

Rethinking the role of Insurance: Driving transformation in the context of climate change related loss and damage

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Session IV: Implications of loss and damage to climate risk management: What challenges and opportunities lie ahead in governing adaptation?

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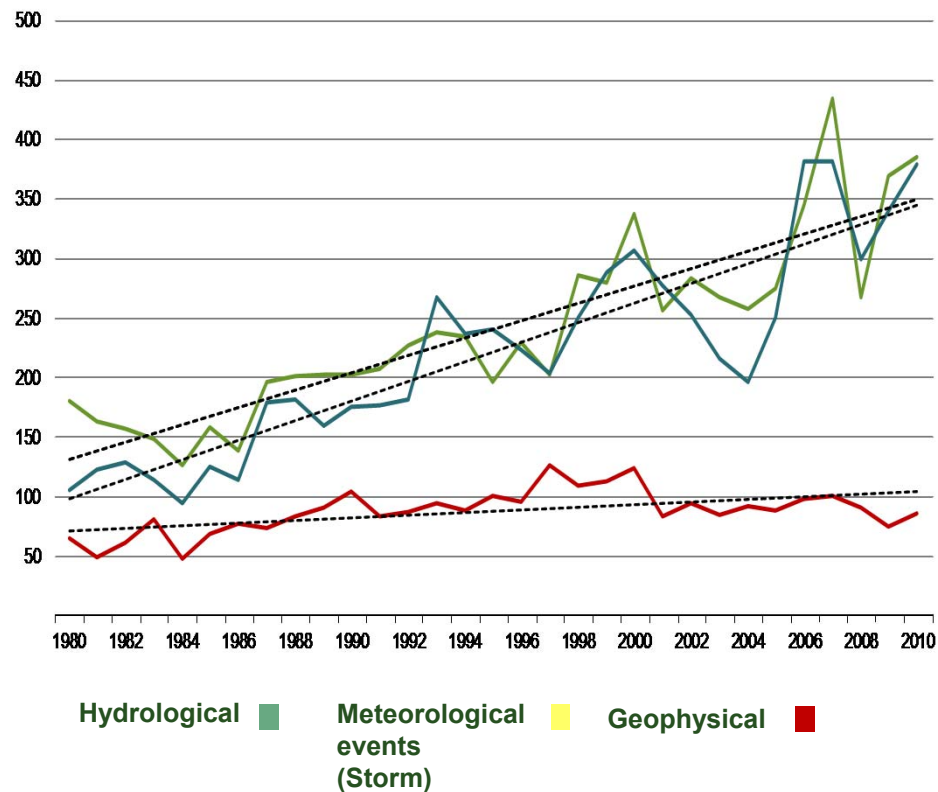
Central message: Rethink insurance from „payout mechanism“ to helping drive transformation



- Rethink insurance and other risk transfer tools from „payout mechanism“ to helping drive transformation
- To effectively address the challenges of weather and climate-related loss and damage, it is imperative to **rethink risk management and insurance from that of “payout mechanism” to 5 essential roles that will help drive societal transformation** in the face of dangerous climate change.

Insurance data and scientific studies indicate the weather extremes are increasing in frequency and magnitude

Natural catastrophes worldwide, 1980 – 2010
Number of events by peril with trend



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NatCatSERVICE – As at January 2011

