



WORKSHOP REPORT

*Climate Risk Insurance in the Context of
Adaptation And Loss & Damage*

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LIST OF ACRONYMS AND ABBREVIATIONS

ARC - African Risk Capacity

CCCCC - Caribbean Community Climate Change Centre

CCRIF - Caribbean Catastrophe Risk Insurance Facility

GARFIN - Grenada Authority for the Regulation of Financial Institutions

LPC - Loan Portfolio Cover

LPP - Livelihood Protection Policy

JIIC - Jamaica International Insurance Company (JIIC)

MCII - Munich Climate Insurance Initiative

MICRO - Microinsurance Catastrophe Risk Organisation

SPREP - Secretariat of the Pacific Regional Environment Programme

UNFCCC - United Nations Framework Convention on Climate Change

1. OBJECTIVES

The objectives of the Workshop were:

- a) To share experience in implementing insurance solutions to manage climate-related risks;
- b) To explore needs, knowledge gaps and questions by stakeholders; and
- c) To discuss potential next steps and further work as regards the role of insurance in the context of loss and damage.

2. EXPECTED OUTCOMES

The main outcomes that were expected from the workshop was the sensitisation of the participants on the potential role of insurance in addressing loss and damage, and feedback from the participants on specific innovations currently under development in the Caribbean.

Participants were therefore expected to engage in the following, during the workshop:

- a) Clarified the potential role of insurance in the Loss and Damage process – strengths, challenges;
- b) Reflected on innovative insurance products currently under development;
- c) Identified other kinds of tools and products required to effectively address Loss and Damage; and
- d) Made recommendations on the next steps in strengthening insurance and other required tools and products.

3. METHODOLOGY AND PROCESSES

The workshop was designed to facilitate the exchange of ideas and experiences on the role of insurance in responding loss and damage. To encourage this, participants were provided with cutting edge information on innovations in the use of insurance products in responding to loss and damage. They were then encouraged to reflect and provide feedback on these innovations and products. Discussion took place in plenary settings, as well in smaller breakout groups which subsequently reported back to the plenary.

The detailed Agenda is attached as **Annex 1**.

4. PARTICIPANTS

The workshop was attended by twenty nine (29) persons and included representatives from developed countries, small island developing states, the Secretariat of the United Nations

Framework Convention on Climate Change (UNFCCC), the Caribbean Community Climate Change Centre (CCCCC) and insurance regulators and practitioners from the Caribbean region.

Annex 2 contains a listing of participants.

5. WORKSHOP PROCEEDINGS

5.1. The Role of Insurance Within the Context of Loss & Damage

This topic was introduced with a joint presentation by Soenke Kreft from MCII and Ekhosuehi Iyahen from CCRIF.

The presentation introduced participants to different types of insurance products that were appropriate for micro-level, meso-level and macro-level interventions and highlighted the functions of insurance in responding to climate change impacts.

These included:



Participants in plenary discussion

- Assessing and pricing risks helps prioritize investments;
- Reduce financial repercussions of volatility and create more certainty in decision making and investment;
- Incentivize loss reduction & resilience building activities; and
- Provide timely finance to recompense loss & damage

It also highlighted how insurance could be used to address the needs of low-income countries and people emphasising inter alia:

- 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; and

- Regional & international: Combining risk transfer with regional risk management capacity & forecasting.

The complementary roles of governments and the insurance sector were highlighted as illustrated in **Table 1**.

Table 1 - Roles of Governments and the Insurance Sector

Governments		Insurance Sector
Act on lessons learned about regional public-private partnerships	Act	Design measures to avoid loss & damage, and transfer risk which cannot be avoided; Risk reduction as criteria for participation in insurance schemes
Engage in risk reduction activities and provide enabling environment for risk management, insurance, governance, etc.	Enable	Putting a price on risks and adaptation options; hazards and economic values at risk / Risk pricing; Helping evaluate the relative merits of different adaptation interventions, cost benefit analysis
Get best sources of information about managing, reducing & transferring risks and invest in systematic & reliable risk exposure data	Inform	Understanding risks of greatest concern: - Identifying key risks and vulnerabilities - Estimating exposure - Risk mapping

The presentation also highlighted three examples of innovative interventions and lessons learnt from these interventions.

