

FACT SHEET**Policy Brief: Insurance solutions in the context of climate change related loss and damage****What is loss and damage?**

As 'Loss and damage' is a new concept in climate change research there is no commonly accepted definition yet. For the current [Policy Brief](#) the following working definition of loss and damage, which includes the inability to respond to climate stresses and the costs associated with adaptation and coping measures themselves, was the point of reference:

Loss and damage refers to negative effects of climate variability and climate change that people have not been able to cope with or adapt to.

Why is loss and damage important now?

Today, loss and damage is already a reality for vulnerable communities. Climate change is intensifying and the limits of adaptation are increasingly being realized. Failure to address loss and damage now will compromise sustainable development and ensure that vulnerable countries that have contributed least to global greenhouse emissions will continue to suffer disproportionately.

How is the international climate risk insurance facility related to the loss and damage debate?

An international climate risk insurance facility is needed to better diversify risks of loss and damage from extreme weather events, lower the costs of managing these risks, and ensure more timely and targeted delivery of support when catastrophes strike. This could be part of a wider coordination function of a loss and damage mechanism. It could be operationalized through a series of regional risk management platforms (including risk insurance pools), which collaborate and coordinate on the management of loss and damage.

What are the main recommendations to and roles for the Convention in facilitating climate risk insurance in the context of loss and damage?

- ✓ Assess loss and damage
- ✓ Facilitate regional and international dialogue to advance policy coherence and regulations
- ✓ Operationalize a global risk insurance facility through regional risk management to address loss and damage, including regional risk insurance pools

Recommendation	Role
Provide loss and damage potential assessments that support decision-making and facilitate management of weather-related risks.	Guide and enable assessments of loss and damage potential for extreme weather events.
Incentivize loss reduction and embed risk transfer into wider resilience building efforts.	Ensure policy coherence and appropriate use of risk transfer tools in a wider context of climate risk management.
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 including finance mechanisms and other means for implementation.

What role does insurance have in the context of loss and damage due to climate change?

Insurance and adaptation

Insurance reduces the catastrophic impacts of disasters by spreading losses among people, geographical areas and time. If insurance solutions can be linked to disaster risk reduction strategies such as early warning, education, infrastructure proofing, building codes, land use management, etc., they will have benefits on the adaptive capacities of affected people in the long-term.

Assessing loss and damage potential

Risk assessment (hazard potential, exposure and vulnerability) remains at the core of insurance-related processes and is the prerequisite for identifying needs and policy priorities. It raises the awareness of affected people and thus contributes to new ways to manage risks. Sharing risk and loss data on regional and international levels can help establish data standards, repositories and other regulations, which in turn will contribute to meaningful risk management and investment decisions.

Incentivizing loss reduction and resilience building:

Insurance-related approaches set powerful incentives for prevention (as risks get a price tag, risk-reducing behaviour is encouraged). Following a risk layered approach (i.e. the combination of risk transfer and disaster risk reduction) helps to reduce the risk of both low frequency as well as frequent loss events. Also, insurance provides security in the post-disaster period (people have not to sell their assets, etc.) and ensures reliable and dignified post-disaster relief. The application of loss avoiding strategies can even be made a central parameter of insurance policy design and thus reduce premiums. On a larger scale (i.e. international level), risk management planning could serve as a prerequisite to participate in large-scale approaches.

Reducing financial repercussions of volatility and creating a space of certainty for decision-making:

Weather-related loss events have significant impacts on livelihoods and/or fiscal budgets – insurance solutions contribute to dampen these shocks that would otherwise lead to loss of livelihood and aggravated exposure to poverty risk. Transferring the risk through insurance approaches creates a safety net to enable productive, yet high-risk, investments that can spur economic development.