Human contribution to more-intense precipitation extremes

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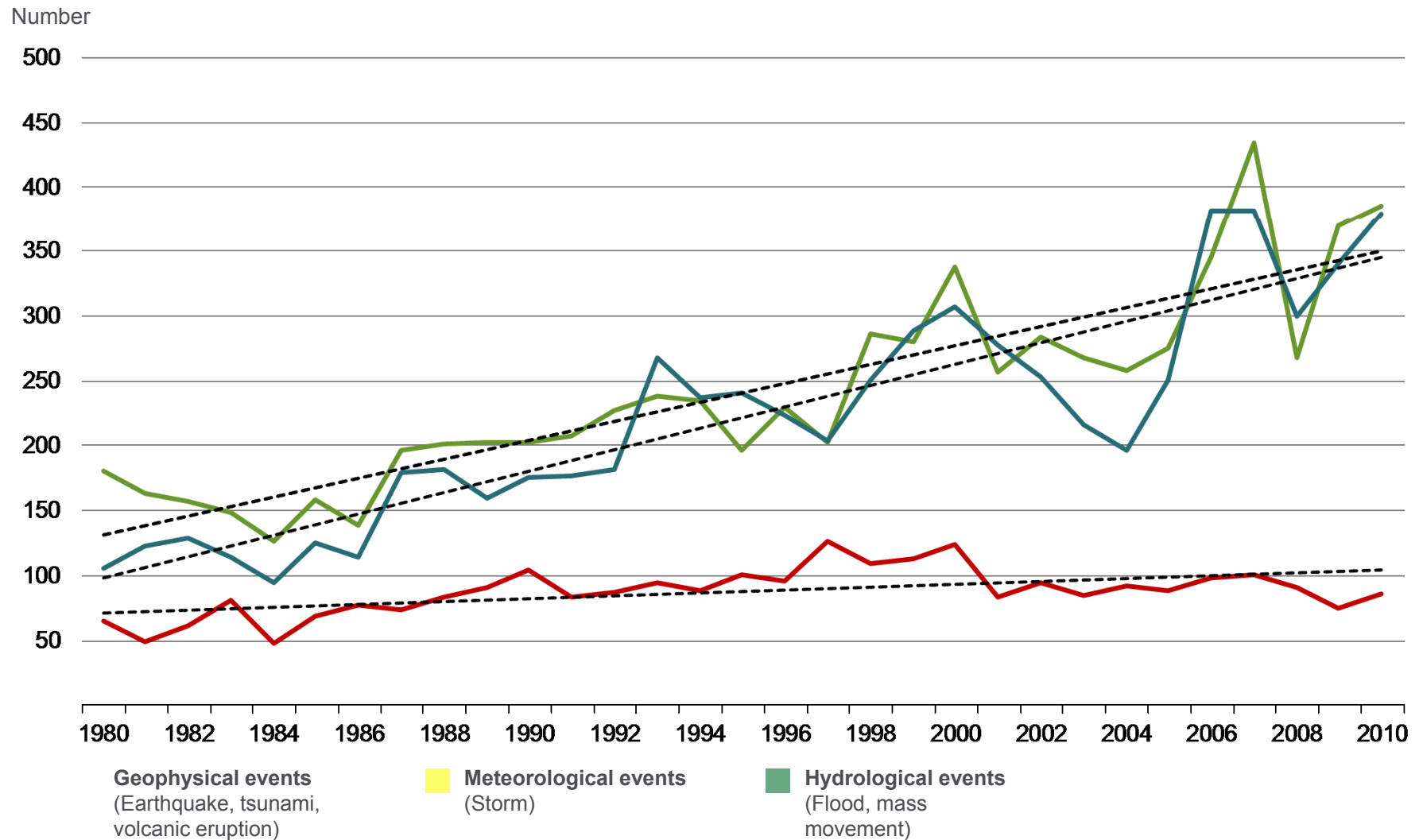
Nature 470, 378–381 (17 February 2011) | doi:10.1038/nature09763

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“Here we show that human-induced increases in greenhouse gases have contributed to the observed intensification of heavy precipitation events found over approximately two-thirds of data-covered parts of Northern Hemisphere land areas... **Changes in extreme precipitation** projected by models and thus the impacts of future changes in extreme precipitation, may be **underestimated** because models seem to underestimate the observed increase in heavy precipitation with warming”.

