Disaster loans.

Potential institutions and events to partner with in the organization of the Forum

Recognizing the range of existing experiences in addressing the risks of loss and damage, the Forum should include experts with real-world experience in designing, deploying, and optimizing effective financial instruments and tools for addressing the risks of loss and damage in developing countries. The following represents a non-exhaustive list of potential organizations to invite to participate:

- Financial institutions
 - International financial institutions (*e.g.*, MDBs, DFIs)
 - Insurance companies
 - Investment and private banks
- Risk pooling facilities
 - African Risk Capacity (ARC)
 - Caribbean Catastrophe Risk Insurance Facility (CCRIF)
 - Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI)
- Multilateral funds and initiatives
 - Green Climate Fund (GCF)
 - Pilot Program for Climate Resilience (PPCR)
 - Least Developed Countries Fund (LDCF)
 - Special Climate Change Fund (SCCF)
 - G7 InsuResilience initiative
 - Global Facility for Disaster Reduction and Recovery (GFDRR)
- National or sub-national government agencies
- Non-governmental organizations and other observers

To enhance partnership, coordination, and participation across relevant actors, the Forum could be held alongside an upcoming international meeting of private insurers, businesses, and/or government experts from both developed and developing countries who are working in this space. For example, the

PPCR's June sub-committee meeting, ICLEI's 7th Global Forum for Urban Resilience and Adaptation, the 6th international Disaster and Risk Conference, or a similar event, could be considered.