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Submission

on possible activities under the strategic workstreams of the five-year rolling workplan[1]

Submitted by the

Munich Climate Insurance Initiative (MCII)

to the Executive Committee of the Warsaw International Mechanism on Loss and Damage

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[1] This submission from the Munich Climate Insurance Initiative (MCII) is part of its mission to develop insurance-related solutions to help manage the impacts of climate change. MCII was founded as a non-profit innovation laboratory in response to the growing realization that insurance solutions can play a role in addressing some of the negative impacts of climatic stressors, as suggested in the Framework Convention and the Paris Agreement. MCII, through its unique set-up, provides a forum and gathering point for insurance-related expertise on climate change impacts. The Initiative brings together insurers, experts on climate change and adaptation, NGOs and researchers intent on finding effective and fair solutions to the risks posed by climate change, as well as sustainable approaches that create incentive structures for risk and poverty reduction. MCII is hosted by the United Nations University Institute for Environment and Human Security (UNU-EHS) in Bonn, Germany.

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1. The potential of climate risk insurance in a comprehensive approach

Climate change, and the associated pressures, threaten society through changing rainfall regimes, intensified and more frequent storms, sea level rise, widespread desertification and the loss of geological water reservoirs such as glaciers. This threatens to undermine resilience, especially for lower income countries and their citizens, by weakening their capacity to recover and absorb losses from extreme weather events. In order to support governments and households to reduce the immediate and long-term repercussions from these events, comprehensive climate risk management approaches can be applied at various levels to support adaptation and build climate risk resilience.

Well-designed climate risk insurance – when applied as part of comprehensive risk management approaches – can protect people against climate shocks by acting as a safety net and buffer shortly after an extreme weather event. In this way, insurance can promote opportunities by helping to lessen financial repercussions of volatility, and can stimulate transformation by incentivizing risk reducing behaviour and fostering a culture of prevention-focused risk management. Currently, however, meaningful insurance coverage is not widely available for poor and vulnerable people, particularly in developing countries. Based on a broad estimate, only about 100 million people in Africa, Asia and Latin America are covered by direct or indirect insurance against climate risks (GIZ and BMZ, 2015). Data reveal that between 1980 and 2015, only two per cent of losses caused by weather-related natural catastrophes in lower middle and low-income countries were covered by insurance (Munich Re, 2016). This means that about 98 per cent of catastrophe losses have been borne by individuals, private sector and governments.
Climate risk insurance as promoted by MCII is not necessarily a pure private sector activity. Rather insurance is described as a social mechanism which includes assessment and qualification of risks, the evaluation of adaptation and risk management options, the sharing and transfer of portions of residual risks and a relevant contingency planning and pay-out protocol for when the risk manifests itself. MCII is of the view that such conceptualization of insurance is highly relevant for the loss and damage discussions.

2. The role of the WIM with regard to climate risk insurance including for the most vulnerable

The relevance of insurance as a tool within comprehensive climate risk management has been recognized by policymakers and practitioners around the world. Many actors are currently investing resources in developing and supporting climate risk insurance schemes, and are looking for ways to implement insurance on a larger scale; many of these efforts are specifically targeted at covering the poor and vulnerable in developing countries. Based on the WIM functions pursuant to 3/CP.18, the following figure shows the potential role the WIM could play in ensuring that climate risk insurance efforts effectively contribute to the ultimate objective of climate risk management: supporting poor and vulnerable people in finding climate-resilient development pathways.

