

What role can insurance play in the context of long-term adaptation finance?

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UNFCCC Webinar series on Long-term finance
2nd Webinar

MCII



1. What is insurance doing worldwide?
2. Functions of insurance in adaptation finance: As much about shaping behavior as it is about funding
3. Using insurance to address adaptation needs of low income countries and people: innovations in public private partnerships
4. Creating enabling environments for financial tools to serve low-income countries and people

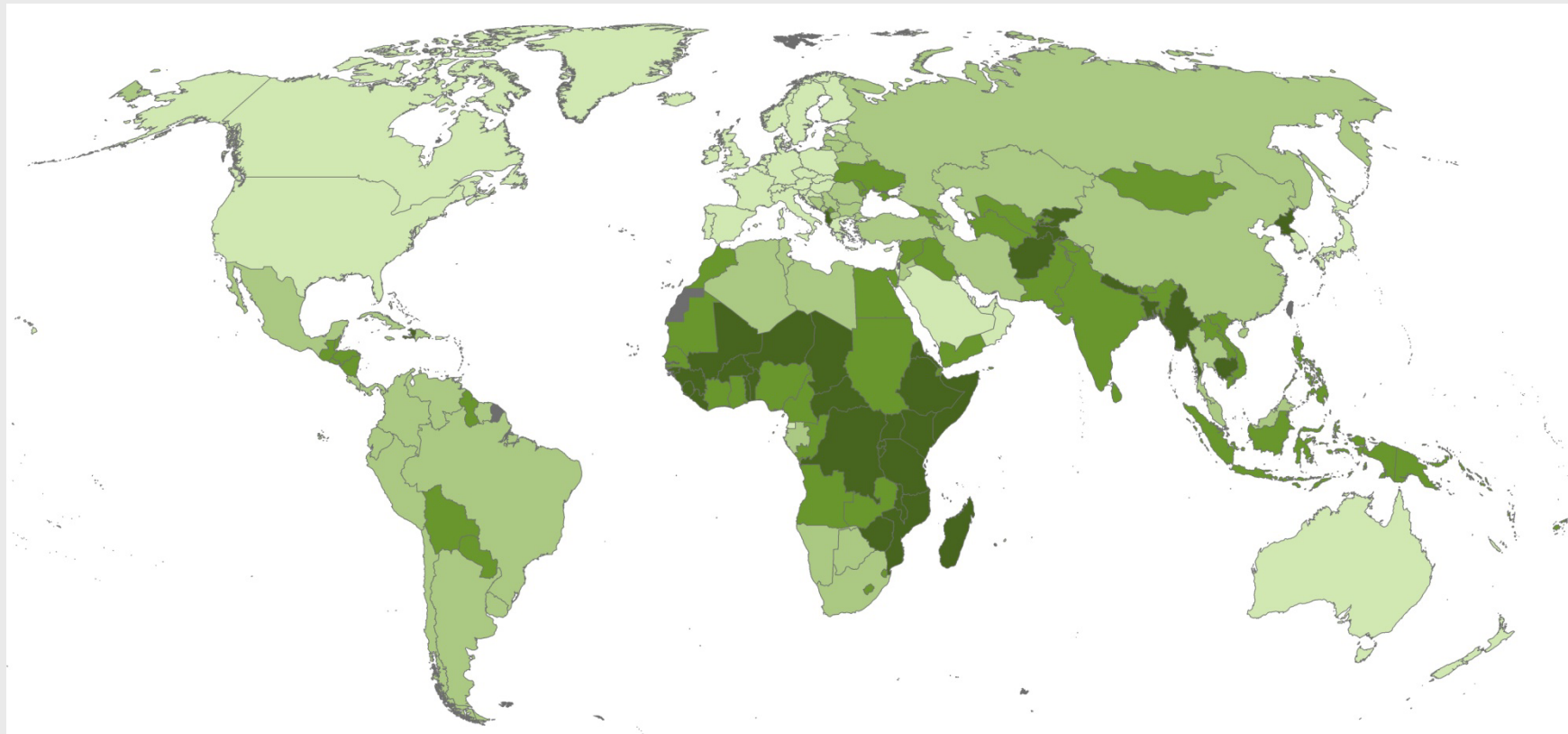
What is insurance doing worldwide?