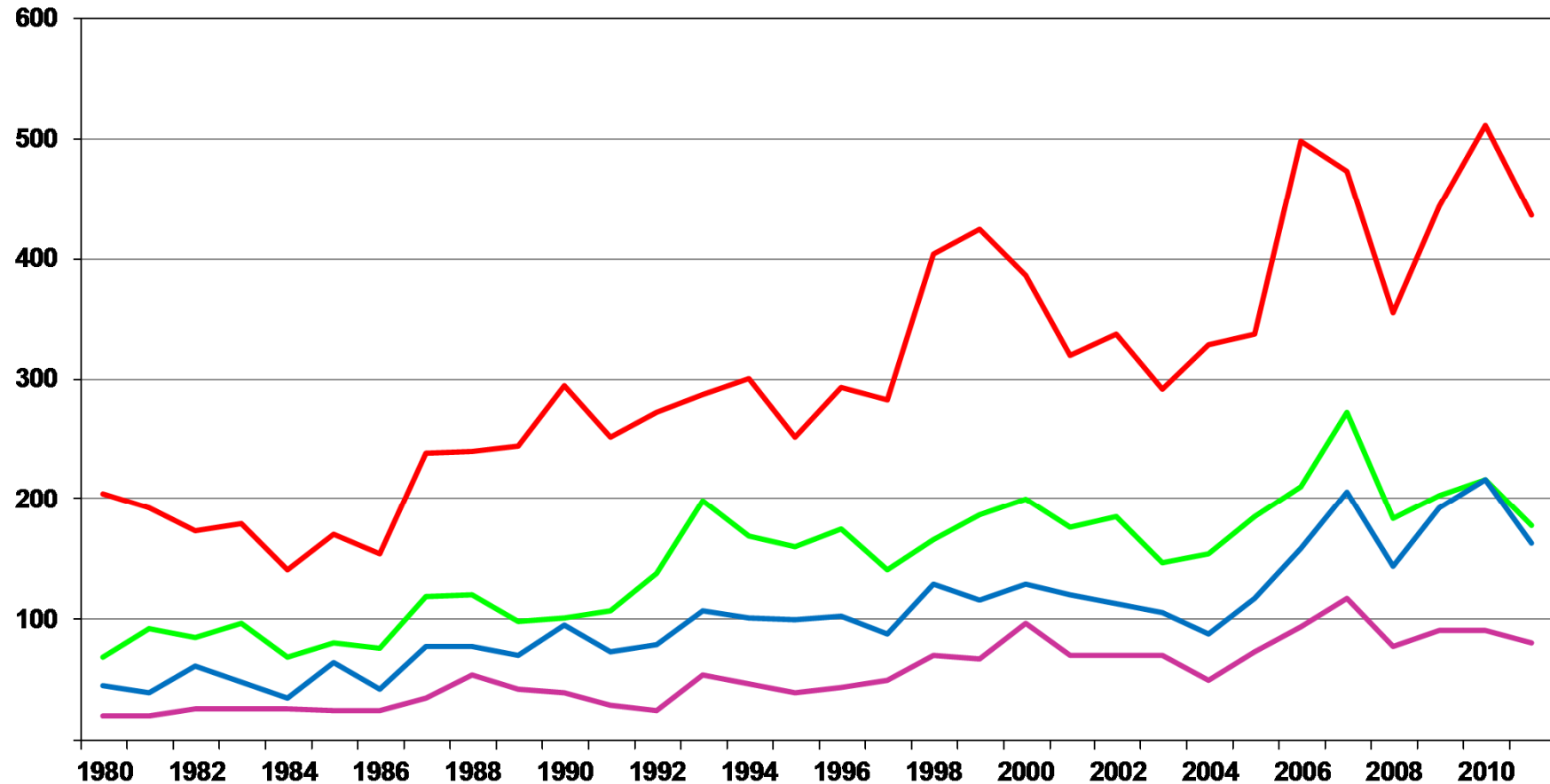
Natural catastrophes worldwide, 1980 – 2010