The interventions highlighted were:

- a) Microinsurance Catastrophe Risk Organisation (MICRO) in Haiti;
- b) The Caribbean Catastrophe Risk Insurance Facility (CCRIF); and
- c) The Africa Risk Capacity (ARC).

The lessons learnt included:

- Consultations with a wide range of experts and stakeholders are important in developing and successfully launching an innovative development instrument.
- Donor support can be essential for an innovative and untested development instrument.



Participants in plenary discussion

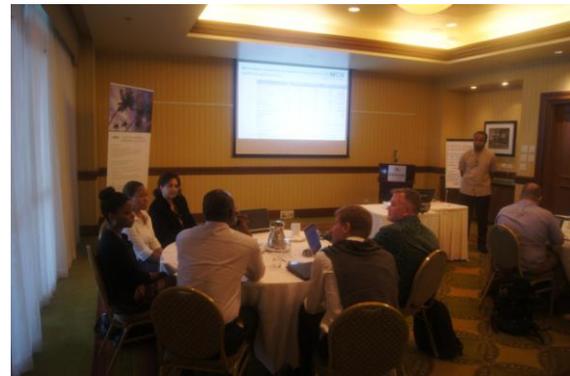
- The private sector expertise and hands-on knowledge of relevant markets is vital to the success of a project that seeks to respond to a market failure. Local thought/leadership

- When public funds – e.g., capital contributions from donors and beneficiary governments, both ultimately provided by taxpayer – support an independently and commercially managed entity, it is important that those managing the entity have experience with stewardship of public resources.
- On-going communications with clients and other stakeholders are essential in piloting successfully an innovative development solution.
- A lean organisational structure can be very effective.
- In a highly innovative project, it is important to give the implementing agency scope for creativity and flexibility, while still ensuring compliance with operational/regulatory policies.

5.2. Introduction To New Insurance Products Being Developed By MCII And Feedback On Their Strengths And Weaknesses

This topic was introduced with a joint presentation by Sobiah Becker of MCII and Stacia Yearwood of CCRIF.

The presentation focused on MCII's project on "Climate Risk Adaptation and Insurance in the Caribbean" highlighting the objectives, the project development strategy, the design of the tailored parametric insurance, and the features of the two parametric products that were being developed, the Livelihood Protection Policy (LPP) and the Loan Portfolio Cover (LPC).



Participants in plenary discussion

The LPP was intended to provide livelihood resilience in the face of disasters and its main features were:

- Parametric product: Trigger wind-speed & rain; product will be sold in tranches
- Beneficiaries: Individuals
- Effect: Product should provide liquidity to individuals in the aftermath of extreme weather event to protect livelihood

The LPC was intended to provide financial resilience in the case of loan default and its main features were:

- Parametric product: Trigger wind-speed & rain

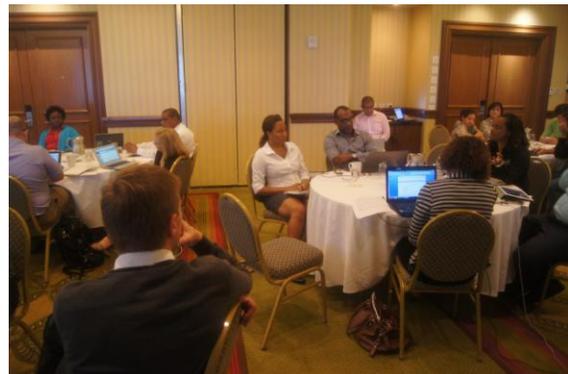
- Beneficiaries: Banks or other loan provider with exposure to disaster related loan default
- Effect: Product should leverage lending to vulnerable people (e.g. agricultural sector).

