Suva Expert Dialogue
– Report by Rapporteurs –

Session:	Risk Transfer (16:45 – 18:00), May 2
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Background

The Suva Expert Dialogue (SED) aimed to advance from the inputs received through the secretariat's call for submissions on *the type and nature of actions to address loss and damage for which finance may be required*. In the context of comprehensive risk management, risk transfer was the most mentioned action area within the 18 submissions from Parties and non-Party stakeholders. The needs identified in these submissions pertained to mainly two areas, namely the development of new risk transfer tools and tailoring them to specific contexts responding to e.g. different regional or sectorial requirements. More specifically, the actions highlighted included the expansion of services of existing risk transfer mechanisms to include the full range of climate change impacts; and the development or upscaling of weather derivatives such as national or regional catastrophe risk insurance, catastrophe reserve funds, catastrophe, climate, and resilience bonds, insurance-linked securities, forecast-based risk transfer mechansims, group insurance, micro and meso insurance, parametric/index-based insurance, reinsurance, risk swaps and options and loss warranties. Additionally, some submissions pointed to difficulties for developing countries to access insurance due but not limited to affordability issues and the marginalization of low-income individuals, particularly women.

Discussion: Summary

The roundtable discussions on risk transfer featured many discussants from developing country Parties and non-Party stakeholders, yet less participants from Annex I Parties. Based on the eight guiding questions that structured the SED, the following three overarching areas can be discerned: 1. The current landscape and application of risk transfer; 2. The applicability (concepts of availability and accessibility) of risk transfer for the work of loss and damage; and 3. Cooperation, sources and types of support: finance, capacities, and technologies. The most significant parts of the dialogue centered on area two, most substantially on the need to understand and implement risk transfer much more strongly as an instrument that can provide multiple benefits for CRM, with risk layering being a potential approach to realize this; the need to map and contextualize risk transfer solutions more strongly from a more comprehensive CDRF perspective to prevent the misdirection of resources and to address all types of risk associated with l&d; and to ensure accessibility and the integration of climate justice concerns by increasing affordability through technical and financial international support. As for area three, cooperation, sources and types of support, discussants strongly converged around the need for more research regarding the relationship between risk transfer and other CDRF instruments in a CRM context; and the need for ensuring reliable funding options, with one potential avenue apart from the GCF being the establishment of an international solidarity fund – an idea that was most strongly promoted by developing countries and some civil society organizations. Further elements entailed technology and capacity-building; and the necessity to enhance cooperation with the DRR community as well as with civil society organizations who could help to integrate a bottom-up vulnerability perspective into the design of risk transfer solutions.

1. The current landscape and application of risk transfer

The discussants **mentioned several existing approaches** in the context of risk transfer, covering the global, regional, national, and local or community-based levels. These included a micro-level weather index insurance scheme for and with farmers and herders currently piloted in Africa; PCRAFI, ARC and CCRIF as regional risk transfer facilities; and the InsuResilience Initiative as well as the InsuResilience Global Partnership as global initiatives implementing risk transfer solutions. As this shows, discussants **strongly converged** around the view that insurance constitutes the most dominant risk transfer instrument to date. Other approaches mentioned in relation to insurance included the already existing Fiji Clearing House for Risk Transfer; and other upcoming modalities such as the development of an implementation mechanism under the InsuResilience Initiative, which aims to explore and create solutions along the finance and insurance value chain; the development of a regional framework for resilience facilities; and work currently underway at PCRAFI, which aims to look at gaps within existing insurance mechanisms in the Pacific. The latter engages insurance industry experts working in the area to help aligning the regions' and countries' insurance needs with the risk levels they face.

Most importantly, the discussants demonstrated **relatively strong convergence** with regard to the view that first, insurance should not be treated as a standalone instrument but be part of a comprehensive risk management (CRM) approach and second, that risk transfer and particularly insurance represent only one Climate and Disaster Risk Financing (CDRF) instrument. In this context, **multiple discussants** also pointed out that insurance is unfeasible to address slow onset events. One discussant also highlighted a recently published report by the World Bank as a document that provides an accessible overview of current questions and concerns around insurance and its applicability in the context of climate change.[1]

Further types of CDRF instruments that were mentioned in the context of dealing with climate induced l&d were a disaster emergency fund in Kenya, including a cash transfer mechanism; and catastrophe bonds. Generally, the discussions entailed references to different typologies of instruments associated with l&d finance more broadly, with insurance being mentioned most prominently, but also touching upon further, partially associated typologies such as risk sharing; disaster risk financing frameworks; forecast based financing; disaster emergency funds; and a global solidarity fund.