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- Many think first of the LAST function of insurance—insurance payouts
- But to understand the role of insurance in adaptation finance, one must understand the financial tool in a wider context of adaptation, transition, and resilience building
- Need to understand the functions of insurance in the context of low-income countries and communities

Income Groups defined by World Bank 2012



Source: World Bank Country Classification (<http://data.worldbank.org/about/country-classifications/country-and-lending-groups>)

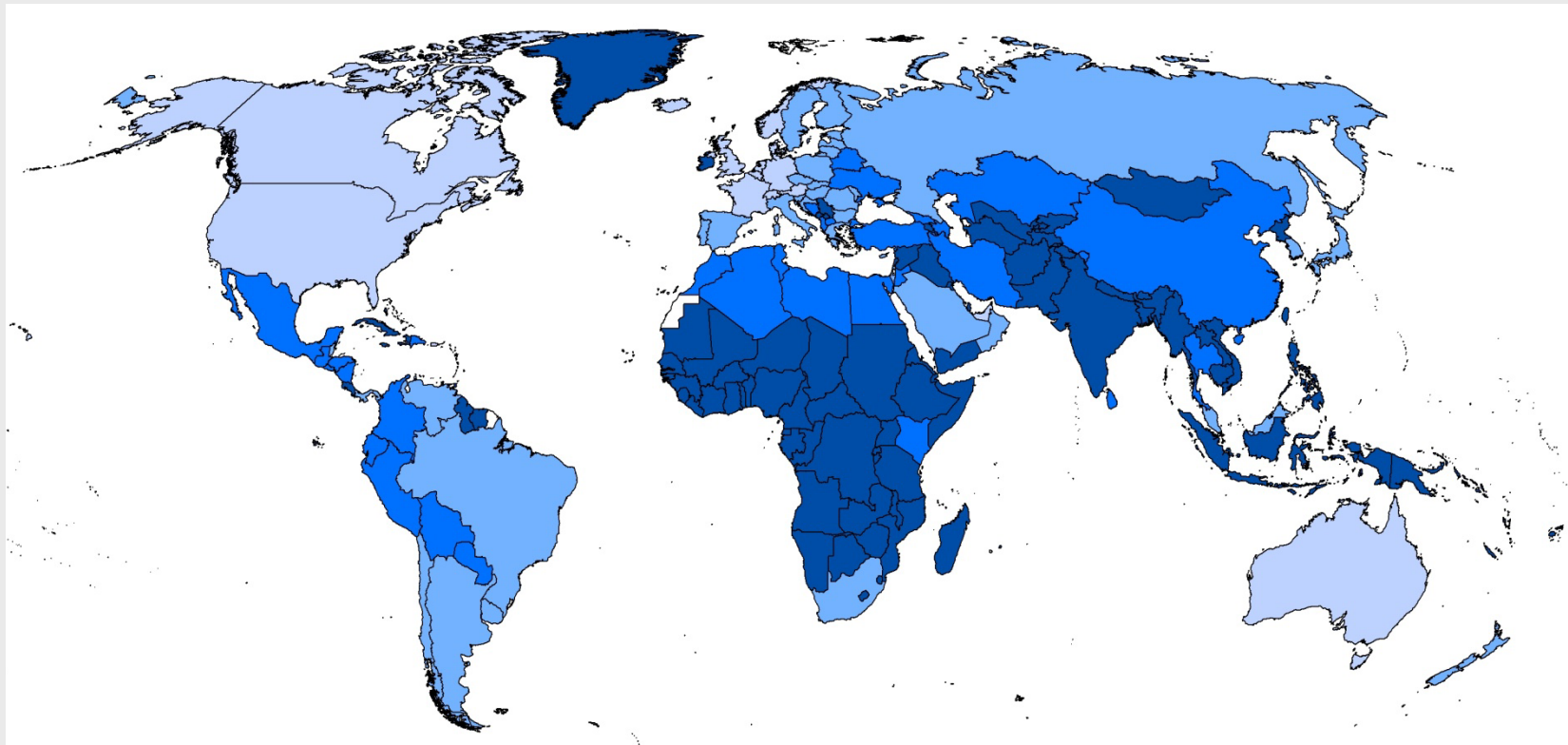
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
Income Groups 2012 (defined by World Bank, Dezember 2011):

■ High income economies	■ Upper middle income economies	■ Lower middle income economies	■ Low income economies
(GNI \geq 12,276 US\$)	(GNI 3,976 – 12,275 US\$)	(GNI 1,006 – 3,975 US\$)	(GNI \leq 1,005 US\$)


The insured and non-insured world


Property insurance premium per capita – Overview





 No data

Insurance Groups:

