Thursday, 20 October 2011

Sector session 11

Empowering resilience: Communities, risk and insurance

Synopsis: Climate change will lead to considerable loss and damage, and developing countries will be hit hardest. How can the expertise gathered in disaster risk reduction, micro-insurance and alternative risk transfer help vulnerable communities adapt to climate change?

Summary: There's a technical language barrier preventing a clear understanding of concepts relative to climate change risk and insurance. A closer dialogue involving the insurance sector is needed. For the future, we need an adaptation framework: loss/damage, national adaptation plan for developing countries addressing the adverse effects of climate change including insurance needs and the creation of high level adaptation committee that deals with the aggregation of adaptation activities to provide guidance.

A green climate fund should reach 100 billion dollars annually, divided between mitigation and adaptation could be used for insurance mechanisms or arrangements agreed upon in the national legislation. The UNFCCC can help develop processes for insurance sector/convergence on principles for sustainable insurance. The Caribbean catastrophe risk insurance product, developed by 16 Caribbean governments and the World Bank is an example of a new approach. It deals with losses that are triggered on the basis of a new model, cutting down on time lags and making cash arrival happen in record time. It is the first time multiple governments join efforts to pool risks and by doing so reduce coverage costs. It represents a shift in the approach in how to deal with natural disasters; a proactive approach rather than a reactive approach.

In Ghana, the Ministry of Agriculture indicated a need for insurance in the sector for climate change issues. Regional groups in Africa express the will to come up with systematic insurance schemes to mitigate climate change. In developing countries, societies have no culture of insurance, but these are the vulnerable population who need insurance to develop more resilient communities, through micro insurance activities. It can then, due to the cost of traditional insurance plans, be sold in developing countries. Yet insurance companies are driven by profit and not altruism, and with a small island perspective, the total capital available isn't enough or sustainable for the needs of small island states.

A lot more research still needs to be done regarding the impact of disaster events on small island states and developing countries. Insurance is part of a mitigation strategy to understand real risks and not perceived risks. There is an obvious need for financial tools like credit and saving products, education and information. USAID focused on mobilizing private sector finance and it supports 8 micro-insurance programs but the conditions need to be created to enable the private sector to act.

Governments need to make clear who will pay for major disasters, i.e. recent Oil spills. Insurer are more active in the climate debate in Europe than in Washington resulting in three insurance response strategies : Alternative risk pooling, extending in order to reach vulnerable communities and risk reduction through climate adaptation. Therefore the insurance sector needs to partner more with others because the industry is better at looking backwards not forwards and it is not a climate expert.