Number of events by peril with trend



Global weather related loss events 1980 – 2011

Number of events in different income groups

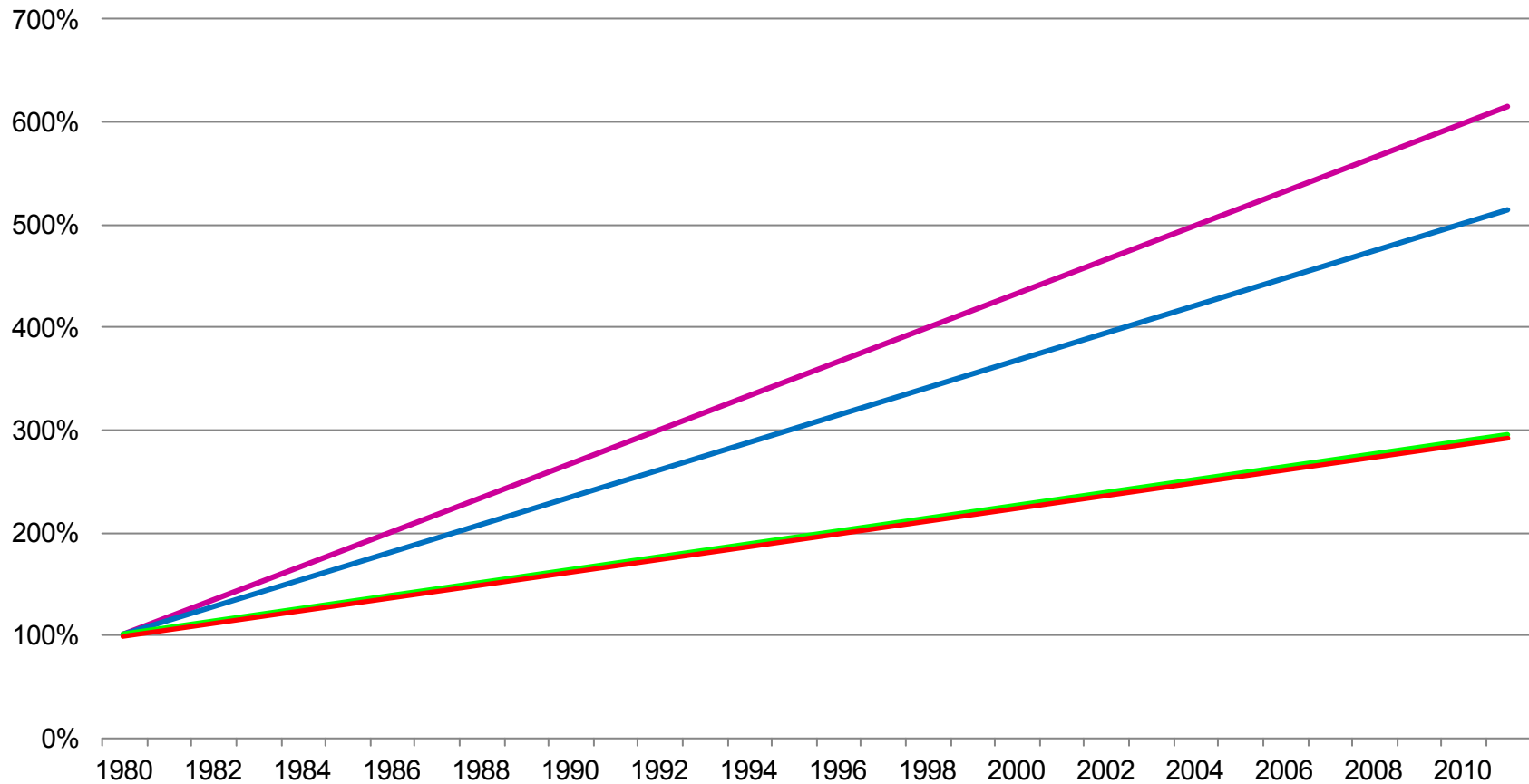


Income Groups 2012 (defined by World Bank, Dezember 2011):