 **Highly insured countries**
(>1,000 US\$)

 **Well insured countries**
(101 - 1,000 US\$)

 **Basically insured countries**
(11 - 100 US\$)

 **Inadequately insured countries**
(< 10 US\$)

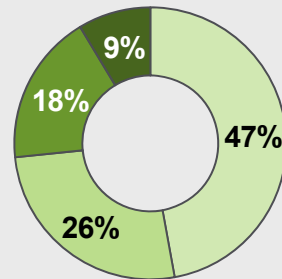
Source: Munich Re, Property insurance premium (non-life including health), per capita in 2008

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Natural catastrophes worldwide 1980 – 2011

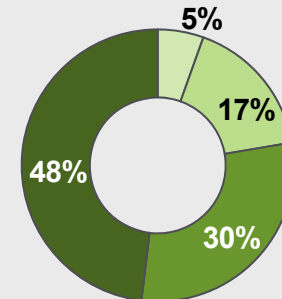
Income Groups defined by World Bank 2012

22,200 Loss events**

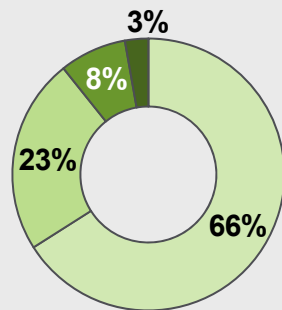


** Events reported at individual country level: i.e. storm could affected three countries and is reported as three events.

2,275,000 Fatalities

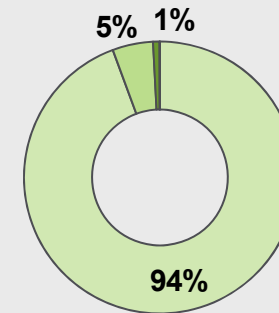


Overall losses* US\$ 3,530bn



*in 2011 values

Insured losses* US\$ 870bn



*in 2011 values †

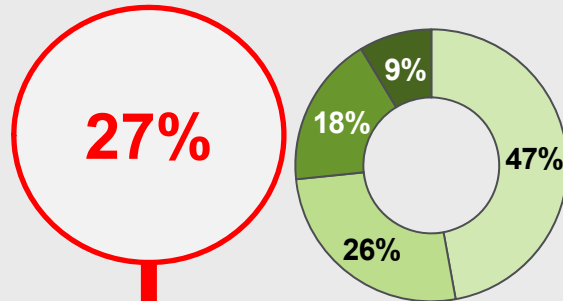
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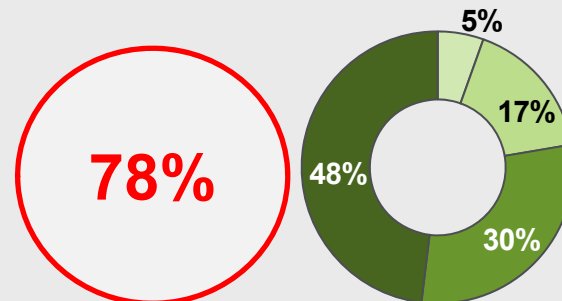
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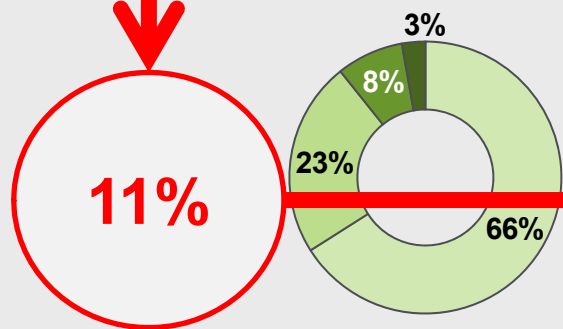


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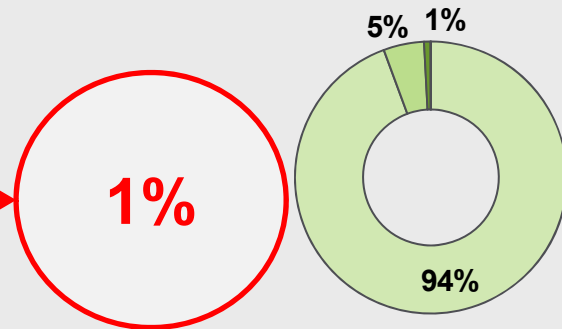


