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Press release

New insurance solutions to protect states particularly vulnerable to climate change

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Germany's Federal Ministry for the Environment has approved funding for a unique project that will develop insurance solutions in Caribbean states particularly vulnerable to climate change. The objective is to protect small farmers and day labourers from losing their livelihoods due to the impact of a hurricane or a flood by offering microinsurance and other risk transfer solutions linked with disaster risk reduction and risk management.

Developing countries located in disaster-prone regions – such as the Caribbean – are particularly hard hit by the consequences of global climate change, making it even more difficult for vulnerable people in those countries to adapt to the increasing risk. According to estimates from an Economics of Climate Adaptation study, losses caused by weather-related natural catastrophes already account for up to 6% of the annual gross national product in the five target countries – a figure that could increase by up to three percentage points by 2030, with hurricanes having the greatest loss potential in the region.

Weather risk insurance-related solutions – among them microinsurances – can play a key role in providing swift and unbureaucratic recovery aid following major losses caused by such natural catastrophes, and thus safeguard livelihoods. However, these approaches have so far experienced difficulties in reaching out to a larger proportion of the vulnerable population due to a shortage of information on local weather risks, insufficient risk management and risk transfer experience on the part of the initiators, and the lack of a clearly viable reinsurance concept.

The project, funded to the tune of €2m for a period of three years, aims to overcome these obstacles by bringing Munich Re, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and specialist microinsurance broker MicroEnsure together under the umbrella of the Munich Climate Insurance Initiative (MCII). In the next three years, up to three different insurance products will be developed and marketed in at least three countries across the region, and their acceptability to and effect on the target group put to the test. A new aspect of these products will be a close association with risk-reduction measures.

Launched by Munich Re together with representatives of international finance institutions, scientific institutes and non-governmental organisations, and hosted

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at the United Nations University Institute for Environment and Human Security (UNU-EHS), MCII has been involved in the United Nations climate negotiations process since 2005. At the World Climate Conference in Poznan (COP-14) in 2008, MCII tabled a detailed proposal for a risk management module linking insurance solutions to disaster risk reduction to help developing countries adapt to climate change. This project is a first operative step of MCII to such an integral risk management system for developing countries. In 2009 at COP-15, a number of key items from the proposal were included in the Copenhagen Accord, carried forward into the Cancun Agreement in 2010 (COP-16) and even reflected in the Work Programme on Loss and Damage under the Subsidiary Body for Implementation (SBI) of the UNFCCC.

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The Munich Climate Insurance Initiative (MCII) was initiated by Munich Re in 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the Framework Convention and the Kyoto Protocol. This initiative is hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS) and is formed by insurers, climate change and adaptation experts, NGOs, and policy researchers' intent on finding solutions to the risks posed by climate change. MCII manages this project and bridges the implementation of the project's activities with policy processes such as the climate negotiations, where climate risk insurance measures are under active discussion. MCII monitors and reports on lessons learned to decision makers, adaptation practitioners, science and insurance professionals. MCII has tabled a widely-recognized proposal on adaptation, risk reduction and insurance in the UNFCCC climate negotiations. Elements of this proposal have been included in the Cancun Adaptation Framework and the SBI Work Program on Loss and Damage. Lessons learned from the implementation of the new MCII project will be shared with international policy processes (such as the UNFCCC climate negotiations) to inform decision makers at the international and regional level about potential ways to include weather risk insurance and loss reduction into wider adaptation strategies.

The International Climate Initiative (ICI) of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) since 2008, has been financing climate projects in developing and newly industrialised countries, as well as countries in transition. Based on a decision taken by the German parliament (Bundestag), EUR 120 million from the auctioning of emission allowances is available for use by the Initiative annually. By means of this innovative financial mechanism, BMU effectively contributes towards emission reduction and adaptation to climate change. This new form of climate cooperation complements the existing development cooperation work of the German Government.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is the first and to date, only,

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multi-country risk pool in the world. CCRIF may serve as a regional risk management facility for the Climate Risk Adaptation and Insurance in the Caribbean programme. CCRIF has the capacity to aggregate risk or serve as a financial backup mechanism. CCRIF has close ties to national meteorological and disaster management authorities, and has extensive experience with regional weather data and modeling. Also, CCRIF has recently expanded its capacity development activities in the region. CCRIF will work with MicroEnsure, Munich Re, and MCII to sustainably add risk management and transfer tools to the adaptation portfolio of the Caribbean.

MicroEnsure is the global leader in providing back-office service for microinsurance, helping microinsurance providers fill gaps that help bring products to market such as designing products and negotiating with the risk carrier, training the sales staff, educating the clients, client management systems (data and data entry, reporting, claims processing). MicroEnsure partners with a range of microfinance organisations (MFIs), global NGO's, faith based networks and mobile phone companies to reach low income communities in significant numbers.

Munich Re

Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. Munich Re creates value for clients, shareholders and staff alike. In the financial year 2010, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.4bn on premium income of around €46bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €24bn from reinsurance alone, it is one of the world's leading reinsurers. Especially when clients require solutions for complex risks, Munich Re is a much sought-after risk carrier. Our primary insurance operations are concentrated mainly in the ERGO Insurance Group. With premium income of over €20bn, ERGO is one of the largest insurance groups in Europe and Germany. It is the market leader in Europe in health and legal protection insurance. More than 40 million clients in over 30 countries place their trust in the services and security it provides. In international healthcare business, Munich Re pools its insurance and reinsurance operations, as well as related services, under the Munich Health brand. Munich Re's global investments amounting to €193bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Disclaimer

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