ClimateWise
REDUCING THE RISK FOR TOMORROW

MCII

UNEP Finance Initiative
Changing finance, financing change

Global insurance industry statement

Building climate and disaster-resilient communities and economies:

How the insurance industry[1] and governments can work together more effectively

We have come together as leaders in global risk management to issue a collective call to action to proactively address climate threats and build societal resilience.

The IPCC has identified that climate change, to which human activity contributes, is accelerating, and most aspects of climate change will "persist for many centuries even if emissions of CO_2 are stopped." [i] This is already manifesting itself through the increasing frequency and severity of extreme weather events such as heat waves, intense precipitation events and windstorms. In turn, these changes are increasing the frequency and severity of phenomena such as droughts, wildfires and floods. Climate change also causes long-term changes such as desertification and rising sea levels. [ii]

Without rapid and ambitious action to reduce global greenhouse gas emissions, the capacity to keep global temperature rises within limits considered manageable or "safe" will narrow significantly [iii], leading to major shifts in risk landscapes worldwide and threatening human and economic wellbeing. In this context, and with diminishing public resources to manage associated losses, it is prudent and timely to revisit the social role and value of insurance. Given the IPCC's recommendations [iv] to include risk transfer and insurance-related approaches for climate-resilient development, both public and private actors need to engage in a broader societal discussion about the use of insurance and the role of the global insurance industry in partnership with governments, in forging climate and disaster-resilient development pathways.

We agree to actions in the following key areas:

- Demonstrating leadership to decarbonise economic activity at the scale and pace demanded by scientific consensus and supporting corresponding public sector decision-making.
- Identifying and developing incentives to reduce climate risk by promoting risk awareness, risk prevention and risk reduction solutions that contribute to building adaptation to the effects of climate change including disaster resilience.
- Where risks cannot be effectively reduced or retained, supporting the transfer and sharing of such risks through insurance mechanisms including risk pooling mechanisms.
- Considering how insurance industry responses to climate-related events can shape the behaviours and decisions of governments, communities and businesses in managing climate risks.

The insurance initiatives represented in this statement have a combined membership that includes more than 100 of the world's leading insurers across Africa, Asia, Europe, North and South America, and Oceania:

ClimateWise	www.climatewise.org.uk
The Munich Climate Insurance Initiative (MCII)	www.climate-insurance.org
The United Nations Environment Programme Finance Initiative (UNEP FI)	www.unepfi.org

[1] The insurance industry refers to both insurers and reinsurers.

1. A joint effort: How public authorities and insurers can work together in building climate and disaster-resilient communities and economies

The insurance industry is uniquely placed in our economies as a market mechanism for the sharing of risk. Without this mechanism to support the pooling of risk, risks would be borne solely by individuals, households, businesses, governments and other societal entities. [v]

Insurance is a risk management tool that requires risk analysis and can incentivise risk prevention and risk reduction measures and investments. It enables risk transfer to protect individuals and entities from the financial hardship of unexpected losses. This type of protection is critical during times of catastrophic losses. Accordingly insurance underpins innovation and productive economic activities.

Governmental authorities and agencies develop and implement policy, regulatory and legal frameworks within which insurers operate and compete. These frameworks are critical to how effectively and efficiently the insurance industry is able to manage its risk exposures. Regulatory frameworks, incentives and public-private collaboration are also critical to providing vulnerable communities, particularly in developing countries, access to risk management services and risk transfer products offered by insurers.

Therefore a mutually dependent relationship exists between governments, society and the insurance industry. Increased risks resulting from climate change and ecological degradation pose a shared risk to the insurance industry, governments and society. This provides a strong incentive for collaboration, [vi] which can take place at each of the following steps along the insurance risk management value chain:

- Risk identification and analysis
- Risk prevention and risk reduction
- Risk transfer

1.1 Risk identification and analysis

Risk identification, data collection and risk analysis are at the core of risk management approaches. Publicly collected, open-source data and open-source hazard modelling can contribute meaningfully to national and regional risk management and investment decisions. The data gathered through insurance risk assessments can help catalyse the establishment of data repositories, while the insurance industry can motivate the standardisation of gathered data to improve regional and international analysis.

Public authorities and agencies and insurance providers can collaborate to improve the availability, reliability and accessibility of weather data in order to enhance risk prevention and risk reduction measures and risk transfer products. Collaboration can improve the reliability of asset statistics (e.g. human, incomes, property values) and their vulnerability and geographic distribution, as well as the development of loss models that are correlated with weather data. Consideration in risk analysis should be given to how risks interact and how to deal with uncertain future risks.

1.2 Risk prevention and reduction

It is in the interest of insurers to encourage policyholders to reduce their risk of loss. This not only reduces the likelihood of unexpected losses and the financial hardship associated with them; it may also help to make insurance more accessible and affordable and viable in the future.