Overall losses* US\$ 3,530bn



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Functions of insurance in adaptation finance



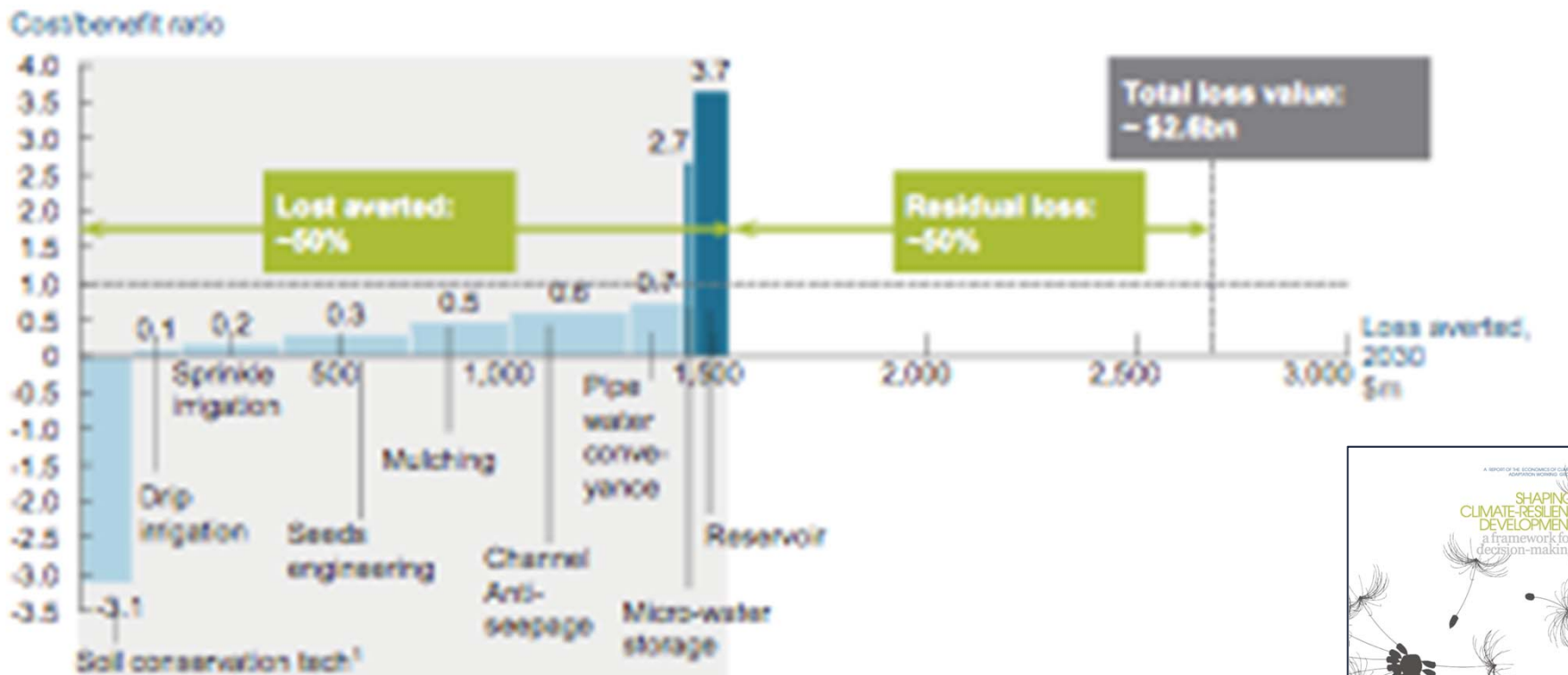
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- Functions of insurance in adaptation finance: As much about shaping behavior as it is about funding
- Assessing and pricing risks helps prioritize investments
- Reduce financial repercussions of volatility and create more certainty in decision making
- Incentivize loss reduction & resilience building activities
- Provide timely finance to recompense loss & damage

Assessing and pricing risks helps prioritize investments

MODERATE CLIMATE CHANGE

Cost Benefit Curve for adaptation measures in northern China



ECA(2009): Shaping Climate Resilient Development – a framework for decision-making