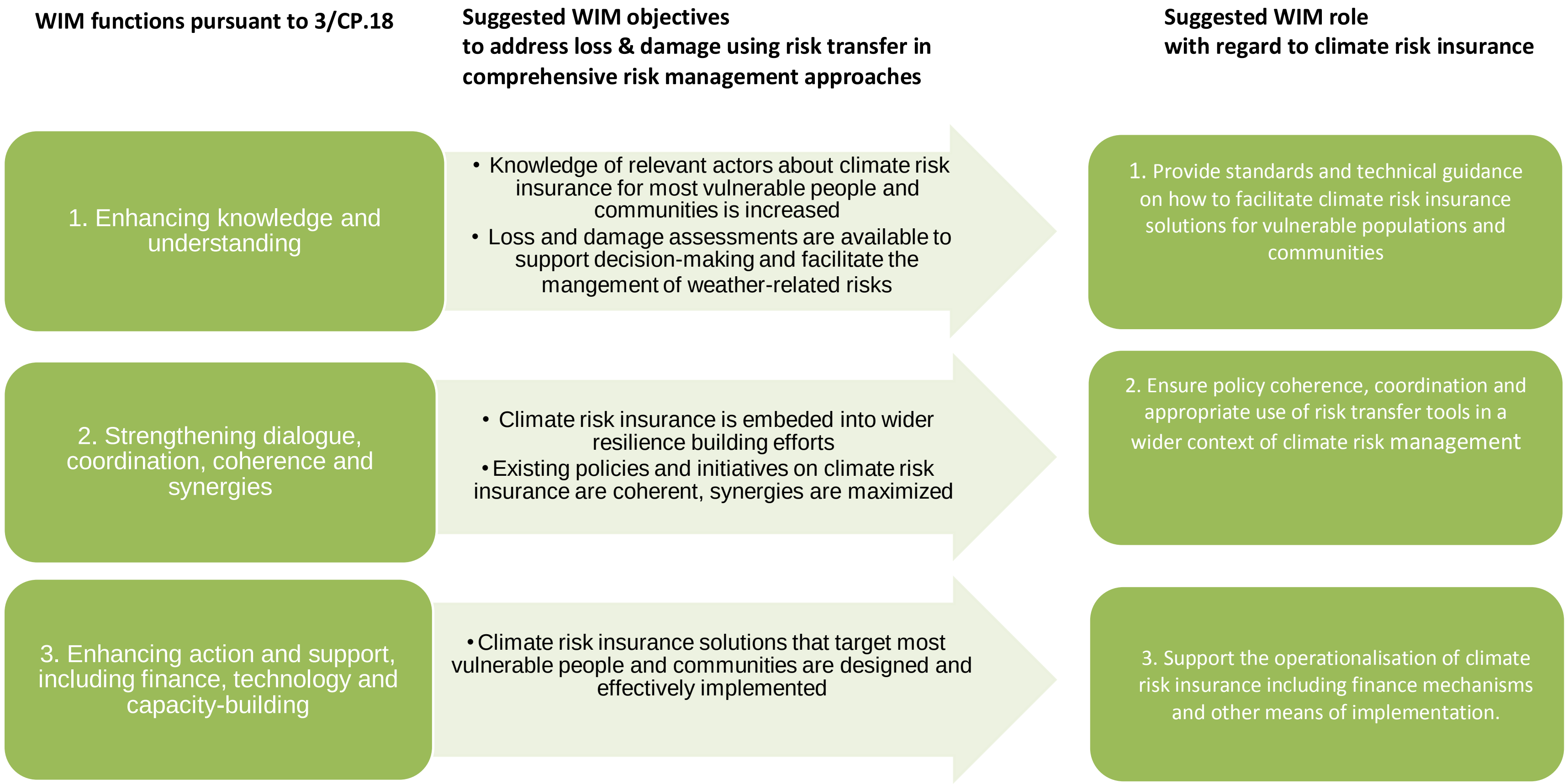

Figure 1: The role of the WIM with regard to climate risk insurance.

3. Climate risk insurance in the 5-year working plan

The initial two-year workplan of the ExCom helped to enhance the understanding of comprehensive risk management approaches including insurance. However, it only covered one of three WIM functions (Enhancing knowledge and understanding). The five-year workplan should build on existing work but should also enable the WIM to perform all its functions equally.
The following chapter provides suggestions on concrete activities for the 5-year workplan and specifies the input MCII can offer. The suggestions are categorized according to three relevant areas for climate risk insurance the WIM should address. The suggestions are particularly relevant for section c) and e) of the indicative working areas of the 5 year work plan.

a. Identifying the role of climate risk insurance in comprehensive climate risk management and when to best apply insurance as an instrument