Global weather related loss events 1980 – 2011

Relative trends of number of events for different income groups



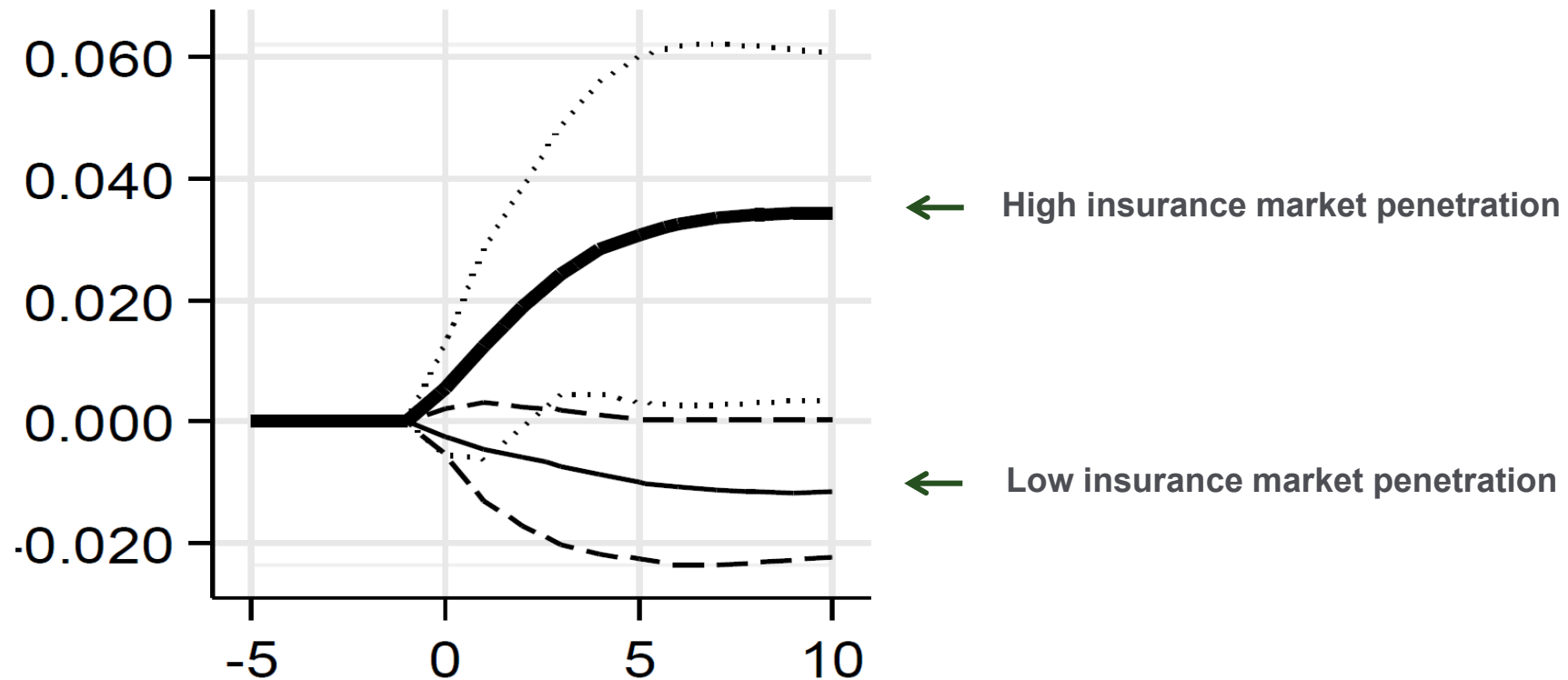
Income Groups 2012 (defined by World Bank, Dezember 2011):



Countries with low insurance penetration levels show decreases in GDP after weather related catastrophes

