CURRENT SPECTRUM & STRUCTURE OF FINANCIAL INSTRUMENTS TO ADDRESS THE RISKS OF LOSS & DAMAGE

Taking stock of the existing financial instruments that address the risks of loss & damage across different levels & sectors

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LOSS AND DAMAGE ASSOCIATED WITH CLIMATE CHANGE IMPACTS

- Slow onset events
- Extreme events

ECONOMIC LOSSES

- INCOME
- PHYSICAL ASSETS

NON-ECONOMIC LOSSES

- INDIVIDUALS
- SOCIETY
- ENVIRONMENT

- BUSINESS OPERATIONS
- AGRICULTURAL PRODUCTION
- TOURISM
- INFRASTRUCTURE
- PROPERTY
- LIFE
- HEALTH
- X - HUMAN MOBILITY
- CULTURAL HERITAGE
- INDIGENOUS KNOWLEDGE
- SOCIETY/CULTURAL IDENTITY
- BIODIVERSITY
- ECO SYSTEM SERVICES
**Civil society includes a wide range of actors including NGOs, academia, trade organisations, societies, etc.**
CURRENT WORKPLAN OF THE EXECUTIVE COMMITTEE PROVIDES FOR NINE ACTION AREAS (AA)

For details of the initial two-year workplan, see unfccc.int/885
EXAMPLES OF INPUTS TO THE WORK OF THE EXCOM

For details of call and the information paper, see unfccc.int/9432
**Key Challenges on Promoting Comprehensive Risk Management Approaches**

1. **There is no silver bullet solution**
   - Tools cannot be used in isolation
   - Insurance is limited in covering slow onset events

2. **Existing financial instruments may not be enough**
   - Have not covered the spectrum of risks
   - May not address the needs of the most vulnerable
   - Gaps still exist

3. **Not all tools accessible to all**
   - Especially challenging for the most indebted

4. **The risks of L&D may exceed national capacities**

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WAYS FORWARDS ON PROMOTING APPROACHES BASED ON SUBMISSIONS

ENABLING ENVIRONMENT TO FACILITATE COMPREHENSIVE RISK MANAGEMENT

1. Enabling environments: vital to effectiveness & scale
2. Rigorous risk assessment is a prerequisite
3. Capacity-building & donor engagement

SMARTER DESIGN & COMBINATIONS OF TOOLS

1. Linking financing for DRM & CCA
   - Insurance premiums should be risk-related

THE NEEDS OF THE MOST VULNERABLE

1. Specific instruments & tools which reach the most vulnerable are needed

REGIONAL COOPERATION & PUBLIC-PRIVATE PARTNERSHIPS:

1. Such measures enhance effectiveness, and give clear roles
• Tools to identify risks & appropriate responses: risk layering analysis, total climate risk approach
• Various financial instruments (insurance, credit, savings) linked to risk reduction measures

• Catastrophe risk insurance at national or regional level
• Regional risk pooling mechanisms
• Index-based insurance schemes
• Group insurance

• Contingency funds
• Disaster relief funds
• Restoration fund for preferential interest rate financing
• Contingent credit
• Microcredit

• Climate bonds
• Standard & certification schemes

• Other innovative financing tools for other hazards

• Catastrophe bonds
• Ex-post bonds

• Risk pooling & transfer

S P E C T R U M O F F I N A N C I A L I N S T R U M E N T S
CATEGORIES OF INSTRUMENTS REFERRED TO IN THE WORKPLAN OF EXCOM

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STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: RISK TRANSFER, RISK POOLING & CATASTROPHE RISK INSURANCE

**RISK TRANSFER** (National level)
- ✔ Unpredictable events; spread losses across time & actors
- ✔ Linking insurance to social protection - reduce transaction costs
- ❌ Slow onset events
- ❌ Market barriers & limited alternatives