Transferring risks in a cost-efficient way through insurance or other tools is a key financial approach for addressing residual risk – but is only one step in a systematic process. To enable climate-resilient development, effective risk management should involve a portfolio of actions aimed at improving the understanding of disaster risks, to reduce and transfer risk and to respond to events and disasters, as well as measures to continually improve disaster preparedness, response and recovery – as opposed to a singular focus on any one action or type of action. The key to success of many insurance schemes has been offering a comprehensive needs-based solution to reduce climate risks, while linking insurance with other climate risk management strategies. To harness the potential of insurance, countries need technical guidance on when best to apply insurance as an instrument. The ExCom should also look into drivers of risks including establishing evidence on shifting baselines of risk profiles as a result of anthropogenic climate change.

- **Suggested Role of the WIM:** Provide technical guidance on the role of insurance in comprehensive climate risk management.
- **Suggested activity in 5-year workplan:**
    - Organize an expert meeting on the role of insurance in comprehensive climate risk management. Outcome: technical paper prepared by the UNFCCC Secretariat.
    - Provide an interface with the NAP process, promoting to mainstream insurance as part of adaptation planning, ensuring that insurance is embedded into comprehensive measures to adapt to climate change and build resilience.
- **MCII's input:**
    - MCII describes the "Role of insurance in comprehensive risk management" in chapter 2 of *MCII 2016: Making Climate Risk insurance Work for the Most Vulnerable: Seven Guiding Principles. Available at: http://bit.ly/2eLjDdZ.*
    - In a current project, MCII selects and adapts existing quantitative approaches (e.g. Economics of Climate Adaptation -ECA[2]) showcasing the role of climate insurance in addressing residual risk, while promoting the integration of risk transfer schemes within a broader climate risk management strategy. Pilot studies illustrate their applicability.

[2] *ECA has been applied in more than 20 case studies (see www.swissre.com/eca) and the methodology is described in "shaping climate resilient development – a framework for decision making" available at)*

b. Designing and implementing effective climate risk insurance solutions including for vulnerable populations and communities

Climate risk insurance can support countries in concrete ways in finding climate-resilient development pathways. However, research shows a strong need for guidance and careful planning and implementation in order for this to be successful – especially when approaches should target poor and vulnerable segments of the population. The WIM should provide an evidence-based guide to establish climate risk insurance approaches especially when its aim is to reach and benefit the poor and vulnerable with climate risk insurance.

- **Role of the WIM:** Provide technical guidance and standards on climate risk insurance approaches especially how to reach and benefit the poor and vulnerable with climate risk insurance.
- **Activity in 5-year workplan:** Develop technical guidelines on "Climate Risk Insurance Solutions", define principles for approaches engaging most vulnerable and poor beneficiaries, and create an issue related collaborative space on the clearinghouse on risk transfer.
- **MCII's input:**
    - MCII analysed 18 already existing climate risk insurance schemes to investigate: If and how climate risk insurance can contribute to building the resilience and alleviating poverty of its target group and how climate risk insurance can effectively reach the poor and vulnerable, including success factors and challenges. The findings from the study provide the basis for distilling the Pro-Poor Principles for Climate Risk Insurance, and highlight the importance of offering comprehensive and needs-based solutions to climate risk as well as linking insurance to other comprehensive risk management strategies.
    - As a deliverable of its joint project, Advancing Climate Risk Insurance Plus (ACRI+), together with the GIZ, MCII will develop an online database showcasing international good practice examples of successful climate risk insurance projects. This database will feature analysis formats that highlight how insurance approaches can be effectively integrated into wider climate risk management and could provide helpful guidance and support to the clearinghouse on risk transfer.

c. Promoting successful climate risk insurance approaches

Countries face obstacles in accessing climate risk insurance approaches at national, regional and international level. This includes lack of relevant data, capacity and financial constraints, lack of credible contingency planning and further constraints to participate in regional risk sharing pools.

The international level can play a role in helping overcome some of the current obstacles (such as a lack of meaningful backup mechanisms, i.e., reinsurance; the lack of technical and financial capacity and expertise; and the quality and availability of loss- and exposure-related data) for countries to employ risk transfer solutions in a broader toolset for promoting climate-resilient growth and adaptation, and for dampening the negative impacts of climate change-related loss and damage.