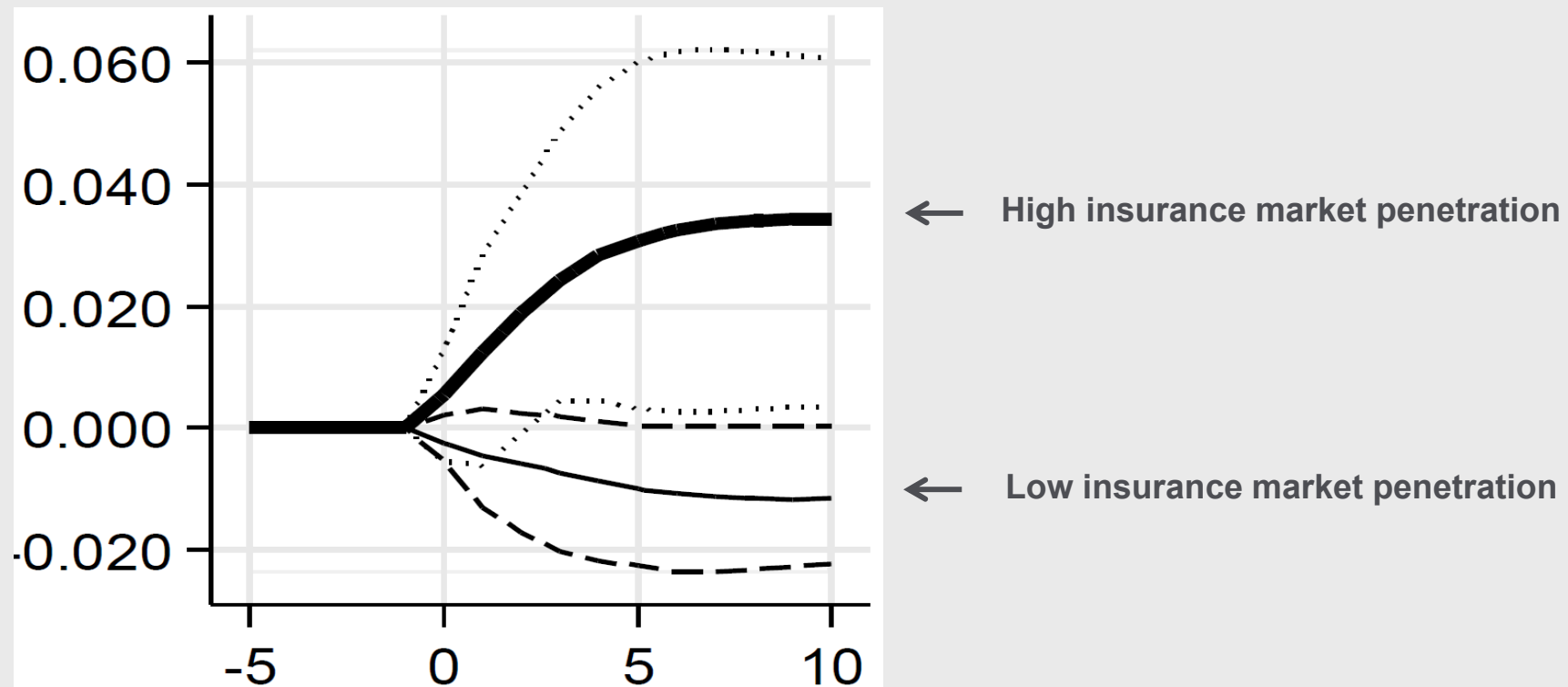


¹ Negative cost/benefit ratio means there is cost-saving in the long-term. For example, soil conservation technique can save large cost-saving from less tillage operation and fertilizer usage. Its benefit is limited as it has only small loss averted during drought and no yield improvement in normal condition

Reduce financial repercussions of volatility and create more certainty in decision making

GDP p.c. development in countries with different levels of insurance penetration

x 100% trend deviation after a weather related catastrophe



Countries with low insurance penetration levels show decreases in GDP after weather related catastrophes

Source: Melecky M et Raddatz C.(2011) „How Do Governements Respond after Catastrophes?“ World Bank;

Using insurance to address adaptation needs of low-income countries & people



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- Using insurance to address adaptation needs: Not just about public OR private solutions
- Innovations & partnerships in using insurance
- Local level: Building resilience with local insurance & safety nets: Helping low-income people absorb shocks and temper downturns
- National level: Combining risk transfer and measures to protect national development priorities
- Regional & international: Combining risk transfer with regional risk capacity & forecasting

Local level



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- Incentivize loss reduction & resilience building activities
- Building resilience with local insurance & safety nets
- Helping low-income people absorb shocks and temper downturns

