

Meso-level Anticipatory Insurance in Fiji

Submission by: UNU-EHS, MCII

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Country: Fiji

Climate hazard: tropical cyclone

Specific loss(es) or damage(s) experienced

Pacific Island Countries (PICs) are particularly vulnerable to the adverse effects of climate change, resulting in losses and damages that disproportionately impact local communities. According to IPCC's sixth assessment report, PICs are among the countries that will experience loss of lives and assets, biodiversity, and ecosystem services and are highly exposed to the risk of water and food security, economic disruption, forced displacement, and migration. This is caused by increases in air and surface temperatures, the sea level rise, and extreme weather events, despite their minimal contribution to global greenhouse gas emissions.

Fiji is one of the PICs, which is already experiencing the increased frequency and intensity of tropical cyclones and the vulnerable and low-income population segments, persons with disabilities (PWDs), and micro, small and medium enterprises (MSMEs) are most affected by climate risks due to their limited coping mechanisms and resilience measures. Current solutions are insufficient to address losses and damages, particularly financial risk transfer mechanisms at micro and meso levels are inadequate to meet the needs of the local communities.

Actions taken and/or planned to holistically manage losses relevant to comprehensive risk management

To address the losses and damages caused by tropical cyclones, the Pacific Insurance and Climate Adaptation Programme (PICAP), which is jointly implemented by the United Nations Capital Development Fund (UNCDF), the United Nations University Institute for Environment and Human Security (UNU-EHS) through the Munich Climate Insurance Initiative (MCII) and the United Nations Development Programme (UNDP), in collaboration with the UN Office for Disaster Risk Reduction (UNDRR), piloted a meso-level anticipatory insurance product in Fiji. Unlike the other parametric climate risk insurance products previously launched by PICAP across PICs, this innovative solution, integrates early warning systems to enhance disaster preparedness, thereby limiting losses at the community level through pre-arranged financing.

At its core, parametric climate risk insurance operates on predefined triggers, providing payouts after events and when predefined parameters are met and exceeded. The new tropical cyclone insurance product incorporates the concept of Anticipatory Action (AA) – an action taken before extreme weather events to minimize the impact before they strike. This means, the triggers are based on early warnings such as wind speed and weather forecasts. There are two components to the Anticipatory Insurance cover: (1) An anticipatory component with an ex-ante payout of up to 20 percent of the total sum insured based on the predicted tropical cyclone intensity measured through wind speed and pressure; and (2) a post-event payout of up to 80 percent of the sum insured, based on actual windspeed recorded at the location. Any additional payout, if any, is calculated once the final cyclone track data is published.

Post-event payouts are adjusted based on the anticipatory payout based on the following conditions:

- I. if the payout amount calculated based on the final post-event data equates to the anticipatory payout, no additional payouts will be made to the policyholder after the event;
- II. if the payout amount calculated based on the final post-event data is smaller than the anticipatory payout, no refund is expected from the policyholder after the event; and
- III. if the payout amount calculated based on the final post-event data is greater than the anticipatory payout then the balance will be paid to the policyholder after the event.

A participatory approach has been adopted throughout the design phase of the project, ensuring the engagement of different groups (women, men, children, elderly, and persons with disabilities) in consultations and considering specific needs, vulnerabilities, exposure and capacities. Following regulatory approval from the Reserve Bank of Fiji, a local insurer Sun Insurance offered the anticipatory insurance scheme, and three interested agricultural cooperatives were selected for the pilot phase where the premium support was subsidized by UNDRR. Other additional farmer associations acknowledged the potential benefit of the product to its members and chose to buy the insurance at their own cost.

Climate risk insurance solutions at the community (meso) level such as the one described can be vital for addressing the losses and damages caused by climate change, particularly when linked with anticipatory action. These solutions offer essential financial protection against climate impacts, compensating for loss of livelihoods, assets, and lives, and enabling communities to recover from disasters. The private sector's involvement is crucial in scaling up these initiatives, bringing expertise, resources, and innovation to tailor insurance products to community needs. By integrating anticipatory action into these solutions, such as early warning systems and in this case, pre-event financing, communities can proactively mitigate risks, enhancing their resilience to climate-induced L&D.

Supporting link(s) with additional relevant information

PICAP website: <https://www.uncdf.org/pacific-insurance-and-climate-adaptation-programme>

News post: <https://www.undrr.org/news/pacifics-first-anticipatory-action-pilot-insurance-scheme-provide-fijian-farming-groups-funds>