



Climate Change and Insurance: The LDC Context

by

Bangladesh on behalf of the LDCs

Workshop on Risk Management and Insurance

COP-14, Poznan, 04 Dec 2008

Prevailing Approach to Disaster M

- **Prevailing disaster mgt is largely *ex-post*, both nationally & internationally, which focuses on relief & recovery**
- **Share of disaster assistance in ODA increased from 1.6% in 1987 to about 9% in 2007**
- **Slow-onset climate disasters like floods & droughts remain largely unnoticed, & cumulatively they have even bigger impact**
- **There is uncertainty in such funding & often depends on media exposure: for ex. Int'l support after 2006 Tsunami amounted to \$7,000/victim, against a mere \$3/victim in 1998 Bangladesh flood**
- ***Ex-post* funding fails to provide sufficient incentives for disaster mitigation & risk reduction**
- **Can the financing be made available by dev partners ex ante ?**

Insurance in the Negotiation Process

Insurance-related actions are explicitly mandated under the UNFCCC Art 4.8 & KP Art 3.14; LDCs also have a special provision in the UNFCCC (Art 4.9); but their implementation as adaptation measure lags behind

LDCs, with SIDS & African vulnerable countries, have been highlighted as requiring special consideration in the Bali Action Plan (1C i & ii)

The Convention Technical Paper # 9 shows insurance-related actions can provide positive incentives to adaptation & post-disaster rehabilitation

LDC & SIDS' communities' coverage in disaster-related insurance virtually nil; with CClIs, premiums will be much more expensive

Thus insurance as part of the existing portfolio of adaptation that countries may wish to accommodate within their NAPs, through a

Promise of Microinsurance (MI)

- ❏ **Microcredit & saving services are inadequate when poor households are exposed to risks, that are beyond their means to cope with**
- ❏ **In vulnerable communities, small amount of resources can make a real difference in building adaptive capacity & strengthening livelihoods & compensating for climate-related losses**
- ❏ **MI have already demonstrated some success & good practices (Bangladesh, India, Malawi)**
- ❏ **However, existing MI is largely a kind of self insurance within individual MFIs/NGOs, which defeats the principle of wider risk -pooling**
- ❏ **Resources are not the only challenge, access to those resources & CB needs be addressed too**
- ❏ **Examples from NAPAs illustrate a possible role for insurance-related actions:**
 - **Bangladesh & Ethiopia**

Models of Disaster Insurance

- Ω **Crop insurance:** Individual farm & Area-based, a losing concern worldwide; continued public welfare program
- Ω **Index-based Insurance** – Drought Insurance (India & Malawi); appears a preferred model as it has many advantages over indemnity-based CI
- Ω **Turkish Catastrophe Insurance Pool**
- Ω **Mexico's Natural Disaster Fund (FONDEN)**
- Ω **Caribbean Catastrophe Risk Insurance Facility (CCRIF) – a Regional Model**
- Ω **GFDRR of the World Bank – the Standby Recovery Financing Facility (SRFF)**
- Ω **Global Index Insurance Facility (IIF)**
- Ω **Munich Climate Insurance Initiative (MCI)**
- Ω **Do the LDCs figure anywhere in these insurance equations ?**
- Ω **There is a need to branch out beyond current players & include experts in the UNFCCC discourse in linking CCI & traditional disasters & in devising new & innovative insurance products, tailored to specific needs of communities, particularly in the area of food security & agriculture**

What may be done

- **A Global Workshop on MI & how int'l community can upscale it, with mechanism of auto-generation of funding for MI; A dedicated share from LDCF, SCCF & AFIP should be considered**
- **In mandating any process for NAPs in the Copenhagen Outcome, provision should be made for insurance-related action as a pool of adaptation strategies**
- **This COP should investigate means to catalyze the initiation of new & innovative products, building upon the available models**
- **At int'l level, any risk mgt framework that is adopted should incorporate MI as an important pillar for supporting the most vulnerable**
- **Future provisions should promote PPPs & national regulation for companies to incentivize anticipatory adaptation**
- **Start with few pilots of MI & Index-based CI in each of the LDCs, with subsidized premiums from int'l & national private sector sources**
- **MRV should be applied to ensure & allow for periodic refinement of the adopted measures**

A Study on Fin Viability of Crop Insurance

○ **A Study done in Bangladesh show that if all costs related to floods & all forms follow-up assistance are considered, such as :**

- **Costs of disaster trauma, dislocation**
- **Indemnifying a significant part of accumulated loans**
- **Rescheduling of previous loans**
- **Provision of new loans**
- **Relief money & other resources (national & int'l)**
- **Administrative costs involved in all these**

○ **And if a 20-yr return period is assumed for severe floods, with around \$15 premiums/yr, then CI becomes financially viable; but return period of severe floods appears to be less than 20 yrs now !**

○ **Obviously premiums to be paid by the poor have to be subsidized**

○ **Since LDC agriculture is dominated by small holders, their coverage will be as good as MI involving relatively small sums of money**