- **Role of WIM:** The WIM could facilitate the global debate on operationalisation of a global risk insurance facility through regional risk management to address loss and damage, including regional risk insurance pools, which in the longer term could become part of a future global system for managing weather extremes. For that purpose it should coordinate with and build on existing efforts, in particular the G7 insurance initiative (InsuResilience) and relevant outcomes from the G20 process. This operationalization would include the mobilization of appropriate financial and other support, should enable systematic capacity development for risk management tools and expertise within governments and civil society, as well as through the use of country or sectoral risk officers.

- **Activities for the 5-year workplan:**
  - Enhancing the availability of and the access to open data through providing standards for assessing loss and damage.
  - Encouraging coherence across information frameworks (such as adequate standards for data gathering, open source remote sensing, and other information needed to assess risk exposures) that is sensitive to vulnerable groups and people.
  - Preparing a guidebook on good contingency plans and planning (similar to the NAP guidance) (incl. creating an issue related collaborative space on the clearinghouse on risk transfer).
  - Develop guidance on premium support for climate risk insurance projects.
- **MCII's input:**
  - Based on an expert workshop, MCII developed issue papers, for example on premium support. See: http://www.climate-insurance.org/fileadmin/mcii/documents/20160916_key_messages_MCII_Expert_Workshop_on_Premium_Support.pdf.
  - MCII will facilitate further information briefs and exchange on relevant issues. Among others through its experience in the Caribbean, where a multi-level approach (including micro, and meso-level climate risk insurance products) is brought to the market.

4. Way forward

The Munich Climate Insurance Initiative is a leading think-tank on the nexus climate, insurance and its benefits for resilience especially of the most vulnerable segments of population. MCII, through its unique set-up, provides a forum and gathering point for insurance-related expertise on climate change impacts. The independent and neutral initiative brings together insurers, experts on climate change and adaptation, NGOs and researchers intent on finding effective and fair solutions to the risks posed by climate change, as well as sustainable approaches that create incentive structures for risk and poverty reduction. MCII develops pioneering concepts through its vast network of experts advocating for new ways of how to apply insurance to complement risk management and adaptation. We can share lessons learned from our lighthouse projects, such as the Livelihood Protection Policy in the Caribbean. Targeted at individuals, this product helps protect the livelihoods of vulnerable low-income individuals by providing swift un-bureaucratic cash payouts following extreme weather events (i.e. high wind speed and heavy rainfall).

But we also address critical questions with regard to climate risk insurance as a tool, aiming to reveal pitfalls and challenges in its application. One of our latest activities includes producing briefings and papers on critical questions by delegates, practitioners and the science community.

We are looking forward to engaging with you on further shaping the UNFCCC loss and damage related work for the next five years. To this end, a team of experts from UNU-EHS will participate at the Fifth meeting of the ExCom and be ready for further discussions.

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Annex 1: MCII Pro-Poor Principles for Climate Risk Insurance

1	**COMPREHENSIVE NEEDS-BASED SOLUTIONS** Solutions to protect the poor and vulnerable from extreme weather events must be tailored to local needs and conditions. It is imperative to embed insurance in comprehensive risk management strategies that improve resilience.	
2	**CLIENT VALUE** Providing reliable coverage that is valuable to the insured is crucial for the take-up of insurance products.	
3	**AFFORDABILITY** Measures to increase the affordability for poor and vulnerable people are paramount to the success of an insurance scheme and also important to satisfy equity concerns.	
4	**ACCESSIBILITY** Efficient and cost-effective delivery channels that are aligned with the local context are key for reaching scale.	
5	**PARTICIPATION, TRANSPARENCY & ACCOUNTABILITY** Successful insurance schemes are based on the inclusive, meaningful and accountable involvement of (potential) beneficiaries and other relevant local level stakeholders – in the design, implementation and review of insurance products – creating trust and providing a basis for local ownership and political buy-in.	
6	**SUSTAINABILITY** Safeguarding economic, social and ecological sustainability is crucial for the long-term success of insurance schemes.	
7	**ENABLING ENVIRONMENT** It is vital to actively build an enabling environment that accommodates and fosters pro-poor insurance solutions.	

