Insurance Mechanisms in the Post-Bali Process

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Bali Action Plan: Risk Sharing

- Enhanced action on adaptation to climate change:
- international action to support implementation of adaptation actions;
- risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance;
- disaster reduction strategies;
- economic diversification to build resilience.

Bangladesh: “Development of new and innovative support mechanisms such as micro insurance, micro credit, weather derivatives and related other tools.” Written submission contained in FCCC/AWGLCA/2008/MISC.1

Maldives: “Development of new and innovative support mechanisms such as micro insurance, micro credit, weather derivatives and related other tools.” Written submission contained in FCCC/AWGLCA/2008/MISC.1

Barbados on behalf of AOSIS: “Since 1999 AOSIS has identified insurance related actions as essential for managing and addressing the increasing impact of climate change and climate related extreme weather events in SIDS. We believe this process should address AOSIS’ proposal for an international insurance mechanism to help SIDS manage the financial risks from climate change impacts and assist in the rapid recovery and rehabilitation from clima
Opening plenary 31 March Finance and insurance tools

Micronesi: Welcomes inputs from the business community “on innovative insurance tools that can be used to manage financial risk from the direct impacts of climate change, to help in the design of an appropriate international insurance mechanism for SIDS”.
Opening plenary 31 March

- **Cook Islands on behalf of AOSIS:** The work programme should welcome impact from the financial community on innovative insurance tools that can be used to manage financial risks from the direct impacts of climate change, to help in the design of an appropriate international insurance mechanism for SIDS.

  Informal plenary 2 April pm (on adaptation)

- **Samoa:** "Insurance scheme in form of an insurance pool made up from contributions of developed countries linked to their GHG emissions." Useful work in this connection was contained in 1CP.10. Access to insurance is difficult for some communities and payouts are linked to events in neighbouring metropolitan areas. Tools that could be adopted to address adverse impacts and generate adaptive capacity include hazard mapping, micro insurance, risk pooling etc.
- **Samoa:** "We suggest organising a small group of experts in the field of insurance, reinsurance, hazard assessment and financial risk management and others to submit a report to the AWG-LCA by the end of the year."
- Informal plenary 2 April pm (on adaptation)
- **Costa Rica:** Other processes such as the international strategy for natural disasters may contribute to the work of the AWG –CLA. Informal plenary 2 April pm (on adaptation)

THE THREE PILLARS OF THE FUNDING SCHEME			
	NCCF: National Climate Change Funds	MAF: Multilateral Adaptation Fund	
		Insurance Pillar	Prevention Pillar
Type of measures	Mitigation and adaptation	Insurance against climate change damages (extreme events)	Risk reduction and adaptation
Share of national CO_2 tax revenues	40% in high income countries 70% in medium income countries 85% in low income countries	30% of tax revenue from high income countries 15% of tax revenue from medium income countries 7.5% of tax revenue from low income country	
Governance of revenue allocation	As per national legislation	"Multilateral Climate Change Adaptation Fund"[9].	
Effective allocation of revenues	"OECD/IPCC type" of good practice guidance from "Multilateral Climate Change Adaptation Fund"	Funding of regional insurance coverage for damages of non-insurable risks caused by extreme weather events (storms, floods, droughts) to infrastructure/productive capital assets etc. Mandated insurance takes care of claims in case of damage (low and medium income countries)	Financing contribution to national climate change funds according to per capita and damage potential: fixed share (low and medium income countries)
Regulation needs	Compliance with lean set of criteria for countries to become eligible for funding from global fund	Clear insurance policy defining eligible extreme events and insured damages (legal basis for claims)	Agreements between global and national funds on use of global contribution for disaster risk reduction and adaptation

Table 2: Main characteristics of the three pillars of the proposed funding scheme: The National Climate Change Funds (NCCF) and the two pillars of the Multilateral Adaptation Fund (MAF): the Prevention Pillar for funding risk reduction and adaptation measures and the Insurance Pillar for damage repair.

Funding Scheme for
Bali Action Plan

A Swiss Proposal
for global solidarit
in financing adapt
"Bali Paper" upda
Final draft,
Berne, 27 May 20

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Three Insurance Priorities of Swiss Proposal

- The resources of the Insurance Pillar are reserved for the adjustment of market failures such as:
  - Extremely high damage potential for one single "low probability-high-risk" event, e.g. due to extreme weather events exceeding assets of any existing insurance pool,
  - Insufficient purchasing power to pay for insurance premiums of businesses and households in DCs and LDCs as a barrier to the development of an efficient insurance market,
  - High transaction costs of micro structure of risks and damages as a barrier to the development of an insurance market.
- The problem of moral hazard shall be overcome in the Insurance Pillar.
  - The sub-regional risk pooling will check free rider mentality to a certain extent. The payments from the Insurance Pillar shall actively encourage implementation of disaster risk reduction measures, because otherwise the insurance cover would decrease.

a) Low probability high damage risks

- The largest share of revenues from the Insurance Pillar will flow into covering low probability high damage risks of climate change.