5.3. Reflection On The Contribution Of Parametric insurance In Addressing Loss And Damage - Advantages, Gaps And Challenges, New Opportunities, Risks

The topic was addressed in breakout groups, which reported back to plenary. The key points raised by the breakout groups were:

5.3.1. Strengths

- Predictability/ Transparency - Trigger and compensation levels are set at inception so stakeholders know that if trigger levels are met, a payout is required and if not, they are not entitled to benefits. It takes away the subjectivity of loss adjusters.
- Quicker Payouts - No loss adjustment process.
- Applicability to macro, micro and meso levels of society/business - Parametric insurance can reach each of these sectors which are all affected by climate risk in some way.
- Importantly, at the micro level, the most vulnerable persons are usually not able to access insurance due to their high level of risk and low capacity to pay. With parametric insurance it is possible to reach this sector.
- Affordability & Scalability - Can be made more affordable by aggregating risks across countries/regions. Larger scale operations are better able to diversify the underlying risk and therefore reduce costs.
- No political involvement in determining payouts.
- More transparent in theory and as a concept but there is a need to open up the models that inform these products.
- Over time governments could become more responsible in assessing and managing their risk, as in their capacity as regulators they develop an understanding of these products and how they can be used.



Participants in breakout group discussion

- Could be a cost efficient way to hedge risks.
- If designed properly could be self sustaining and not require government subsidies or support.
- A market driven approach that low income people could actually benefit from as these groups are not usually beneficiaries of the opportunities created by the market.
- Could reduce the volatility on portfolios of lender institutions thereby allowing them to release critical capital to invest in other areas.



Participants focused on breakout group report

5.3.2. Challenges

- There is a lack of capacity among stakeholders to develop these types of mechanisms, particularly a lack of experience with parametric insurance.
- Challenges related to the design of products:
 - It is important to accurately capture the risks faced using appropriate parameters
 - The process is complicated by a lack of data on hazards as well as historical loss information. These are inputs to the modelling and they need to be of a certain quality in order to reduce basis risk.
 - The Caribbean suffers from a lack of data and the relevant bodies (e.g. Met Offices, disaster management agencies) should make greater efforts to record the levels of loss that are associated with varying intensity events in order to aid the design of products that are useful and can meet the needs of target groups
- Parametric insurance does not cover all the losses that may be incurred.
- Financial feasibility - Is this only based on the extent and length of subsidies from donor agencies? Are the products feasible without donor or government support?
- The lack of experience with parametric insurance impacts the implementation of these tools because persons do not purchase what they do not trust and it is difficult for them to trust a mechanism that they do not understand.
- If not properly designed it could be exploited by self interest groups to the detriment of low income groups.

- More suited to extreme events rather than slow onset event. The more traditional insurance products might be better harnessed to address the slow onset events.
- Within the Caribbean there is some reservation about insurance given the experiences with CLICO. This could be a challenging environment to launch an insurance product in.
- Education of the consumer is critical. This includes education about product limitations, use, purpose etc. The problem of education can be addressed but by whom? Who is best able to reach these groups and who is responsible for ensuring their understanding?
 - Distribution channels
 - Insurers/agents
 - Government organisations/officials
- How best can information be relayed?
 - TV
 - Radio
 - Face to face
- There is a need to strengthen the regulatory capacity to monitor the introduction of these products.



Reporting back from breakout groups

5.3.3. Opportunities

- Parametric insurance needs to be balanced with other measures and sit in a broader risk management framework and support disaster risk reduction.
- It provides an opportunity to reduce dependency on humanitarian assistance and the strain exerted on public sector funding.
- It is an opportunity to teach people to take responsibility for some of their risk.
- The OECS is in the process of merging individual Insurance Regulatory Boards to have a single facility for insurance regulation with coordinated goals. Parametric insurance is seen as a natural fit for climate adaptation and is definitely within their plans. In this way, although parametric insurance does not fit within current structures, flexibility is on the horizon.