GDP p.c. development in countries with different levels of insurance penetration

x 100% trend deviation after a weather related catastrophe

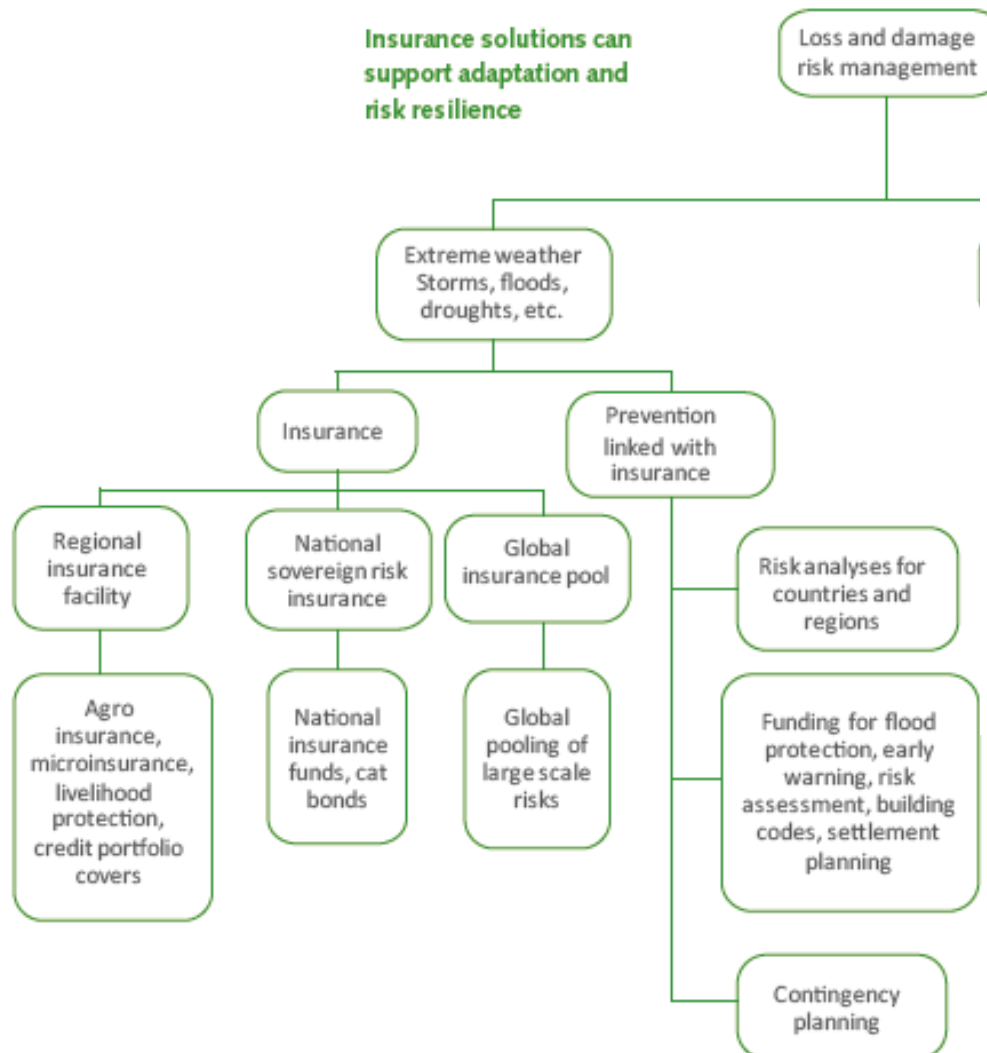


Source: Melecky M et Raddatz C.(2011) „How Do Governments Respond after Catastrophes?“ World Bank;

Which risks are insurable?



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What is the problem?

The burden of loss and damage today

- **Development**: Climate change poses a moderate threat to current sustainable development and a severe threat to future sustainable development
- **Adaptation deficits, barriers, and limits** to adaptation exist and can impede sustainable development
- **Uncertainty** about how, where, and when the risks associated with climate change might manifest a challenge—what can be done? What tools are needed to manage risk?
- **Social values**: Societies face the task of defining how to manage these risks and what levels of risk without compromising what they value most, what defines their societies. Managing these risks requires dialogue and transformation.

My country needs resources to finance disaster-related activities. If my country does not plan disaster finance, & if humanitarian aid is all we have to pay for disasters, then projects such as building important infrastructure are never fully executed...development really suffers.

In the face of constant disaster shocks, we need tools that will reduce poverty, & the strain of disasters on development.

Rethinking: 5 Roles of insurance to help drive transformation

1. Address barriers to adaptation through a mix of approaches to manage and reduce risks
2. Incentivise loss reduction and resilience building
3. Assess loss and damage potential
4. Reduce financial repercussions of volatility & create more space for certainty in decision making
5. Provide timely finance to cover loss and damage

UNFCCC leadership & regional implementation of climate risk insurance facility



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Function	Modality
Assess loss and damage potential that support decision-making and facilitate management of weather-related risks.	Guide and enable assessments of loss and damage potential for extreme weather events.
Facilitate policy coherence and appropriate use of risk transfer tools in a wider context of climate risk management and risk reduction.	Incentivize loss reduction and embed risk transfer into wider resilience building efforts.
Provide timely finance to cover loss and damage in order to reduce the financial repercussions of volatility related to extreme weather events.	Operationalize climate risk insurance through regional risk management platforms including regional risk insurance pools

Climate Risk Insurance Facility

❖ **Set-up:** Coordinated internationally but operationalised regionally

❖ **Objectives:**

1. Provide loss & damage assessments to support decision making and facilitate weather risk management;
2. Incentivise loss reduction: Embed risk transfer into wider resilience building efforts.
3. Provide timely finance to cover loss & damage to reduce repercussions of volatility related to weather extremes;

Function 1: Guide and enable assessments of loss and damage for extreme weather events



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- Provide guidance on assessment methods and data collection standards
- Support development of standardized hazard maps
- Coordinate data repositories and encourage coherence across information frameworks
- Systematic capacity building and technical assistance

Function 2: Ensure policy coherence appropriate use of risk transfer tools in wider context

- Provide guidance on purposeful, planned approaches to loss and damage
- Provide guidance on technical measures and design elements of risk transfer to incentivize loss reduction and resilience building activities
- Foster better understanding of the value added and scalability of a package of tools
- Facilitate regional and international dialogue to advance policy coherence and regulations on insurance-related measures