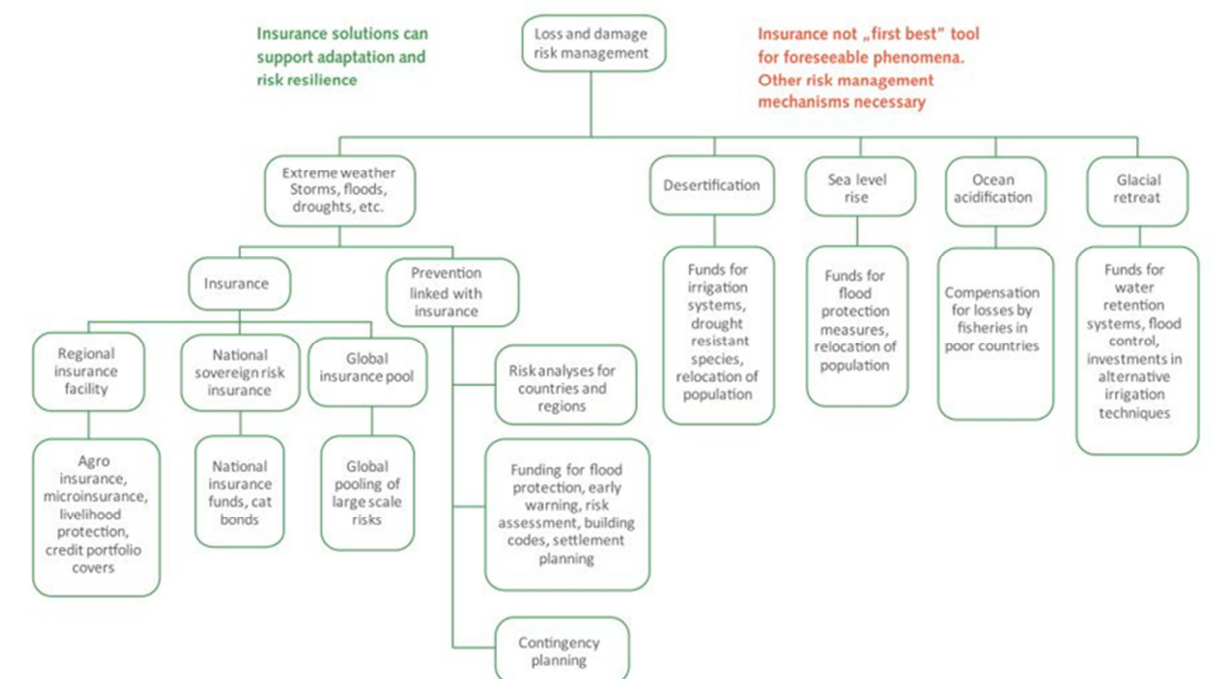
Is insurance a “silver bullet”?

Insurance is not the silver bullet and is above all not only about money. The submission at hand explores the potential roles of a range of insurance-related tools such as social safety nets, solidarity and catastrophe funds, insurance pools, microinsurance, catastrophe bonds and insurance linked to sectoral or community risk management programmes.

What are limits for insurance?

Insurance options can support adaptation and risk resilience for extreme weather, but are not appropriate for many, usually slower-onset, climate-induced impacts. Insurance is not appropriate or generally feasible for slowly developing and foreseeable events or processes that happen with high certainty under different climate change scenarios. The losses from long-term foreseeable risks, such as sea level rise, desertification and the loss of glaciers and other cryospheric water sources, are estimated to be substantial in the future.

Even for weather-related events, insurance would be an ill-advised solution for disastrous events that occur with very high frequency, such as recurrent flooding. Resilience building and prevention of loss and damage in such instances may be cost-effective ways to address these risks.



Is there a ‘one size fits all’ insurance for developing countries?

Tailoring risk management approaches to national contexts, and ways to evaluate which tools might be most appropriate for the particular risks and circumstances of a country are challenges of addressing loss and damage from extreme weather events.

Is there evidence for benefits of insurance at a national scale?

Apart from the regional example, the paper also shows that in countries with high insurance penetration, there is even a positive GDP trend deviation (adding GDP growth) after a weather-related loss event and sustainable additional growth is generated.

In contrast to this, countries with low insurance penetration after an extreme weather event suffer from a negative GDP deviation, which - if not compensated by other growth factors - can lead to long-term reductions in GDP, which inhibits their further development. If several such extreme weather events occur within some years they will drive poor countries even further into the poverty trap.

Are there any best practice examples of multi-country insurance approaches?

In the 2010 earthquake calamity in Haiti, the Caribbean Climate Risk Insurance Facility (designed to address hurricane and earthquake risk in the Caribbean) paid out almost US\$8 million within two weeks of the disaster. In this instance, the insurance provided a rapid payout in a crisis situation when liquidity was greatly needed to assure national stability.

Could the insurance mechanism be institutionalized under the Green Climate Fund?

The Green Climate Fund could be an appropriate option for an institutional set up.