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Item 7 (a) of the provisional agenda

IMPLEMENTATION OF ARTICLE 4, PARAGRAPHS 8 AND 9, OF THE CONVENTION

PROGRESS ON THE IMPLEMENTATION OF ACTIVITIES UNDER DECISION 5/CP.7

Views from Parties on possible additional terms of reference for the workshops on insurance referred to in decision 5/CP.7

Addendum

1. In addition to the submissions already received and included in document FCCC/SBI/2002/MISC.4, a further submission has been received.
2. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.

* This submission has been electronically imported in order to make it available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

FCCC/SBI/2002/MISC.4/Add.1

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UNITED STATES OF AMERICA

Submission of the United States on the Terms of Reference for Workshops on Insurance and Risk Assessment in the Context of Climate Change and Extreme Weather Events

Pursuant to FCCC/SBI/2002/CRP.5

August 2002

The United States appreciates the opportunity to comment on the terms of reference for workshops on insurance and risk assessment in the context of climate change and extreme weather events.

The role of insurance is only one of many factors that should be considered in seeking to develop in a sustainable manner and to assess and address the risks of impacts related to climate change. Although insured property is currently located primarily in developed countries, property coverage in developing countries is growing at an average annual rate of approximately 5%. With sound policies, developing countries experiencing growth in insurance penetration may be able to encourage the insurance industry's traditional role of promoting loss-reducing technology and actions. At the same time, it is important to recall indications in the IPCC Third Assessment Report and other reports that insurance mechanisms, particularly publicly funded mechanisms, can encourage mal-adaptation and increase vulnerability to natural disasters.

If the workshops are to be held, it is important that they have agendas that are sufficiently broad to put insurance within the context of overall strategies to assess and manage risks. Risk assessment depends in significant part on knowledge of the potential regional impacts of climate change, as well as the socio-economic factors that are largely accountable for increases in worldwide losses related to catastrophic weather events. Addressing risks must also be viewed in a similarly broad context, since national policies and actions related to coastal development, agricultural and forestry policies, and other public policies profoundly affect vulnerability to disasters. It is also important that the workshops be scheduled with enough lead-time to ensure appropriate expert participation.

Suggested Structure of the Workshop on Risk Assessment and Insurance

Purpose: To consider expert presentations on risk assessment methodology, risk reduction responses, strategies to address potential climate change impacts, and hedging strategies including the possible role of insurance.

Participation: Broad representation, including from developed and developing countries, all UN regions, and appropriate private sector and non-governmental organizations.

Suggested Topics:

1. What does climate science tell us about the regional impacts of anthropogenically induced climate change? Consideration of papers on the regional specification limits of climate models, and regional impacts analysis.
 - *Comments on Suggested Topic 1.* The effectiveness of national sustainable development plans and adaptation plans depend in part on knowledge of the potential impacts of climate change. IPCC and other assessments provide important information on projected regional impacts. However, there remains substantial uncertainty regarding the connection between global and regional projections of climate change, as well as the relative contribution of natural and anthropogenic factors in climate change. Moreover, predicting the potential impacts of climate change is compounded by uncertainties surrounding the sensitivity of environmental systems to climate change.

2. How can climate-related factors be distinguished from socio-economic factors in loss trends? Consideration of papers on methodology for national and regional assessment of impacts, data quality and availability, trends in population growth, growth in wealth, and other demographic trends, and environmental effects of various development scenarios.
 - *Comments on Suggested Topic 2.* Knowledge of the socio-economic factors that affect vulnerability to extreme weather events is of fundamental importance. Economic and insured losses associated with extreme weather have been increasing in recent decades. However, the IPCC Third Assessment Report and other reports note that societies' increasing exposure to weather-related losses is primarily attributable to demographic trends, notably population growth and growing wealth. In the United States, for example, hurricanes, wind, hail, and tornado loss trends are largely explained by such demographic factors. Insufficient information and technical complexity have made it difficult in many cases to assess with any precision the respective weight of socio-economic factors and climate-related factors in loss trends.

3. What measures can countries take at the national and local level to minimize the impacts of extreme weather events and other disasters? What is the role of national institutions? Consideration of papers on protective measures and response measures.
 - *Comments on Suggested Topic 3.* Inter-related with socio-economic trends are the actions of national institutions, which can substantially affect vulnerability to disasters including extreme weather events. Examples of these actions include the implementation of building standards, energy regulation, land use regulation in coastal and other at-risk areas, agricultural and forestry policies, and regulatory enforcement.

4. How to assess the tradeoff between adaptive measures to minimize impacts versus risk-spreading mechanisms such as insurance?
 - *Comments on Suggested Topic 4.* Adaptive measures, such as coastal setbacks or rolling easements, can help reduce loss risks. Insurance mechanisms, on the other hand, serve to spread loss risks, but do not necessarily reduce risks. IPCC and other reports note that in certain cases insurance mechanisms, especially publicly funded mechanisms, can lead to increased risk of losses, for example, by facilitating development in at-risk coastal areas.

5. How does the private sector insurance industry operate? Lessons learned by the insurance industry on availability, cost and actuarial soundness of insurance, the effects of the legal and regulatory environment, cross-subsidization, the effects of government insurance and disaster relief programs on private insurance mechanisms, and the financial exposure of governments and private insurers to extreme weather events.

Comments on Suggested Topic 5. Insurance penetration and cost is affected by a number of factors, including the legal and regulatory environment of the country in question. Insurance mechanisms may incorporate cross-subsidization, that is, the subsidization of higher-risk policyholders by lower-risk policyholders or by the public as a whole. This can encourage maladaptation. Research indicates that another important factor in insurance penetration is the availability and extent of governmental disaster relief, the expectation of which can tend to suppress risk-reduction actions and discourage participation in insurance mechanisms. Another important area of consideration is trends in the exposure to losses by private insurance carriers and governments as a result of extreme weather events.

Suggested Structure of the Workshop on Local Needs and Insurance

As noted above, there are a number of national circumstances that affect vulnerability to potential climate change impacts. These differing circumstances include national characteristics listed in Article 4.8 of the UNFCCC. These circumstances should be taken into account when considering adaptive measures and risk-spreading mechanisms such as insurance.

Purpose: To facilitate a dialogue and enhance understanding about national differences listed in Article 4.8 of the UN Framework Convention on Climate Change.

Participation: Broad representation, including from developed and developing countries, all UN regions, and appropriate private sector and non-governmental organizations.

Suggested Topics: Consideration of papers on national differences and how they affect impacts, measures to minimize impacts of climate change, and other adaptive measures.

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