MCII-GIZ Side Event at COP-21 (11 Dec, 11:30-13:00)

Effective post-2015 climate risk management: the role of NAP and climate risk insurance

Welcome note & Moderation: **Koko Warner (MCII)**

Opening Remarks: **Frank Fass-Metz (BMZ)**

- Adaptation to climate change will form a prominent part of the new Paris agreement. Comprehensive climate risk management and the National Adaptation Plan Process (NAP) are important concepts to further promote adaptation at the national and international level.
- Against the background of more frequent and more intense climate- and weather-related extreme events and their often unpredictable occurrence it is imperative to build and strengthen climate risk management. So how can climate risk management and the NAP process complement each other? And how can they be implemented in practice?
- Discussions will focus on a key instrument as part of climate risk management, namely climate risk insurance, and on the role climate risk insurance and NAP play in building climate resilience.
- As part of a major announcement on ways forward for the G7 initiative on climate risk insurance (InsuResilience), a total of USD 420mio will be used to rapidly increase access to climate risk insurance in poor and vulnerable developing countries. Germany committed to provide over 150 million Euros. The ambitious goal of InsuResilience is to provide access to insurance for up to 400 million additional people in developing counties by 2020.
- Through the Rapid Action Package, presented on 5 December, around 180 million additional people can be insured which would triple the number currently covered under climate risk insurance schemes.
- The three big insurance mechanisms that will be supported through the Rapid Action Package will be the African Risk Capacity (ARC), Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI).
- However, risk transfer is only one pillar of climate risk management:
- Mitigation of greenhouse gas emissions is the most important pillar to prevent and reduce negative impacts of climate change;
- Climate change adaptation and disaster risk management are another key pillar of climate risk management.
- National Adaptation Planning can help to integrate climate risks systematically into planning and budgeting processes. Moreover, NAP processes provide coherent programmatic approaches and are able to guide investments in the identified priority areas. Germany supports NAP-processes explicitly in 30 countries.

Minister Ulrike Scharf, Ministry for Environment, Free State of Bavaria (Germany):

- The German Conference of Environment Ministers was headed by Bavaria in 2015 and so, I have been following the climate change negotiations with great interest.

- The insurance sector will play a crucial role in searching for answers to address the climate change challenge and they have a lot of knowledge and good solutions to bring to the table:
    - 1: Assessing the range and magnitude of the risks we face.
    - 2: Providing possible recommendations to politicians.
    - 3: Bring in the expertise of insurance practitioners and their capacities to support policy makers in making solid decisions.

Simon Young (African Risk Capacity, ARC):

- My first COP-related event was in 2009 and I briefly wanted to note the incredible progress that has been done in the context of climate risk insurance in the process since then.
- Climate change was not the mandate under which ARC was setup. It is a great signal that approaches such as ARC receive so much interest now and it should be noted that people understand much more about insurance in the context of climate change.
- ARC was set up under two objectives:
    - 1: To enhance the efficiency of humanitarian risk financing, mainly in response to disasters (for ARC, this is food insecurity in the face of drought). Insurance can help make financing more efficient and help respond effectively to food insecurity and other challenges that climate related events can bring forward.
    - 2: To speed up financing flows and thereby better help overcome food insecurity in affected countries.
- Planning for those events has to be enhanced as well: Across sub-Saharan Africa, governments currently are not broadly involved in disaster response. So as a regional risk management platform, it is on top of agenda to support those governments in immediate response and also help them develop better, more sound planning processes.
- Early results of ARC include its fast acknowledgement: It was created in 2012, but until now almost half of the countries of the African Union have signed up to the ARC treaty.
- Mauretania, Niger and Senegal had payouts in 2014: For ARC it was important to be able to test the insurance mechanism early, so it was a good learning opportunity to help making the approach more robust.
- ARC is set up as an international insurance company to write risk for African sovereigns. It is supported by Germany, the UK but also from its member countries because they pay the premium themselves and are not dependent on support by donor funding. This is an important cornerstone in terms of the long term sustainability of the approach.
- ARC also undertakes extensive capacity building efforts with governments on issues including risk management and risk transfer. This will help foster local ownership and the integration of the approach in national planning processes.
- We currently develop two particular products to aim at enhancing the coverage portfolio of member countries:
    - 1) We would like to include coverage for cyclone risk;
    - 2) We work on a “replica coverage” through which international organisations (such as WFP and others) and NGOs can replicate the common sovereign coverage available to governments. This will allow those organisations to pay a premium from their own funds but the payout in case of a disaster will be

synchronised with the original payout of the coverage purchased by the government to complement both payouts and help the governments in their planning.