5.3.4. *Risks*

- The design of these instruments is critical in ensure that they actually address the purpose for which they have been developed.
- Care must be taken to ensure that the availability of such products do not become a disincentive for the adoption of risk prevention and risk reduction measures.
- Insurers concerned about reputational risk.
- Consideration must be given to governance aspects and monitoring and evaluation.

5.4. Towards A Holistic Approach To Managing The Risks Of Loss And Damage With Climate Change, Including Slow Onset Events

This topic was addressed in an open plenary discussion session and sought to identify other interventions that were needed in order for a country to have an effective risk management framework. Participants focused on ways in which underlying risk could be reduced and recommended consideration of the following:

- Introduction (where required) and enforcement of appropriate building codes;
- Better resource management to minimise degradation;
- Promotion and use of best practices e.g. in agriculture;
- More use of risk modeling and asset mapping techniques to identify underlying risk and facilitate better planning and preparation; and
- Enforcement of risk management innovations in insurance product designs e.g. link premium to risk reduction measures in use.

5.5. Potential Next Steps And Further Work As Regards Developing A Holistic Approach To Managing The Risks Of Loss And Damage From Climate Change, Including The Role Of Insurance

This topic was addressed in an open plenary discussion session and sought to identify useful next steps in advancing the use of insurance and other risk management products in the context of climate change. Recommendations included:

- Information sharing and marketing activities on the potential benefits of parametric insurance targeted at the traditional insurance sector and decision-makers at all levels.

- Review of stakeholder experience with current innovative products, with a view to getting their perspectives on the utility of the products, any challenges experienced and way in which they could be strengthened.
- Increased advocacy for, and facilitation of, increased access to and sharing of relevant data.
- More direct selling of innovative products at the community level.
- Examine the possibilities for regulatory flexibility within the constraints of the existing insurance statutes, given that these are new products, designed to address new challenges.

ANNEX 1

INSURANCE IN THE CONTEXT OF LOSS AND DAMAGE

Barbados, October 12, 2012

WORKSHOP AGENDA

WORKSHOP OBJECTIVES

The main objectives of this workshop are to:

- Share experience in implementing insurance solutions to manage climate-related risks;
- Explore needs, knowledge gaps and questions by stakeholders;
- Discuss potential next steps and further work as regards the role of insurance in the context of loss and damage.

AGENDA

1000 am

Welcome, Objectives and Introductions over a cup of coffee

10:30 am

Overview of the role and functions of Insurance and Summary of the insurance-related experiences related to loss and damage associated with climate change shared at the regional workshops and relevant conclusions – *The Role of Insurance within the context of Loss & Damage by Soenke Kreft and Ekosuehi Iyohen, Plenary Discussion*

11:00 am - 12:00 Noon

Introduction to new insurance products being developed by MCII and feedback on their strengths and weaknesses - *Presentation by MCII and Plenary Discussion (Sobiah)*

12:00 Noon - 1:00pm

Reflection on the contribution of insurance in addressing loss and damage - Advantages, Gaps and Challenges, New Opportunities, Risks - *4 breakout groups - 30 mins; Reporting Back; Summary*

1:00pm - 2:00 pm - LUNCH

2:00pm - 3:00pm

Beyond Insurance - Towards a holistic approach to managing the risks of Loss and Damage with climate change, including slow onset events - *Plenary Discussion*

3:00pm - 4:15 pm

Discuss potential next steps and further work as regards developing a holistic approach to managing the risks of Loss and Damage from climate change, including the role of insurance.
4 breakout groups - 30 mins; Reporting Back; Summary

4:15pm - 4:30 pm - Summary and Closing

ANNEX 2

MCII, Barbados: Workshop on Climate Risk Insurance in the context of adaptation and loss & damage

List of participants (pasted from hard copy attendance sheet)

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