



TALLER INTERNACIONAL

Desarrollo de mercados de seguros asociados a fenómenos climáticos

16, 17 y 18 de julio de 2013
Lima - Perú

Climate Risk Adaptation and Insurance in the Caribbean

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Climate Change: Counting the Cost

- 1.5 million people affected by extreme weather events in the eastern Caribbean over the last 30 years
- Losses caused by weather-related natural catastrophes account for up to 6% of annual GNP losses in some Caribbean countries
- St Lucia listed among the world's top 40 climate „hot spots“



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Increasing Resilience Reducing Vulnerability

- Incentivize loss reduction & resilience building activities
- Reduce social vulnerability





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Framing: Big Picture

- German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU) approached Munich Climate Insurance Initiative
- Assignment: Showcase how insurance can contribute to risk reduction and adaptation especially within the Small Island Developing States context
- Support decision making process at UNFCCC (“SBI work programme on Loss & Damage”) with insights from implementation



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Climate Risk Adaptation and Insurance in the Caribbean

Project Objectives

- Provide financially stable parametric insurance solutions for low-income people to cover medium-level weather events
- Find ways to combine approaches with DRR to catalyse sustainable adaptation
- Prove value of regional entities in achieving these goals
- Exchange experiences & lessons learned with policy makers



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Target Countries





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The Demand for Risk Transfer Solutions

- Demand Study 2011
 - University of the West Indies, UNU-EHS, MCII
 - Quantitative & qualitative approach
 - Expert interviews
 - 1059 HH surveys
 - Assessment of DRM strategies of low-income people
 - Demand for risk transfer solutions
 - Indication on willingness to pay (premium)
 - Distribution



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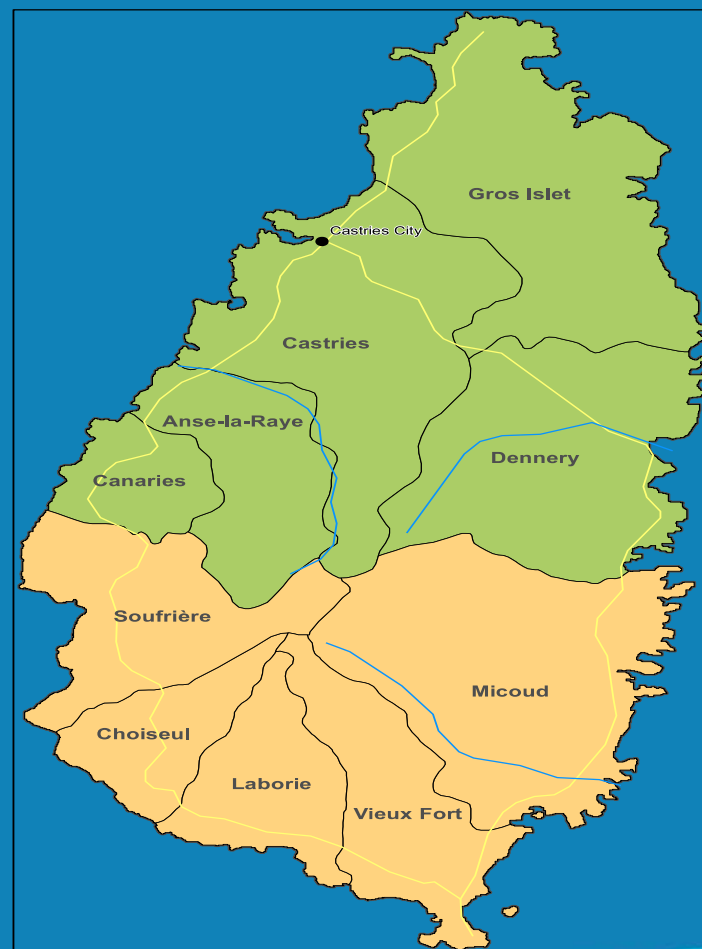
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Weather Index Insurance: How it works

- Spatial Resolution of the target country
- Wind speed and Rainfall
- Correlation analysis for wind, rain



Trigger and payout structure of the Livelihood Protection Policy





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The Livelihood Protection Policy

- Protects individuals against weather extremes, climate shocks
- Provides recourse to coping strategies that could lead to poverty
- Improves access to credit, leading to financial stability in the long run
- Encourages behaviour shift from risk neutral to risk aware





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WHAT ANTOINE EXPERIENCED

- **Before the hurricane** Antoine did not know a hurricane was approaching and did not secure his greenhouses or other assets in time.
- **Immediately after** Two out of three greenhouses were lost, along with his sugarcane crop and livestock. He and his family barely escaped with their lives.
- **Medium-term** Antoine spent all of his savings on food and medicine for his family. He could not pay back his loan for the greenhouses and must resort to selling other assets and asking relatives for money.
- **Long-term** Antoine and his family ended up deeply in debt. The lost greenhouses were not replaced, making the family more vulnerable to subsequent hurricanes. These are likely to destroy more of their assets and lead them deeper into poverty

Antoine's story

- HOW LPP COULD HAVE HELPED ANTOINE
 - **Before the hurricane** Antoine receives an SMS warning of an approaching hurricane. He secures his property and leads his family to a safe location.
 - **Immediately after** As he was able to secure his property only one greenhouse is lost. The hurricane exceeded the rainfall/wind speed threshold, so Antoine gets an SMS telling him he will receive a payout within 14 days.
 - **Medium-term** With the payout deposited in his bank account Antoine can repay his loan and start rebuilding his livelihood without resorting to more desperate coping measures.
 - **Long-term** Antoine is able to both repay his loan and rebuild the lost greenhouses. This puts him and his family in a better position for when another hurricane



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Addressing the Adaptation Needs of Vulnerable Communities

Using insurance to address adaptation needs: Not just
about public OR private solutions

- Innovations & partnerships in using insurance
- Local level: Building resilience with local insurance & safety nets: Helping low-income people absorb shocks and temper downturns
- National level: Combining risk transfer and measures to protect national development priorities
- Regional & international: Combining risk transfer with regional risk capacity & forecasting



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The Next Big Questions

- What data, information needs exist and how can they be fulfilled in the most cost efficient, effective manner?
- What new challenges to the existing legal, institutional and regulatory frameworks are posed by the new types of insurance products that are emerging?
- How can the international climate policy negotiation process support?



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Conclusions

- Insurance can fulfill four functions to help meet the needs of low-income countries & communities
 - Assess and price risks
 - Reduce financial repercussions of volatility, create more certainty
 - Incentivize loss reduction & resilience building activities
 - Provide timely finance to recompense damage