[1] http://www.bmz.de/de/zentrales_downloadarchiv/themen_und_schwerpunkte/klimaschutz/DFRI_G20.pdf

2. The applicability of risk transfer for the work of loss and damage, including but not limited to concepts of availability and accessibility

The subsequent discussions on gaps and needs as well as potential solutions to overcome those gaps and the challenges associated with that, centered mainly on the applicability of risk transfer in the context of l&d. More specifically, the debate seemed to be structured around the tree themes of 1) Risk transfer, particularly insurance, and its linkages to CRM; 2) Insurance and its relationship to other CDRF instruments; and most prominently, 3) Accessibility and availability, including affordability and fairness concerns in the context of risk transfer solutions, including the issue of premium support and how to finance it.

1) Integration of risk transfer into CRM (particularly with view to insurance)

Over the course of the SED, discussants **strongly converged** around the need to understand and implement risk transfer much more strongly as an instrument that can provide multiple benefits for CRM. More specifically, **multiple discussants** mentioned the necessity to raise awareness and thereby better facilitate the realization of risk transfer benefits beyond pay-outs, such as improved risk awareness and understanding (e.g. modelling capacities) facilitated through the assessment of climate-related risks for the identification of those that are insurable; enhanced capacities to manage disaster risks and disasters respectively; and the incentives set for strengthening risk reduction efforts through risk-based premium pricing. Regarding implementation, **some discussants** highlighted, however, that so far risk transfer tools are not integrated holistically and that it needs to be ensured that risk transfer produces no additional burden for local communities, be it in the form of a financial burden or maladaptation. In a similar manner, one discussant also highlighted that the understanding of the integration of risk reduction and risk transfer is still very weak and needs to be improved.

One proposed solution to help ensure that all these components can work together in the most effective way, and around which discussants seemed to **converge relatively strongly**, was the necessity for the WIM to link adaptation and risk reduction needs more strongly to its CRM discussions. Additionally, the WIM should explore ways of intensifying the linkages between the climate change and the DRR communities. A further solution proposed to enhance the viability of risk transfer solutions in the context of CRM, was the development of an access framework to insurance facilities, which includes the requirement of demonstrable commitments to change towards more risk reducing behavior.

Multiple discussants also highlighted concrete challenges regarding the application and limits of risk transfer in the context of comprehensively managing l&d risks, pointing out the risk of insurance to become unviable in the face of more dynamic weather scenarios and the need to consider alternative options if climate change happens faster than expected. In this context, the discussants **converged very strongly** around the notion that risk transfer constitutes only one of many solutions for dealing with the broad spectrum of climate and disaster risks – not only regarding the possible intensification of future l&d risks, but also with view to current l&d risks that cannot be tackled by insurance. One concern expressed in this regard was the misdirection of already strained resources due imperfect hedging and basis risk, that is, the inability to correctly determine the risk thresholds and associated pay-outs within parametric insurance schemes, especially in the long-term. The l&d discussions, so the opinion expressed by **several discussants**, should thus not be constrained by only concentrating on insurance-based solutions, but cover the entire spectrum of the work done on l&d.

Potential solutions highlighted the need of contextualizing the application of insurance from a risk layering perspective in order to facilitate the analysis of the multiple risk layers associated with different local contexts and climate change. Risk layers differ according to the combined severity and frequency with which they occur. The objective of risk layering is to identify the right options for dealing with the different risk layers as well as the most cost-effective mix of risk financing tools to go along with it. It was furthermore argued that the respective discussions around different risk financing options should – again – be embedded into broader CRM efforts at the national level. As these discussions demonstrate, approaches allowing to discern whether and when insurance constitutes a feasible solution for individual countries emerged as a substantial need around which the discussants **converged**. Against this background, however, several barriers were mentioned. These will be listed below.