Activities that mitigate greenhouse gas emissions and build adaptation to the effects of climate change such as disaster-resilience should be encouraged, particularly by addressing the novel risks associated with these activities. Among others, mitigation and adaptation measures should span low-emission power generation supporting a transition away from fossil fuels; transport and infrastructure development; energy efficiency; reducing emissions from deforestation and forest degradation (REDD+) and the management, conservation and restoration of ecosystems ("ecosystem-based adaptation"); land use, planning and management; infrastructure safety and resiliency (including the enhancement and enforcement of building codes); encouraging the use of resilient and sustainable materials; and disaster relief planning and management.

In the context of insurance, risk prevention and reduction can be incentivised by:

- Considering the timeframe of insurance cover for long-term risk.
- Making the issuance or renewal of insurance cover dependent on risk prevention and reduction measures (e.g. insurance coverage with international funding could depend on evidence that countries involved are making tangible progress in implementing their disaster risk management and contingency plans).
- Pricing risks at actuarially sound rates as this can provide a better indication of the nature and level of the risk. [2]

1.3 Risk transfer

In the context of policy, legal and regulatory frameworks, the following are examples of ways that public authorities and insurance providers can work together:

- Promote dialogue to develop integrated risk management approaches and risk transfer solutions, whether these are public, private or public-private insurance schemes, embedded in broader efforts to increase resilience.
- Develop appropriate regulatory frameworks that improve the accessibility and affordability of a range of risk management tools, including insurance, particularly for low-income and vulnerable communities, and for low-emission power generation, transport, land-use, and energy efficiency projects.

2. Recommendations for the multilateral community

Important international public policy processes, frameworks and platforms to promote sustainable development are on the global agenda. These include:

- **The post-2015 Framework for Disaster Risk Reduction**, which will succeed the "Hyogo Framework for Action 2005-2015: Building the resilience of nations and communities to disasters"
- **The post-2015 Development Agenda**, which will succeed the UN Millennium Development Goals
- **An International Climate Agreement** under the UN Framework Convention on Climate Change to be decided by 2015
- **The Global Framework for Climate Services**
- **The 2016 World Humanitarian Summit**

We urge the multilateral community to support widespread action on disaster risk reduction and climate change mitigation and adaptation, and their effective integration into public policy.

The multilateral community should understand and recognise the social and economic role and value of insurance, and mobilise the risk management expertise and resources of the global insurance industry to help meet the challenge of building climate and disaster-resilient communities as well as resilient economies. This can be done effectively and efficiently by focusing action along the insurance risk management value chain to:

- Support the provision, co-ordination and standardisation of risk identification and analyses to facilitate the management of weather-related risks. In particular support the availability, accessibility and quality of weather and climate information services.
- Identify and develop incentives that will result in risk prevention and reduction and embed risk transfer in wider resilience-building efforts, [3] ensuring alignment in policy and regulation.
- Facilitate, through insurance mechanisms, the provision of timely finance to reduce the financial repercussions of volatility related to extreme weather events and ensure more timely and targeted delivery of support when disasters strike.
- Establish regional risk management institutions and platforms to foster collaborative action to co-ordinate the management of weather-related risks and build risk prevention and reduction capabilities.

[2] Including consideration of premium support or other factors that affect the price of risk

[3] e.g. national adaptation plans (NAPs) under the UNFCCC

The insurance climate change initiatives represented in this Statement:

ClimateWise is a global insurance industry leadership group created in 2007 to drive action on climate change risk. The group leverages the insurance industry's expertise to better understand, communicate and act on climate risks with members committing to action under the ClimateWise Principles both individually and collectively through collaborative action. It is a member-led group facilitated by the Cambridge Programme for Sustainability Leadership.

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The Munich Climate Insurance Initiative (MCII) was initiated by Munich Re in April 2005 in response to the growing realisation that insurance solutions can play a role in adaptation to climate change, as suggested in the Framework Convention, the Kyoto Protocol and the Bali Action Plan. This initiative is formed by insurers, climate change and adaptation experts, NGOs, and policy researchers intent on finding solutions to the risks posed by climate change – both on the negotiating floor and on-the-ground in developing countries.

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The United Nations Environment Programme Finance Initiative (UNEP FI) is a platform that associates the United Nations and the global financial sector. With over 200 members representing banks, insurers, and investors from around the world, UNEP FI contributes the perspectives of financial institutions to United Nations and global activities on sustainable finance. UNEP FI's mission is to bring about systemic change in finance to support a sustainable world, which is highlighted in its motto, "Changing finance, financing change".

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This statement was published in November 2013

[i] Summary for policymakers of the IPCC Working Group I assessment report Climate Change 2013: the Physical Science, IPCC, 2013
[ii] Turning down the heat, World Bank, 2012
[iii] A safe operating space for humanity, Nature, Volume 461, Rockström, J., 2009
[iv] Special Report on Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation (SREX), IPCC, 2012
[v] The global state of sustainable insurance: Understanding and integrating environmental, social and governance factors in insurance, UNEP Finance Initiative, 2009
[vi] Insurance in a changing risk landscape: Lessons from the Southern Cape of South Africa, Santam, Council for Scientific & Industrial Research, WWF, University of Cape Town and UNEP Finance Initiative, 2012

Printed in Switzerland on FSC-certified paper. Design by Candy Factory.