MCII Pro-Poor Principles for Climate Risk Insurance (Schaefer et al. 2016)

The Pro-Poor Principles as well as the lessons learned from the 18 analysed insurance schemes are described in detail in the MCII Policy Report 2016: Making Climate Risk insurance Work for the Most Vulnerable: Seven Guiding Principles. Available at: http://bit.ly/2eLjDdZ

Annex II: MCII elaborations on premium support

1. Direct premium support should be 'smart', understood as reliable, flexible, minimizing incentive distortions, and making the client aware of the true risk cost

Smart support is characterized by the following components:

a. Reliability: Reliable external support that ensures a long-term perspective for the insurance product is a precondition for the engagement of private sector actors in the market development for the very poor segment of society in vulnerable countries. Moreover, providing reliable support to those with little adaptive capacity and disproportionally affected by climate change is key in responding to issues of equity and responsibility.

b. Flexibility: Premium support needs to be adjustable to factors that determine affordability of the insurance product for the beneficiary, in particular changing income levels, resilience or hazard exposure. Effectively implemented product management plans can help to adjust premium support to the factors listed, decreasing or increasing it accordingly, phasing it out when the insured are in a position to cover premiums themselves.

c. Incentives and true risk cost: Targeted premium support should minimize incentive distortions and make the clients aware of the true risk cost. While addressing questions of increasing affordability through donor or government support will be necessary to get schemes up and running, efforts need to be made to make sure that support strategies do not negatively affect risk behaviour.

- Ideally, that includes premium support for only parts of the premium in a first step. For example, covering only the markup part while the beneficiary pays most of the risk-based part of the premium.
- • However, an insurance product might not be affordable without addressing the risk-based part of the premium. Existing examples show that innovative payment measures that are consistent with a disaster risk management framework can help to make the risk-adequate premium affordable. One example are insurance-for-work programmes in which the insured pay part of the premium through their labour. They can work for risk reduction projects, which in turn have positive effects on decreasing the needed risk premium.

2. Smart premium support is essential for making climate risk insurance accessible for the extreme poor and poor

The poorest and most vulnerable cannot afford insurance at market prices. Insurance-related approaches specifically targeted towards the extreme poor and poor will likely need some form of smart premium support. In providing smart premium support for viable products, considering concerns of equity, donors and governments should take the following points into account:

- There are consequences to applying direct premium support that need to be actively managed (see point 1).
- Indirectly reducing premiums through investing in risk reduction measures and an enabling environment should always complement direct premium support (see point 2).
- Smart subsidies, linked to social protection programmes and other innovative mechanisms, can be blended to ensure people receive the cover they need at a cost they can afford.
- Public support for insurance products can tie in on different levels, channelling funding (e.g. loans or grants) either directly to the insured (subsidy for the premium), to the insurer (subsidy to lower the premium for the insured and making the product affordable) or to governments and organizations (b means for disaster risk reduction measures and enabling environment conditions). Different forms of support have specific advantages and disadvantages.

From a cost–benefit perspective, insurance might not always be the best solution to address climate risks for the extreme poor and poor. Donors and governments should only provide premium support for insurance products that are needs-based, adjusted to the local context and embedded into holistic risk management and resilience-building strategies.

3. Indirectly reducing premiums is key to making pro-poor insurance solutions affordable and has long-term co-benefits for building a comprehensive disaster risk management framework

Measures to reduce premiums indirectly can also provide long-term co-benefits by contributing to the creation and strengthening of an enabling environment for insurance solutions as well as increasing the resilience of beneficiaries.

MCII therefore advises to:

- Generally support the set-up and implementation of climate risk insurance schemes in developing countries and in this way reduce premiums indirectly, and primarily apply direct premium support to make insurance solutions accessible to the poorest segment of the population.
- • Gear investments into items that reduce premiums indirectly towards the development of risk management frameworks and actively work on linking the insurance products to those frameworks.

The Key Messages are described in detail in the MCII Policy Report 2016: Making Climate Risk insurance Work for the Most Vulnerable: Seven Guiding Principles. Available at: http://bit.ly/2eLjDdZ