Stefan Hirche (KfW):

- The German Development Bank (KfW) has been supporting climate adaptation for several years and our portfolio supports a large number of countries worldwide. Our Latest innovation is through the development of the Climate Insurance Fund (CIF) because we see insurance as an integral part of adaptation.
- Some risks go beyond the self-help capacity of countries. Covering micro- small- and medium enterprises and poorer households is part of our objective with the CIF to help insurers develop and expand the offering of climate risk insurance in developing countries.
- CIF was set up in 2014 and started operating in 2015, and we are impressed how high the demand and interest of insurance companies and other financial intermediaries is on this approach.
- The fund is managed by CelsiusPro, which builds the pipeline and manages the overall portfolio. The reinsurance is mainly provided through Swiss Re but we are also working with other reinsurers. So far, the fund holds about USD 60mio, from which we invested USD 20mio in year 1 and will invest the remainder in 2016.
- CIF is currently looking for additional investors towards end of 2016.
- How does climate risk insurance facilitate adaptation in the countries KfW is supporting:
- I take Mongolia as an example. The World Bank has a programme for livestock insurance there, which is running successfully and has developed into a government programme. It supports the lending of herders against severe weather events in winter. Livestock in Mongolia represents their livelihood – the programme has built incentives to help them survive severe winter conditions. Bank branches that provide loans also offer advice to herders how to reduce their risk. It allows payouts for feedstock in case of harsh winters; payouts come very quickly to help them cope on short notice and keep their animals alive.

Christoph Feldkoetter (GIZ):

- Would like to highlight both topics: CRI and NAPs – because they complement each other in the broader continuum of climate risk management.
- Where risk cannot be avoided, you need risk transfer like insurance to come in and help in the response. The NAP process has no fixed boundary. It is a coordination approach which can guide priority investments in adaptation.
- The NAP process was established in Cancun, 2010 to address medium and long term risks for countries; it aims at mainstreaming adaptation into the sectoral work of governments and may act as an umbrella process for different adaptation initiatives.
- GIZ is supporting numerous countries worldwide to implement the NAP process (please refer to the slides from the ppt for a map).
- In addition, with regard to insurance GIZ particularly supports:
    - Financial inclusion by promoting financial literacy, access to products, and regulatory environments.
    - Agriculture and climate risk insurance: Data infrastructure, development of products.

- GIZ projects worldwide pursue public private partnerships (PPP) and similar arrangements. Examples are the RIICE project in Asia (Remote sensing-based Information and Insurance for Crops in Emerging economies) *(please refer to the slides of the ppt for more information).* Another example is the Strategic Alliance with Swiss Re which was formed in November 2015 to assist governments in identifying and accessing suitable climate risk transfer solutions

- To conclude my contribution:
    - Comprehensive climate risk management requires a mix of adequate responses.
    - NAP is the overarching process to promote a coordinated approach to climate risk management.
    - NAP can guide adaptation investments that themselves improve insurability.
    - Insurance protects people from risks that adaptation measures cannot entirely prevent. For instance through the G7 InsuResilience Initiative.
    - We need to develop innovative, field-tested solutions that help to upscale and integrate coverage of both NAP and climate insurance
    - GIZ is able to cover the entire spectrum of comprehensive risk management.

Isaac Anthony, CCRIF:

- The Caribbean is known for many things, including beautiful beaches and friendly people – but also for damaging hurricanes and earthquakes.

- CCRIF was born out of hurricane Ivan who devastated Grenada and the Cayman islands, causing losses of around USD 8bn in the Caribbean. Grenada experienced a GDP loss of around 200%. The World Bank was approached and requested to establish some formal risk transfer mechanism.

- CCRIF provides parametric insurance coverage against damages from tropical cyclones and earthquakes – in 2014 we were able to add coverage for excess rainfall to member countries.

- The main challenge of member states to CCRIF is the disruption of economic and political activity while recovering from post-disaster fallouts. Most of the traditional pledges for post-disaster response take a lot of time to manifest, so CCRIF has a major strength in providing immediate cash flow when countries are faced with a major event.

- Parametric insurance is much faster in terms of delivering a payout than indemnity-based products since the payouts are based on a model that links the severity of a hurricane to the actual losses and relates the payout accordingly. If payout is due, countries receive the funds within 14 days after a trigger is hit.

