Munich Climate Insurance Initiative

Press Release

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Proposal outlines steps negotiators should take to put insurance in the Copenhagen climate change agreement

Delegates examine climate insurance solutions in Poznan this week

FOR RELEASE ON 8 December, 2008. Poznan Poland. **Insurance solutions are pushed forward at the climate negotiations this week in Poznan. This is a critical juncture to build insurance mechanisms solidly into the architecture of the agreement that will emerge in Copenhagen next year.**

In a plenary session last Thursday, negotiators examined how an international insurance mechanism can help people adapt to climate-related risks. Negotiators listened to the Munich Climate Insurance Initiative (MCII) proposal to put a prevention and an insurance pillar into the emerging adaptation framework. Delegates received the proposal well and discussed it eagerly, agreeing for the urgent need to compensate people affected by the increasing numbers of weather disasters and to engage the private sector.

Public private climate risk insurance could be a tool to help people adapt to some of the unavoidable weather-related risks that accompany climate change. Peter Hoeppe, Head of the Geo Risks Research Department of Munich Re, stated “Developing countries are most vulnerable to climate extremes andthey have contributed little to greenhouse gas emissions. They lack the financial resources to adapt to climate change. And they have hardly any capacity to manage and transfer the increasing risks they face. So it's time that the international commmunity creates the necessary instruments.”

A side event at the United Nations Climate Change Conference held in Poznan, Poland today highlighted climate risk insurance as a viable option of reducing the negative effects of global warming. Climate risk insurance solutions can reduce the financial risks caused by an increasing number of natural catastrophes. What is needed, experts agreed, is an internationally supported insurance-related system to help poorer countries manage weather-related risks.

“If an an international insurance mechanism is to be included in the post-2012 adaptation regime in Copenhagen, the potential role of risk-pooling and risk-transfer systems must be firmly established,” emphasized Christoph Bals, head of the NGO Germanwatch. "And it must target the most vulnerable regions."

Proposal for Insurance and Adaptation

MCII made a presentation to the climate negotiators for a risk management module with two pillars (prevention and insurance) to promote adaptation to climate change. The

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Prevention Pillar puts reduction of human and economic losses as its top priority. It will define a process and incentives to reduce vulnerability and risk, and enhance adaptive capacity. The **Insurance Pillar** has two tiers. The first tier is a *Climate Insurance Pool* that would absorb a pre-defined proportion of high-level risks of disaster losses in vulnerable (developing) countries and be primarily paid for by developed countries through adaptation fund channels. MCII estimates that 3.2 to 5 billion dollars are needed annually to pay the premiums for this global pool. The second tier, a *Climate Insurance Assistance Facility,* would enable public-private insurance systems that provide cover for the middle layers of risk in these countries. Tier 2 encourages greater participation of the private sector, and links to regional centres for capacity building. It would cost about 3 billion. The total estimated cost of MCII´s proposal—prevention and insurance tools—would be about 10 billion dollars per year.

MCII´s proposal addresses the needs of many stakeholders: It meets the principles set out by the UNFCCC for financing and disbursing adaptation funds, it provides assistance to the most vulnerable, and it includes private market participation.

According to Joanne Linnerooth-Bayer of IIASA, replacing post-disaster humanitarian assistance with externally supported insurance can be a win-win situation for recipients, private insurers and donor organizations. However, the market, acting alone, cannot provide sufficient security to the most vulnerable. "Linking prevention and insurance is essential to getting the incentives right for adaptation," Linnerooth-Bayer said.

The MCII proposal unveiled at COP 14 stresses both fairness and market mechanisms. Thomas Loster, chairman of the Munich Re Foundation said, "With global warming showing its strong effects worldwide, the discussion on adaptation and insurance is intensifying. Also, insurance for the poor--be it individual microinsurance or index-based agricultural insurance solutions--is a coping mechanism that helps prevent affected people from falling deeper into poverty." Experts propose a combination of sound underwriting and international solidarity to help those most negatively affected by a changing climate.

The decisive question is what needs to be done for the Copenhagen Agreed Outcome?

MCII challenged negotiators to take three steps to put insurance squarely in the Copenhagen Agreed Outcome (CAO). First, to move insurance solutions ahead, COP should establish a risk management mechanism with a prevention and an insurance pillar, and specify how it could be operationalized. Second, negotiators must include, under the financial provisions of the CAO, provisions for a fund or funding window for these two pillars - prevention and insurance - in order to catalyze and facilitate adaptation. The proposed prevention and insurance pillars work hand-in-hand to facilitate vulnerability reduction and adaptation.

Finally COP has to identify a suitable operating entity and detail the operation of the two pillars between 2009 and 2012

As the frequency and scope of major natural catastrophe losses continue to increase, there is a growing need to explore new avenues for managing and transferring the risks associated with climate change. Market insurance and risk transfer solutions – climate insurance – can play their part in enabling disaster-prone countries to successfully manage the new climate risks. MCII believes that insurance mechanisms can play a useful role in a wider adaptation approach in the post-2012 agreement.

A member of the Malawi delegation stated to the plenary, “Insurance can work for developing countries—we have proof of this with our microinsurance and other programs in Malawi. But we need partnerships with other countries and the international community to secure accurate data for our indexed-based tools. With that kind of cooperation, we are certain that coinsurance-related mechanisms can be an effective part of adaptation strategies”

About the Munich Climate Insurance Initiative (MCII):

The Munich Climate Insurance Initiative (MCII) was launched in 2005 in response to the growing realization that insurance-related solutions can play a role in adaptation to climate change, as advocated in the Framework Convention and the Kyoto Protocol. This initiative brings together insurers, experts on climate change and adaptation, NGOs, and policy researchers intent on finding solutions to the risks posed by climate change. MCII provides a forum and gathering point for insurance-related expertise on climate change impact issues.

MCII was founded by representatives of Germanwatch, IIASA, Munich Re, the Munich Re Foundation, the Potsdam Institute for Climate Impact Research (PIK), European Climate Forum, TERI, the Tyndall Centre, the United Nations University Institute for Environment and Human Security (UNU-EHS), the World Bank, and independent experts. The group is open to new members, e.g. representatives of other insurance or reinsurance companies, climate change and adaptation experts, NGOs and policy researchers seeking solutions to the risks posed by climate change.

Information about the Munich Climate Insurance Initiative (MCII)

www.climate-insurance.org

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