- The insurance cover should be specified at the regional level and should be managed via public/private partnerships in which vertical risk sharing can be considered: While the private sector covers risks up to a certain limit, the public sector covers the climate-induced risks which exceed the possible risks that the private insurance sector is willing to take over. The threshold above which the risks exceed the private insurance coverage at the micro level needs to be clearly defined. In this process cooperation with the private sector is proposed.

b) Sub-regional micro weather risks

» Sub-regional "micro weather risks" are comparatively small damages (e.g. to small businesses or poor households in DCs and LDCs) due to weather anomalies which are increasing in frequency and scale due to climate change. These risks are currently difficult to cover by the private insurance sector as both the spending capacity for risk premiums and the knowledge about the risks are too low. A share of the revenue from the Insurance Pillar should be used for capacity building to develop (private) insurance markets in DCs and LDCs for evolving "micro weather" risks due to climate change and for developing the necessary data basis

World Bank and IFC

- „Insurance markets that help the poor cope with climate risks. One example of the latter would be the use of the WBG convening power to help develop private sector managed multi-country risk pooling for the reinsurance of catastrophic risks—one of the options under discussion through the Catastrophic Risk Insurance Working Group. Building on WBG experience in supporting payments for ecosystem services is another area worth further exploring."

- „The IFC is also collaborating with the Bank and other partners to develop and pilot new financial products relevant to climate change such as weather derivatives, a Global Index Reinsurance Facility, and other insurance products, as well as exploring ways to scale up our work with municipalities and private sector clients with particular emphasis on water infrastructure."

TOWARDS A STRA-TEGIC FRAMEWORK ON CLIMATE CHANGE AND DEVELOPMENT FOR THE WORLD BANK GROUP

April 13, 2008, prepared by the staff of the World Bank.

How to generate the necessary money for public private partnership?

- Climate regime as self-financing mechanism; get the incentives right (polluter pays; adaptation reduces premium); predictability; likelihood to generate necessary finance stream (adaptation about 50 bio annually until 2020);
- Promising mechanism for delivering this funding is international auctioning of AAUs to countries with reduction commitments; (e.g. Norwegian proposal; supported by AOSIS).
- Another option is a levy on countries based on a formula using criteria (responsibility, capability …) – see Swiss proposal, Mexican proposal, GDR …

- **Uzbekistan** “Provide for recommendations on integration of adaptation actions into sectoral and national planning.” Written submission contained in: FCCC/AWGLCA/2008/MISC.
- **Maldives** “Development of methodologies and outline for risk and disaster reduction strategies.” Written submission contained FCCC/AWGLCA/2008/MISC.
- **Tuvalu** “Possible themes for workshops include: … disaster reduction strategies.” Written submission contained in: FCCC/AWGLCA/2008/MISC.
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- **Uzbekistan** “Assess the links between disaster risk reduction strategies and adaptation.” Written submission contained in: FCCC/AWGLCA/2008/MISC.

- **SA on behalf of African Group:** Financing for adaptation should benefit from flexible mechanisms under Kyoto Protocol. Informal plenary 2 April pm (on adaptation)

- **Argentina:** "… explore … new and innovative mechanisms to drive developed countries, in a reasonable and fair fashion according to their historic and current national circumstances, to greatly increase their contribution to the Adaptation Fund."

- **Bangladesh:** "Sources of funding that could be mobilized to generate the necessary level of funding include carbon tax, aviation tax, raising the percent contributed by CDM activities." Written submission contained in FCCC/AWGLCA/2008/MISC.1

- **China:** "In addition to existing ODA, developed countries shall annually provide financial support of no less than 0.5% of their total GDP to support actions by developing countries to address climate change in developing countries." Written submission contained in CCC/AWGLCA/2008/MISC.1 G

- **South Africa** Public sector contributions should provide the larger part of adaptation financing. “We want private sector financing to be complementary to public sector financing.” Informal plenary 3 April pm (on finance) Funding - General
- **Philippines on behalf of G77 & China:** The work programme should address 4 issues: adequacy, access, mechanisms and transparency, and ways forward in the sense of mobilising funds. Informal plenary 3 April pm (on finance)
- **Cook Islands on behalf of AOSIS**: Detailed discussions of options for creation of a Convention Adaptation Fund and/or another funding system linked to GHG emissions. Informal plenary 2 April pm (on adaptation)
- **Maldives on behalf of LDCs:** The establishment of the LDC fund was insufficient to tackle urgent needs on the ground. Support Convention Adaptation Fund.
- Informal plenary 2 April pm (on adaptation)
- **Barbados on behalf of AOSIS**: While the Kyoto Protocol links adaptation funding to mitigation efforts, the Convention should link funding to Annex 1 countries’ GHG emissions. AOSIS has proposed a Convention Adaptation Fund linked to GHG emission based on the polluter pays principle. We look forward to discussions under the work programme on operationalising such a Convention Adaptation Fund.
- Informal plenary 3 April pm (on finance)

- WBG+RDBs - Climate Investment Funds (CIFs)
- Carbon Partnership Facility
- MIGA –carbon credit delivery guarantee
- IFC- Structured financing packages blending CF with loans and guarantees
- WB Treasury - bonds at reduced rates to advance to projects with climate benefits
- Climate Risk Insurance products customized to different needs