

What are the opportunities for the insurance industry to contribute to developing country resilience to climatic extremes?

■ What is the issue?

Economic development and population growth, a higher concentration of assets in exposed areas and a changing climate are increasing the economic cost of natural disasters. The [2011 Intergovernmental Panel on Climate Change \(IPCC\) Special Report](#) emphasised that climate change will lead to changes in the frequency, intensity, spatial extent, duration and timing of extreme weather events.

It is the poorest countries which are expected to be the worst affected. Risk sharing and transfer mechanisms can increase resilience to climate extremes but penetration in developing countries remains low.

Insurance as a contributor to adaptation is now on the international agenda through the [United Nations Convention on Climate Change \(UNFCCC\) Loss and Damage programme](#) creating a possibility for new market development.

A ClimateWise Collaboration brought members (principally Lloyds, RMS, Santam, Swiss Re and Tokio Marine) together to explore these opportunities in more detail.

■ What are the implications?

The costs to development of extreme weather are incentivising investments in risk management

Following an extreme weather event the public sector can find itself paying for the cost of relief and recovery efforts, the reconstruction of public infrastructure and the provision of long term social support measures. An increasing understanding of these costs has created political space for discussions about investment in risk management. (See Swiss Re's work on the [Economics of Climate Adaptation](#) - ECA).

ClimateWise members, in collaboration with three other insurance initiatives (the insurers of the [United Nations Environment Programme Finance Initiative](#), [The Geneva Association](#) and the [Munich Climate Insurance Initiative -MCII](#)) submitted a [statement](#) to the UNFCCC in 2010 to raise awareness of the need for public and private sector co-operation if resilience is to be maximised.

Key messages

- **The costs to development of extreme weather are incentivising investments in risk management:**
Developing countries face the largest gap between insured and economic losses - average insurance penetration rates in the non-life sector are approximately one third of those in industrialised countries.
- **Improving understanding of combining different objectives:** Strategies and policies are more effective when they acknowledge multiple stressors, different prioritized values, and competing policy goals.
- **Linking to risk reduction:**
The full potential of risk transfer for adaptation is far from exhausted. Linking to risk reduction could offer a better means to meet development objectives and improve the commercial viability of schemes.



an initiative facilitated by

Improving the understanding of the intersection between development and commercial objectives

Many insurers continue to raise a number of commonly identified challenges to developing insurance products in developing countries including affordability of premia and lack of/uncertain weather data.

To improve understanding of opportunities ClimateWise members developed a [compendium](#) of disaster risk transfer initiatives in middle income and lower income countries. So far 120 schemes have been recorded, including agricultural (both index and indemnity based); sovereign disaster risk; micro-insurance and property catastrophe schemes. The majority of schemes are in South America and the Caribbean, followed by Asia, the Pacific and finally Africa. Researchers from the Grantham Research Institute on Climate Change and the Environment at the London School of Economics carried out analysis of the schemes included in the Compendium to deepen understanding about the key components that would allow public-private schemes to be both commercially viable and deliver physical risk reduction outcomes.

Analysis highlights that too often effectiveness does not address the different objectives of public and private stakeholders. Effectiveness would seem to increase when approaches acknowledge multiple stressors, different prioritized values, and competing policy goals.

Linking to risk reduction

A key emerging message is that financial risk transfer schemes that link directly to physical risk reduction measures on the ground could offer a better means by which to meet both development objectives and commercial viability requirements, but less than 15% of schemes reviewed make any consideration of physical risk reduction and only one of these makes explicit links to adaptation.

Developing Multi-Objective Partnerships - R4 Rural Resilience Initiative

Oxfam America with the World Food Programme, Swiss Re and other partners developed an initiative in Ethiopia that combined parametric drought insurance with agricultural extension and risk resilience known as the Horn of Africa Risk Transfer for Adaptation (HARITA) project. Complementing Ethiopia's innovative social protection scheme, the PSNP, it gives people the initial option to pay for their premiums with their labour, engaging them in community-led and locally designed climate adaptation initiatives in return for insurance cover. This approach is now being extended to three more countries.

▪ What can you do?

-  **Market developers:** Invest in doing business differently. Consider how insurance products for the vulnerable poor could contribute to multiple objectives and develop new approaches to increase commercial viability.
-  **Risk modellers:** When carrying out risk assessments, consider the role of systems models in fast-changing complex systems. Consider how weather data interacts with ecological buffering capacity.

ClimateWise is the global insurance industry's leadership group to drive action on climate change risk. This brief is the output of a ClimateWise Collaboration led by members. To contribute your views join us on www.linkedin.com (search 'ClimateWise') or for further information please contact the ClimateWise Secretariat: info@climatewise.org.uk | www.climatewise.org.uk | Tel: 020 7216 7530