- For governments it is a major step to decide on putting aside parts of their budget to cover a insurance premium. The value proposition for a regional insurance pool is that it enables the provision of insurance at a much cheaper rate than if a country would try to purchase insurance coverage individually in the international market. The more countries take part in the pool, the cheaper the individual premium gets. In the case of CCRIF, all revenue of the premium will be reinvested into the pool, to help reduce the premium even further.

- In the context of least developed countries, how can CCRIF provide tangible support for people on the ground?

- CCRIF was initially only intended to provide sovereign level insurance to governments, but in 2010 CCRIF partnered with MCII to create two microinsurance products to reach out to individuals.

- When disaster strikes, people lose their livelihoods and what counts for a government, counts for people even more, so the Livelihood Protection Policy (LPP) was designed to target individuals and provide them with fast cash payouts after a severe weather event. In 2013, an event called the "Christmas Rains" affected farmers in Saint Lucia and LPP clients were able to get back on their feet very quickly.
- The Loan Portfolio Cover (LPC) on the other hand, was developed for financial intermediaries and financial service providers because traditionally, they are reluctant to provide financial services (such as loans) to farmers because they are highly exposed to the risk of defaulting on an agricultural loan in the case of a disaster.
- Both programmes cover rainfall- and wind damage – the next step is to integrate a drought product into the portfolio of risks covered.

Audience Discussion:

<u>Civil Society (Thomas Hirsch, Bread for the World):</u>

- First reaction would be applause for promoting a comprehensive understanding of climate risk management.
- Three recommendation to challenge, and encourage you:
    - 1: Be innovative! Negotiations and implementation is currently still taking place in silos. If integrated risk management is sought, breaking silos is the way to go! Business as usual cannot be an effective way to reach a more climate resilient society. Community based adaptation measures are not usually informed by science or experts or tied to national level actors – so bringing all the necessary actors together is what we need to encourage.
    - 2: Include the poor in the approaches and enable them to become climate resilient. That means, you have to seek ways to create more ownership on both ends.
    - 3: Be ready so subsidise the build-up of insurance.
    - 4: be participatory and make NGOs real stakeholders at all levels of the implementation. Foster their capacity and work with them but also through them to reach out to the people in need.

Have developed countries been influenced in their response by such approaches where insurance works with national adaptation or are developing countries more on the edge of this innovation?

→ Until a few years ago, adaptation was uncharted territory. Germany, for example, undertook a thorough vulnerability analysis to explore questions including "what are key vulnerabilities?", "what are the best measures to cope and prepare?", "how to strengthen governance?" etc. This analysis has made a major impact on the way Germany deals with prevention.

→ Thailand on the other hand had major flooding in 2011 which impacted global supply chains because the production in Thailand was interrupted by the event. After this experience, a risk-based implementation plan was drawn up for Thailand and they are still a forerunner in terms of adaptive decision making.

What are examples of the institutional arrangements if a country would like to join a regional pooling programme?

→ Some Central American countries have become part of CCRIF SPC recently. CCRIF SPC is structured in segregated portfolios to give the opportunity to expand to other countries. It takes about five to six months to include new countries. Step 1: Risk profiles; Step 2: segregated cell has to be established to include the new country.

→ Each country or group of countries can also have their own solution but this takes a number of years to be setup so joining a pool is much more viable.

→ ARC structure has two parts: ARC agency (specialized agency of African Union) + ARC Ltd. as the primary insurance company. Countries that are members to ARC take out insurance from ARC Ltd.

How to best address the challenge of basis risk?

→ Unlike in traditional approaches, there are no on the ground loss assessments with parametric insurance solutions. Basis risk can be addressed by using more accurate data and also further develop the models that support the product in order to have the resolution of the data match the capability of the entity taking on the basis risk.

Premiums are based on meteorological forecasting, but do human affairs have any chance of influencing the premium tables?

→ (ARC) The rainfall data and crop protection data is overlaid with vulnerability profiles, localized in each country separately to make sure costs are calculated per person expected to be affected.

Thinking about a worldwide regime of insurance for climate insurance: how could there be a set up global scale?

→ to establish a global regime, it will require the countries to become a member of the scheme.

→ If you provide cover, the governments pay a premium and in case of elections and the challenge of basis risk which could lead to the insurance not paying out, those issues will have major effects on political developments going forward. So this is why in an international context, it might be hard to get the same degree of buy-in and ownership than you would see it at the regional level. Here, governments are usually willing to work together on setting up such measures.

→ Another solution could be taking the risk of all the regional pools and transferring it into the international financial markets.