Function 3: Operationalize climate risk insurance including means of implementation



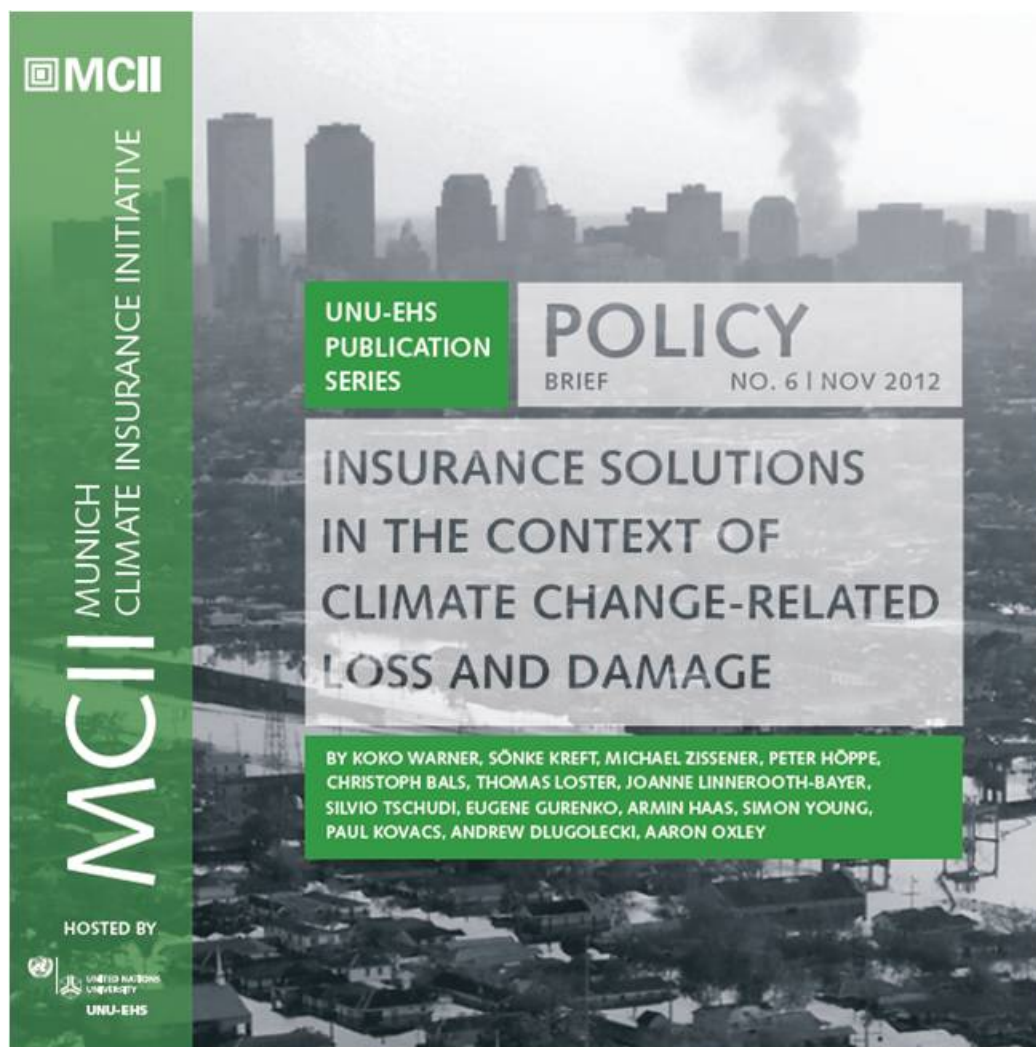
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- Set up an international or regional network of risk management and transfer platforms
- Support an evaluation of different roles of finance to support approaches under the Convention
- Channel commitment of the donor community in providing expertise, capacity building and financial support to innovative mechanisms for addressing financial aspects of L&D
- Plan and implement packages of tools to reduce risk and enhance resilience in regional cooperation

Insurance Solutions in the context of climate change related loss and damage



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The pattern of rainfall is definitely changing. Since the drought has struck severely this time, & people lost so many animals & crops. Farmers had to be resettled.

If the government has the resources to help the people, we would be able to better cope with the consequences of the drought. If our government fails, we fail—but if they provide support & help restore our productivity after the drought, we could avoid a famine from happening.