**RISK POOLING** (Regional level)
- ✔ Sovereign risk holders spread risk
- ✔ Access to collective reserves
- ✔ Better insurance terms
- ✔ Premiums according to risk profile
- ❌ Require high level of regional cooperation

**CATASTROPHE RISK INSURANCE**
- ✔ Rapid payouts after catastrophes
- ✔ Enhanced finance, leverage via PPs
- ✔ Pooling of risk across wide areas
- ❌ Need high quality catastrophe risk models
- ❌ May require a high deductible
- ❌ Hard to apply to slow onset event

**INDEX-BASED SCHEMES** (National level)
- ✔ Less administrative costs > lower insurance premiums > more affordable
- ✔ Loss assessments not required > enables reliable and timely post-disaster relief

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STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CLIMATE-THEMED BONDS AND THEIR CERTIFICATION & CATASTROPHE BONDS

**Climate Bonds**
- Certification & standardization - security for the investor
- Green/climate bond market grown significantly
- Limited applicability to L&D risk
- Interest rates barrier
- Only 4% of green bond market
- May contribute to raising funds for climate change adaptation & risk reduction

**Ex-Post Bonds**
- Cheap form of financing
- Late recovery & reconstruction phases of disaster response
- Difficult for very indebted nations
- Slow financing: need to be issued before investments made

**Catastrophe Bonds**
- Usually only for institutional investors
- Usually stricter T&Cs
- Higher fixed expense

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STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CONTINGENCY FINANCE (1)

- For small income shocks
- Recovery loan pilots: larger loans given ex post for livelihood recovery
- Linking micro credit to (micro) insurance - prevent over-indebtedness
- Long-term planning is difficult for poorest
- Credit liabilities may increase vulnerability
- Sometimes not available

- Effective for relatively small income shocks
- Link to sovereign insurance scheme > enable rapid scale-up in disaster
- Long-term planning & investment is difficult for poorest
- Difficult below the poverty line > lack of saving potential

- Flexibility in providing co-financing in non-monetary, e.g. labour input or materials
- Can be contingent on e.g. local adaptation plans

MICRO CREDIT

MICRO SAVINGS

MICRO GRANTS
**STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CONTINGENCY FINANCE (2)**

- **SOCIAL PROTECTION SCHEMES (SPS)**
  - SPS can increase adaptive capacity, prevent & reduce risks, & enhance livelihoods
  - Linking social protection & insurance can improve efficiency & cost-effectiveness
  - Can address both extreme and slow onset events
  - Often suffer from inadequate funding

- **DISASTER RELIEF FUNDS**
  - Linking (national) disaster relief funds to insurance can improve use & scale efficiency of financial resources
  - Implementation often suffers from inadequate budgeting & funding in developing countries

- **CONTINGENT CREDIT**
  - Fast disbursing finance opportunity, particularly for middle income countries
  - Limited availability for poorest countries as loans increase debt

[unfccc.int/9432](http://unfccc.int/9432)
I. INTRODUCTION

LANDSCAPE OF FINANCIAL INSTRUMENTS AND TOOLS IN PRACTICE EMERGING FROM THE SUBMISSIONS

Challenges relating to loss and damage associated with climate change are complex and require innovative approaches. This information paper highlights the range of loss and damage insurance markets that exist in countries around the world. 

The Executive Committee (EXCOM) has recommended that insurance markets be considered in the context of the UNFCCC framework, as they provide a mechanism for risk transfer and financial support for countries affected by climate change. 

II. LANDSCAPE OF FINANCIAL INSTRUMENTS AND TOOLS IN PRACTICE EMERGING FROM THE SUBMISSIONS

A number of insurance instruments are emerging as means of addressing the impacts of climate change. These instruments can be categorized as follows:

1.自然气候变化
2.人类活动
3.经济变化
4.市场变化

For details of call and the information paper, see unfccc.int/9432
For further information on loss and damage under the UNFCCC

Visit www.unfccc.int/656

Contact the Executive Committee at loss-damage@unfccc.int

Thank you!