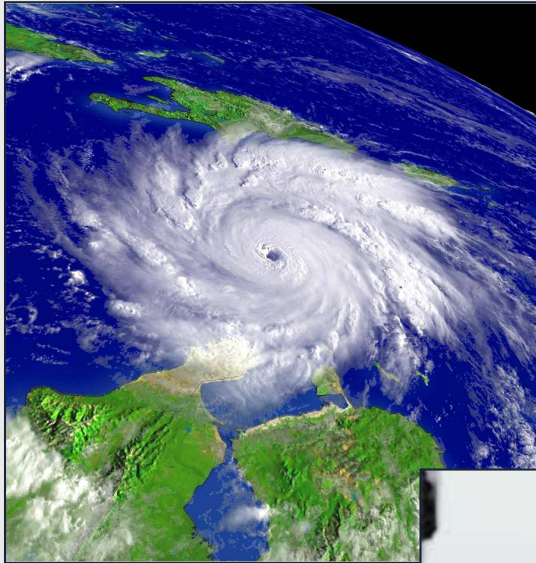


Courtesy: Microensure

Regional & international: Combining risk transfer with regional risk capacity & forecasting



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- Regional insurance pools in the Caribbean and Africa: half the cost for risk premiums for major weather events
- Use of regional forecasting systems
- Strengthening met services, contingency planning, awareness
- Parametric insurance payouts ensure timely finance of part of the damage from weather hazards

Public and private sectors have roles to play



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Governments

Insurance Sector

<p>Act on lessons learned about regional public-private partnerships</p>	<p>Act</p>	<p>Design measures to avoid loss & damage, and transfer risk which cannot be avoided; Risk reduction as criteria for participation in insurance schemes</p>
<p>Engage in risk reduction activities and provide enabling environment for risk management, insurance, governance, etc.</p>	<p>Enable</p>	<p>Putting a price on risks and adaptation options; hazards and economic values at risk / Risk pricing; Helping evaluate the relative merits of different adaptation interventions, cost benefit analysis</p>
<p>Get best sources of information about managing, reducing & transferring risks and invest in systematic & reliable risk exposure data</p> <p><small>Global Insurance Industry Statement on Adaptation to Climate Change in Developing Countries, 2010.</small></p>	<p>Inform</p>	<p>Understanding risks of greatest concern:</p> <ul style="list-style-type: none"> - Identifying key risks and vulnerabilities - Estimating exposure - Risk mapping

Conclusions

Insurance can fulfill four functions to help meet the needs of low-income countries & communities

- Assess and price risks
- Reduce financial repercussions of volatility, create more certainty
- Incentivize loss reduction & resilience building activities
- Provide timely finance to recompense damage



Thank you!



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For more information, visit us at:

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My family has been living in this place for more than 100 years & I continue with the boat repair business of my father & grandfather.

We have experienced a rise in heavy rain over the last years...I do not know what to expect or how to deal with it.

Our community needs help to reduce risks we face...to ensure our safety in the future.

During the past El Niños, I suffered from landslides & flooding on my land. We suffered a lot. Today we are just getting by.

Every time my crops are destroyed by a disaster, I have to go into debt—we need help to reduce the risks in our region.

If my village had some kind of safety net...we could better adapt to the effects of El Niño in the future.

Weather conditions have become more unpredictable. Disasters may occur at any time now and can destroy herders' livelihoods. When herders lose their animals they feel terrible. And they become poor.

I have gotten my livestock insured for the last 3 years. I got a payment after the 2 recent disasters. The payment was big enough to help me search for my livestock, repair the animal shelters, and buy adequate feed.

People in my village used to think insurance is only for rich people. Now, self-help groups organize education sessions & teach how we can better manage risks through insurance.

Microinsurance has had the most striking impact on the Dalits, who never had opportunities to manage their risks before. Now, microinsurance generated an opportunity of choices for them to lead a dignified life & thus achieve a greater level of financial security.

The pattern of rainfall is definitely changing. Since the drought has struck severely this time, & people lost so many animals & crops. Farmers had to be resettled.

If the government has the resources to help the people, we would be able to better cope with the consequences of the drought. If our government fails, we fail—but if they provide support & help restore our productivity after the drought, we could avoid a famine from happening.

My country needs resources to finance disaster-related activities. If my country does not plan disaster finance, & if humanitarian aid is all we have to pay for disasters, then projects such as building important infrastructure are never fully executed...development really suffers.

In the face of constant disaster shocks, we need tools that will reduce poverty, & the strain of disasters on development.