UNFCCC Expert Meeting on Adaptation for Small Island Developing States

Session 4 – Roundtable on Insurance

Insurance mechanisms for SIDS to address the impacts of climate change

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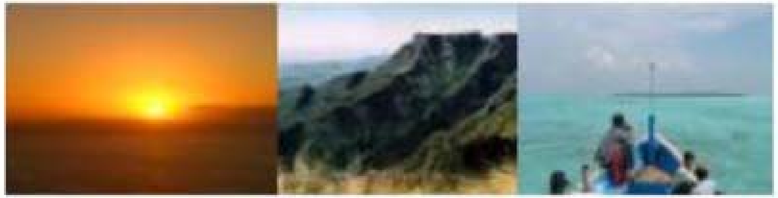
Introduction

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



1. AOSIS International Insurance Pool Proposal (1991)

- Collective loss sharing scheme - fund to compensate victims of sea-level rise
- Mandatory contributions from industrialized countries based on GNP and on relative GHG emissions (ability and responsibility)
  - 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
  - Insured values, subject to negotiation with an Authority
  - Claims for retreat and accommodation measures (protection/adaptation was saved for the FCCC Fin Mech)

- Link between GHGs and impacts now even more clear – CC link to SLR is undeniable (4AR)
- Basic concept of AOSIS proposal still valid (polluter pays) however original design problematic (e.g, valuing assets)
- A way to look at this today might be
  - a levy on actual GHG emissions (AAUs as a proxy)
  - to address the costs of ***protecting against*** a fixed amount of sea level rise/storm surge (e.g., 1 meter)
- Funds enhance adaptive capacity, implement precautionary principle, assistance to SIDS in ‘meeting costs of adaptation’
- Cost to protect Jamaica from 1 metre SLR - described at US$500 million; CDM Share of Proceeds - € 350 million by 2012 for all countries – need greater funds

Lessons learned/best practices identified

- Under international law, States have the responsibility o 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*)
- ***Causal relationship*** between GHG emissions and climate change damage is not presently addressed in climate regime (neither AF SOP, nor 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 ***international law precedents exist*** for addressing transboundary impacts – may offer lessons for designing a system to generate funding for adaptation from private sector (oil spill compensation fund, nuclear regime, HNS, WIA)
- Many of these frameworks are structured like insurance schemes themselves, with layers of risk taken up by different actors

Oil Spill Regime: CLC and IOPC Conventions

EU Cope Fund
(EU cargo interests)

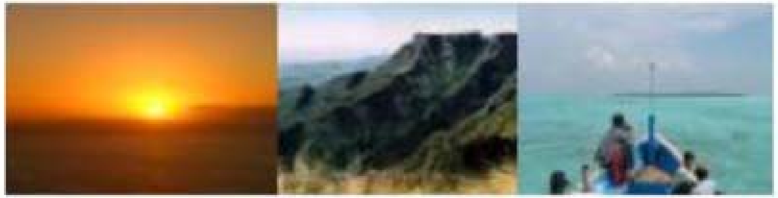
2nd Supplemental Layer
up to US$203 million

IOPC Fund
(int'l cargo interests)

1st Supplemental layer of cover
up to US$175 million

Operator Ins.
(tanker owner - P & I Clubs)

Mandatory insurance
LL based on capacity of oil tanker
Coverage/strict liability
up to US$82 million



2. Standard Insurance

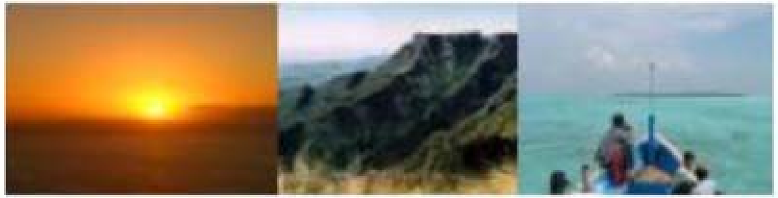
Unique challenges of SIDS:

- Small populations, small physical size and relative isolation, high risk of extreme weather events, limited financial and human resources, housing stock often "uninsurable"
- Link to global reinsurance market exposes regional insurance industry in Caribbean to shocks (property insurance rates up 40% after 9/11)
- Unaffordable insurance impacts sustainable development, foreign investment, recovery from extreme events
- Majority of government assets in the Caribbean are either not insured or underinsured

- Standard insurance instruments do not address ‘uninsurable’ risks (e.g., SLR, substandard housing stock)
- Efforts to bring down the cost of reinsurance through regional risk pooling, regulation, can result in lower costs to insurance industry and to consumers
- But many potential losses from extreme weather events are beyond the capacity of individuals, companies and even governments (e.g., Hurricane Mitch – losses 80% of GDP; Grenada devastated by a single event)
- Some element of international subsidization or collective loss sharing likely to be needed to address these issues consistent with Articles 4.8 and 4.4

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 v. private sector)
- Provide incentives and means for risk reduction
- Provide 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



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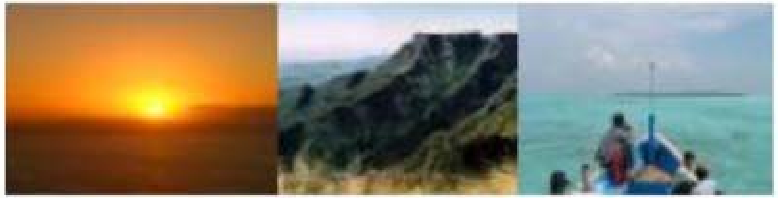
Role of regional and international actors

- Identify, support the implementation of cost-effective solutions that require regional cooperation
- Provide technical expertise in financial risk management, 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)

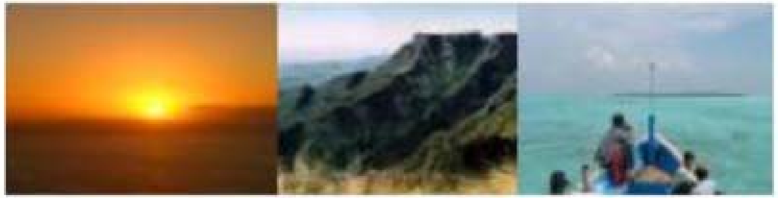


Role of UNFCCC process

- Support for consideration, design of cost-effective insurance initiatives tailored to the unique circumstances of SIDS
  - Multi-State risk pooling mechanisms (w/i Caribbean and across SIDS regions)
  - Regional reinsurance facility
  - Catastrophe Fund, linked to international financial markets
  - National/Regional Disaster Funds, supported by financial backstopping from international community
  - Micro-insurance
    - Weather index insurance (windspeed, rainfall triggers)
  - Private/public partnerships (e.g, with World Bank)

- **Host technical workshops on insurance for 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 possible innovative solutions and best practices

- **Host workshop, information gathering on other international legal frameworks, 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



- Support information gathering and systems to close gaps in national disaster databases (economic costs, social costs, persons affected)
- Financial support for comprehensive hazard mapping of coastal areas for SIDS (could be collaborative private/public effort between govts and insurance sector for mutual benefit)
- Support information gathering and information sharing on existing national, regional and international disaster funds, insurance pools, loss sharing arrangements, insurance initiatives for best practices
- Generate greater adaptation funding through appropriate burden sharing (e.g, share of AAUs), private sector sources