2) Insurance and its relationship to other CDRF instruments

One gap, which was **highlighted repeatedly** by a variety of Party and non-Party stakeholders, including civil society organizations and developing country Parties as well as Annex I countries, was the lack of approaches which assess the risks in developing countries that need coverage, and which identify as well as compare the specific options feasible to address those needs. In this context, some civil society organizations stressed the lack of impact evaluations and quantifications of paid claims of existing insurance schemes as well as the therewith associated lack of cost-benefit analyses (CBA). These were considered essential to allow for better comparisons of the feasibility of insurance solutions and its opportunity costs with that of other CDRF instruments.

Further proposed actions to address the feasibility issues around insurance as a CDRF instrument included the need to comprehensively study and map which type of financial instrument is feasible to cover which kind of impact; to identify gaps when doing so, in case the existing CDRF instruments seem insufficient to address these gaps; and to collect case studies from around the globe, different contexts, different countries and different levels. One discussant from Africa moreover highlighted the need of support from the Convention to conduct the CBAs needed to allow for such a fully-fledged and comprehensive comparison.

3) Accessibility and availability, including affordability and fairness concerns regarding the design of risk transfer

Accessibility & availability: Regardless of the type of CDRF instrument applied, discussants especially from developing countries and civil society organizations, **strongly converged** around the notion that the lack of financial mechanisms that can be accessed in the recovery and reconstruction phases is a major hurdle for many developing countries, with one particular example mentioned being the Pacific Islands. In terms of specifically risk transfer, this is particularly pressing given the difficulties of many developing countries, such as the African countries and the Pacific Islands, to access international re-insurance and capital markets as well as their own lack of financial markets, often leading to the result that self-insurance is the only form of insurance that works effectively. With view to the Pacific Islands, one discussant pointed out that the importance of e.g. a regional institution to manage access to finance, insurance and etc. was also mentioned by a framework developed by the secretariat. Another potential approach put forward to better facilitate the collaboration between private sector actors and governmental institutions, was a coordinated and integrated mechanism at the national level.

Particularly with view to risk transfer solutions, a further gap that was **mentioned repeatedly** were the limited capacities of developing countries to meaningfully engage with insurance. More specifically, discussants **converged** around the necessity for especially small economies to receive support not only regarding the accessibility and affordability of risk transfer solutions, but also with view to their capacities to implement and manage insurance schemes – otherwise the benefits of improved access and affordability might not be realizable at all.

One existing solution mentioned in this context was the InsuResilience Initiative. Here, one discussant highlighted that the funds provided through the InsuResilience Initiative are not necessarily used to only support premiums, but to help building the necessary capacities in developing countries.

A further factor which was mentioned to influence both, accessibility as well as availability, and which needs further consideration, was the balance between sovereign and private risk transfer and sovereign debt. Here, one discussant mentioned that in order to enhance accessibility and availability of risk transfer, the need to further explore first, the amount of sovereign debt the private sector is willing to take on and second, the implications this holds for regional facilities and local insurers. In doing so, entry points for vulnerable communities to build private insurance on top of such public-private arrangements need to be explored.

Finally, one of the most prominent gaps mentioned with view to ensuring the availability and accessibility of risk transfer solutions concentrated on the need to ensure the inclusion of those most vulnerable to climate change, that is women; disabled people; and the poorest population segments. Ways to address those gaps as well as the associated barriers are strongly intertwined with (international) fairness and equity concerns as well as affordability considerations; two issues which – alongside the need to integrate risk transfer stronger into CRM – featured most significantly in the SED.

Fairness: There was **strong convergence**, especially among discussants from civil society organizations, academia, and developing countries, that any risk transfer solution should be designed to fit the needs of those most vulnerable to climate change and be in line with international equity concerns in the context of climate justice.

