



Climate Risk Insurance as part of Climate Risk Management

Advisory Service

The challenge

The impacts of extreme weather and climate-related events are increasing in their frequency and severity. Higher risk and associated losses and damage to people, their livelihoods and assets puts a strain on public funds and resources for disaster relief and recovery. As well as physical damage to assets e.g. buildings, bridges, industry, indirect impacts can have severe economic and social ramifications. Poor health, poverty or incapacity to work can be aggravated by climate-related impacts. Beyond economic impacts, the losses challenge the achievement of the Sustainable Development Goals (SDGs). Both developed and developing countries are increasingly affected, requiring institutions, communities and individuals to increase their resilience and adapt. However, the public and private sector has limited financial and human resources and needs to act on other (often short-term) priorities and/or is not aware of the direct/indirect impacts of climate change and the necessity to invest in resilience. While insurance transfers residual risk, it does not reduce risk. For many risks, other coping strategies are more cost-effective. Insurance may not be suitable in all contexts and it is not a stand-alone remedy to manage climate risk, but one instrument within an integrated climate risk management (CRM) approach.

Our approach

Insurance can pool and share risks across communities and all sectors of the economy, over large geographical areas and time and can incentivize and increase efforts in risk reduction. Insurance pay-outs improve post-disaster response and recovery activities by providing timely financial resources. This can prevent knock-on effects after an event and offer peace of mind under uncertain conditions. Integrated CRM aims to address

the social, economic and ecological impacts caused by extreme events. This continuous process consists of five phases: prevention, retention and transfer, preparedness, response and recovery. In the prevention phase, hazard, exposure, and vulnerability analyses are conducted – the basis for an insurance product. Supported by decision tools, a disaster risk management framework is aligned and implemented. Insurance as well as broader social protection systems, risk financing instruments, and risk retention can address residual risk.

Our services

We provide advisory services to all major actors who are engaged in CRM to increase the resilience of societies against climate and weather-related hazards. This comprises government authorities (at all levels including planning and implementing agencies), the private sector and civil society actors. GIZ's specific value is in acting as a facilitator, providing an interdisciplinary approach tailored to the planning and implementation needs of our partners. GIZ assists in the prioritization of potential measures and provides advice to strengthen the interplay between national agencies responsible for civil protection, finance, climate change adaptation, and social protection for communities and individuals.

► **Prevention.** We provide technical advice based on climate risk analysis to public actors (e.g. capacity development for improved planning, legislative and public investment processes), SMEs (e.g. improved business contingency plans), financial institutions (e.g. green bonds) and communities/households (social protection programs).

► **Retention and transfer.** We assess the appropriateness of pre-disaster financing instruments, including climate risk insurance (CRI) amongst other risk transfer mecha-



nisms; create a suitable legal and regulatory framework for insurance that fosters innovation and competition and facilitate public private partnerships; provide technical advice to public/private insurance actors on delivery channels, products, and financial literacy; support access to data; ensure that the potential of CRI as part of CRM is analysed and designed as an integrated part of the NDCs adaptation component and in line with the Paris Agreement, Sendai Framework and SDGs.

› **Preparedness.** We support the analysis of existing emergency response capacities; help establish early warning systems and sensitize the public; support contingency planning, advice and training for risk and emergency management authorities; optimize standard operation procedures, equipment and simulation exercises for response services; physical protection measures.

› **Response.** We aim to ensure that for immediate insurance pay-outs existing payment mechanisms are used, missing mechanisms are developed, and cash transfer schemes are appropriately targeted and executed.

› **Recovery.** We support recovery measures, e.g. reconstruction of social and productive basic infrastructure, as well as economic recovery and livelihood support, and the support and strengthening of sub-national administrative structures following a disaster.

The benefits

Successful CRM requires a careful assessment of available options as well as strong linkages across sectors and between actors. Our extensive experience in CRM is

complemented by GIZ's local and headquarter expertise required for its technical application. While social protection can serve as a payment mechanism, GIZ also provides advice on the role of social transfers, insurance and labour market interventions for prevention and adaptation. Health care provision and insurance can address climate-related health risks. Humanitarian and transitional assistance can help reach people in affected areas, and CRI can in turn reduce the need for such assistance following a shock. Through its expertise in policy advice and on the ground implementation, GIZ can ensure alignment with climate-related agendas (NDC, NAP) and their monitoring. By considering the interplay between these and other fields GIZ provides sound advice on CRI as part of CRM.

An example from the field

GIZ supports ministries in the implementation of China's National Climate Adaptation Policy by strengthening the city governments' capacities to address climate risk such as flooding. In cooperation with Swiss Re and German authorities, GIZ uses established risk management tools to integrate CRM best practices. A risk analysis identifies the largest climate risks for the city of Lishui. Cost-effective public actions to reduce those risks are suggested, based on a priority ranking of adaptation measures. We develop insurance products to reduce impacts on the public budget. This provides quick capital access to rebuild urban infrastructure in case of a disaster and can protect private individuals and companies from the financial burden of direct loss of assets and livelihoods.

Imprint

Published by:
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn

Dag-Hammarskjöld-Weg 1 – 5
65760 Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15

E info@giz.de
I www.giz.de

Responsible/Contact:

Dr. Sandra Schuster
Climate Change, Rural Development, Infrastructure

T +49 6196 79-1994
E sandra.schuster@giz.de
I www.giz.de

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Eschborn 2020