

The Microinsurance Network continues to support the Climate Change Agreement

Two years after the Paris Agreement on Climate Change, ratified by 153 parties to the UN Framework Convention on Climate Change (UNFCCC), the Microinsurance Network would like to reaffirm its commitment to the adaptation and mitigation of the effects of climate change through the work of its diverse membership.

President Trump's announcement in June 2017 that the United States is withdrawing from the Agreement has been widely condemned. Further consternation has been caused by the decision to close the US Office of International Climate and Technology, which provided technical advice to other countries seeking to reduce greenhouse gas emissions and develop clean energy technology.

Climate change is one of the biggest challenges that confronts us today. It has far-reaching adverse economic and social impacts — many of which are already visible — and these affect developing countries disproportionately, making them more vulnerable than the industrialised and emerging economies considered to be major polluters.

Ensuring food security by insuring agricultural production risks

Many of the members of the Microinsurance Network offer agricultural insurance to smallholder farmers in Africa, Asia and Latin America, who produce 70% percent of all food consumed in developing countries. These smallholder farmers are highly exposed to the negative impacts of extreme weather events. While some insurers offer indemnity-based crop insurance, most are now exploring index-based insurance products where pay-outs depend on the performance of a transparent, easy-to measure index linked to factors such as weather data or average area yields. While this innovative type of insurance helps to reduce administrative and transaction costs, it also introduces new challenges such as basis risk, which is the difference between the performance of the index and the damage the policyholder has actually suffered.

Insuring against natural disasters

Natural disasters affect everybody, but low-income households suffer the most. Several members of the Microinsurance Network are implementing disaster risk reduction programmes in vulnerable countries, including the Philippines, Indonesia, Vietnam and Cambodia. These programmes help to equip governments with practical tools, such as hazard vulnerability assessments, contingency planning and disaster risk reduction and management strategy formulation. In addition to providing risk transfer tools to the end clients, several Microinsurance Network members implement mechanisms to reduce vulnerability to climate disaster risk in dealing with clients, local governments and SMEs.

Climate finance

If we are to succeed in the transition to a low-carbon world, private sector climate financing must be scaled up to complement the substantial investments to be made by governments.

In 2015, the G7 launched a Climate Risk Insurance Initiative called “InsuResilience” which aims to provide 400 million people with climate risk insurance by 2020. To date, public and private entities have pledged US\$550 million to enable climate risk insurance coverage for at least 180 million people. The objective of the Initiative is to stimulate the creation of effective climate risk insurance markets, learn from and build on already existing sovereign pools such as the African Risk Capacity (ARC) and the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and promote the smart use of insurance-related schemes for people and risk-prone assets in developing countries.

Development finance actors such as regional development banks and social impact investors are allocating a share of their financial services to achieve social and environmental benefits with profit. The World Bank Group is scaling up climate action and integrating climate change across its operations worldwide through country support, shaping national investment policies and programs and mobilizing private finance. The World Bank is putting a greater focus on adaptation and resilience with a commitment that a transformation is needed today that will require a shift from business as usual.

Furthermore, Microinsurance Network members continue to work on analysing, designing and securing financing for innovative solutions to mitigate the negative impacts of climate change. Our members collaborate with public and private entities in many countries to deliver vulnerability and resilience action plans and they are linking major investments in microinsurance to environmental and social responsibility objectives, as well as to the UN Sustainable Development Goals.

Data and digital technology

Data is crucial for developing valid microinsurance tools oriented to climate change. Accurate and adequate information enables insurers to gauge risk for a large number of customers, making insurance more accessible and affordable. Microinsurance Network members include insurers who have invested in data feeds linking weather stations and satellite operators in order to monitor crop patterns and signals of drought, flooding or crop failure. They are also leveraging existing distribution channels such as mobile network operators and digital platforms to administer index-based agricultural and disaster insurance.

Reducing carbon footprints at the corporate level

Many of our members already incorporate low-carbon practices into their everyday activities, by managing energy, paper and water consumption at the corporate level. They also evaluate the environmental impact, including greenhouse gas emissions, of projects early on in the project life cycle by applying specific project selection criteria. Some organisations have announced their intention to divest from companies that are involved in coal-related activities, thereby supporting the move towards a threshold limit of a 1.5°C increase to limit global warming. Our members also acknowledge the importance of raising awareness of environmental protection among their stakeholders and partners.

Opportunities ahead

Just as the insurance industry has historically confirmed its leadership in minimising risks from fires and earthquakes, insurers and reinsurers have a huge opportunity today to develop creative loss prevention solutions and products that will reduce climate change-related impacts. These encompass a wide range of activities to help improve disaster resilience and adaptation to climate change, while reducing climate-related risks through strategies, such as energy efficiency programmes, green building design and carbon emissions trading. There is a need to develop and sustain a whole array of innovative partnerships between insurers, banks, foundations, governmental and non-governmental organisations, and multilateral organisations. With the insurance industry managing a third of the world's investment capital, approximately US\$30 trillion, it has pledged to double its green and climate-smart investments to at least US\$84 billion confirming its significant role in supporting low carbon emission technologies and climate-resilient tools and mechanisms.