Regarding the former, **multiple discussants** especially from civil society organizations, pointed to the need of making sure that insurance will not deepen existing inequalities. In relation to this, one proposed and important solution highlighted was to strengthen the involvement of civil society organizations in the design and decision-making processes associated with risk transfer, so that the necessary bottom-up vulnerability perspectives can be included. One discussant also mentioned that in the context of PCRAFI, local communities often use risk transfer as a means to access credit and that there is a need to consider such preferences for improving product design. Another discussant highlighted that current insurance instruments are mostly asset based, while there is a demonstrable need for shifting towards non-asset based insurance solutions, e.g. livelihood-based insurance mechanisms, which should be explored further.

Multiple discussants moreover advanced that specifically affordability represents a substantial barrier to ensuring just and effective coverage of climate risk insurance. As will be elaborated below, one significant avenue to improve the affordability of insurance is through smart premium support.

Regarding international equity concerns in the context of climate justice, there was **relatively strong convergence** among developing countries, academia and civil society, that risk transfer solutions in developing countries will need significant financial support from Annex II countries, including but not limited to premium support. As was argued by experts from developing countries and academia, currently, the most vulnerable populations have to shoulder the burden of increased risks from climate impacts caused by industrialized countries. The (premium) support of risk transfer solutions through Annex II parties would, however, represent one tool to organize the re-transfer of these risks back to those historically responsible and thus help to restore climate justice.

One proposed solution to ensure that the implementation of risk transfer solutions remains in line with international equity concerns, which was advanced by several discussants from developing countries, was the establishment of an international solidarity fund, potentially financed on the basis of the polluter pays (PP) principle.

Affordability: There was **relatively strong convergence** among all discussants that in order to make insurance accessible to those most in need of protection from climate impacts and also – as expressed by some discussants – to ensure international equity in the context of climate justice, smart premium support is necessary. One discussant expressed the opinion that such support needs to be permanent in order to keep risk transfer solutions sustainable and accessible, since the poorest and most marginalized population segments cannot be expected to pay the premiums that come with it.

At the same time, however, the discussants identified several barriers associated with subsidizing risk premiums, including: the need for subsidized premiums to not dilute risk-related pricing signals so as to not undermine adaptation and risk reduction efforts; the inherent difficulties in determining the right kind of subsidies; and the lack and need of research in this area on a global level. Most essentially, discussants **strongly converged** around the necessity to understand how to tailor premium subsidies to the wider CRM context in which insurance is applied.

Regarding the height of premium subsidies, one discussant mentioned the possibility to determine the climate delta of the risk levels, that is, those risks substantiated by climate change and not those which arise from e.g. lower development levels. The payment of these subsidies could then, in turn, be made using proceeds sourced through the PP principle as already mentioned in the context of the proposed international solidarity fund above.

Apart from such types of direct premium support, indirect approaches to address issues of affordability and to help scale up risk transfer mechanisms were mentioned as well. These centered on reducing the production costs of insurance through the improved capacities of remote sensing; lowering the transaction costs through digital technologies, such as blockchain; and pre-financing arrangements through aggregators.

3. Cooperation, sources and types of support: finance, capacities, and technologies

1) Cooperation needs

Building on the discussions above, **convergence** emerged regarding the need for stronger cooperation across the climate change and the DRR community; as well as for stronger cooperation with civil society organizations to ensure the integration of a bottom-up vulnerability perspective in the design of risk transfer solutions.

2) Capacity-building and technology:

Strong convergence emerged around the need to increase support of technical capacity-building in developing countries. One discussant also mentioned the need to provide developing countries with technologies that allow them to enhance their understanding of the risks their communities and their countries face.

3) Research

Furthermore, **strong convergence** emerged regarding the need to facilitate the mapping of the existing CDRF instruments as well as their feasibility in the context of different climate impacts – generally as well as on a country basis – potentially supported through the UNFCCC; the need to facilitate CBAs allowing for the comparison of different CDRF instruments, also potentially supported through the UNFCCC; and the need strengthen research efforts on premium subsidies on a global level.

4) Finance

In the context of finance, one potential means to fund risk transfer solutions which was mentioned repeatedly was the establishment of an international solidarity fund, potentially built on proceeds from the PP principle (applied to industrialized countries), with one discussant proposing to locate the fund under the UNFCCC Financial Mechanism. Additionally, the GCF was **highlighted repeatedly** as a potential mechanism to support developing countries financially and to incentivize the development of innovative, pro-poor approaches.