Risk Reduction and Insurance in a Copenhagen Deal

Strengthening the MCII proposal in the Non-paper 31

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Strengthening the MCII proposal in the LCA Non-paper 31

Remember:

MCII: Three components of a comprehensive risk management:

1.) Ensuring Prudent Risk Reduction
2.) Enabling Micro-Insurance
3.) Reserve pools for devastating events

Severity of events
Component 1. Risk reduction

- Section D got considerably shortened in the last non-paper
  - Risk reduction has now moved to section B (implementation)
  - To left section D with the mechanism of risk management only is an effort in streamlining the text, however, it weakens the understanding that risk reduction must be the core of an risk management component

Recommended Changes in the Text

- Risk assessment and management across short, medium, and long-term risks (*Section B*)
- Link risk transfer and insurance more directly to risk reduction (*Section C*)
- Strengthen the role of disaster risk reduction in the proposed International Mechanism (*Section D*)
- Strengthen the role of disaster risk management in national adaptation plans, and in institutional arrangements for insurance (*Annex II&III*)
Component 2. **Enable Micro-Insurance activities**

- To enable micro-insurance activities three issues need to be kept or anchored in the text:
  1) Weather monitoring to make it possible to offer affordable insurance coverage to the poor;
  2) Back up systems for micro-insurance projects and programs to ensure the protection of the poor, facilitate sustainability and scaling up over time;
  3) Micro-insurance project management capacity building
- It seems appropriate to link these activities to regional centres
- Good: A three-year Work Programme as envisaged in section B has now elements on encouraging projects related to micro-insurance and global risk pooling

**Recommended Changes in the Text**

- Language adjustment needed in Section C (means of implementation) e.g. weather monitoring; Section E (institutional arrangements) and Annex I e.g. capacity building
Component 3.  Reserve Pools/Climate Insurance Pools

- First step from non-paper 8 to 31: Separate out reserve pools/climate insurance pools from compensation
  - Obligation to help when selfhelp-capacities get overwhelmed (effectively + efficiently)

- Different national and regional reserve pool arrangement/internationally pooled arrangements conceivable
  - It seems appropriate to link these activities to regional centres
  - Good: new review clause
  - Good: near term work programme to encourage global risk pooling

Recommended Changes in the Text
- Language adjustment needed in Section C (means of implementation);
  Section E (institutional arrangements) -> regional centres
- Options for institutional arrangement and governance forms should be further elaborated in the Annex
### Annex: Text changes for risk reduction

<table>
<thead>
<tr>
<th>Government-level insurance mechanisms</th>
<th>Possible functions</th>
<th>Location in Non-Paper 31 (adaptation)</th>
<th>Ideas for minor language adjustments</th>
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</table>
| **Risk assessment and management across short, medium, and long-term risks** | • Ensure that risk assessment and management occurs across all temporal scales  
• Placing the current para 10(a)(iii) in a new sub-paragraph will help emphasize that risk management is not only for short term, but necessary to ensure adaptation in the medium and longer term as well.  
• Many activities for risk management will serve multiple purposes and can therefore be placed as a separate sub-para. | Section B para 10 Move 10(a)(iii) to a new para 10(a) | Section B para 10:  
To enhance adaptation action at national level, all Parties, in line with a country-driven approach and taking into account local and national adaptation plans, as well as gender and ecosystem considerations, [shall] [should] [may] implement specific programmes, projects, activities, strategies and measures, including:  
(a) Assessing, reducing, managing and sharing urgent and immediate, short-, medium- and long-term risks associated with climate change, including through, inter alia, early warning systems, incorporation of risk management and disaster risk reduction, insurance-related activities [, implementation of the Hyogo Framework for Action] [, and activities addressing loss and damage from the adverse effects of climate change, such as those arising from extreme weather events and gradual changes];  
(b) In the short-term:  
(i) Action identified in NAPAs and other relevant plans and strategies;  
(ii) Undertaking sound impact, vulnerability and adaptation assessments, to include costs and benefits, at all appropriate levels, using a range of decision-making tools and methodologies;  
(iii) Enhancing, supporting and promoting traditional adaptation methods that have been implemented successfully in the past;  
(c) In the medium-term:  
(i) Action identified in poverty reduction strategies, national communications, technology needs assessments, integrated climate territorial plans and other relevant strategies, including rural development strategies;  
(ii) Action to build resilience and enhance adaptive capacity to climate variability and change in economic development activities and institutions, including through economic diversification;  
(d) In the long-term: action identified in national sustainable development strategies. |
Annex: Text changes for risk reduction

<table>
<thead>
<tr>
<th>Strengthen the role of disaster risk management and reduction in the proposed International Mechanism in Section D</th>
<th>D. [Risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance: International Mechanism to Reduce (or Manage) Risks and Address Loss and Damage]</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disaster risk could have a stronger role to play in section D. Unless insurance is done in the context of DRR it may have a hard time keeping loss and damage under control over the longer-term. Linking DRR to risk sharing/transfer better ensures that adaptation occurs. • In this context the mechanism seems to call for financial tools to help amass financial resources for future needs related to longer-term foreseeable risks.</td>
<td>An international mechanism to address the unavoidable loss and damage from the adverse effects of climate change [and the impact of the implementation of response measures] is hereby established.</td>
</tr>
<tr>
<td>Section D para 17 Section D para 18 Section D para 19 (insert new subpara (a) on disaster risk reduction)</td>
<td>The purpose of the international mechanism shall be: to support developing country Parties, especially those that are particularly vulnerable, in building resilience by reducing and [sharing][transferring] addressing the risks associated with climate-related extreme weather events; and to provide compensation and rehabilitation for loss and damage resulting from climate-related slow-onset events, including sea level rise, increasing temperatures and ocean acidification.</td>
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<td>The international mechanism shall consist of the following components:</td>
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<td>(a) Support for disaster risk reduction to reduce losses and damage from weather-related extreme events</td>
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<td></td>
<td>(b) An International Insurance Facility to address risks associated with climate-related extreme weather events incorporating measures to reduce, manage and prevent risk;</td>
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<tr>
<td></td>
<td>(c) A Compensation and Rehabilitation component for climate-related slow onset events.</td>
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</table>
## Annex: Text changes for risk reduction

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<tr>
<th>Strengthen the role of disaster risk management and reduction in national adaptation plans, and in institutional arrangements for insurance</th>
<th>•It is important that risk transfer be carefully coordinated with disaster risk management and risk reduction to incentivize risk reduction and discourage maladaptation.</th>
<th><strong>Annex II</strong> (h), (j)(ix), and (j)(xiv) <strong>Annex III</strong> (t)</th>
</tr>
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<td><strong>Annex II</strong> Objectives and modalities of national adaptation plans, programmes and activities (paragraph 9)</td>
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(a) Be consistent with, or incorporate elements of, national risk management plans and disaster risk reduction, and support coordination with risk transfer to support adaptation and incentivize risk reduction;  
(j)(ix) Disaster risk reduction and risk transfer, management strategies, preparedness and extreme weather forecast contingency plans;  
(j)(xiv) Risk transfer mechanisms, including insurance in close coordination with disaster risk reduction efforts. |
| **Annex III** Possible tasks of institutional arrangements (paragraph 26)¹ |
(a) Overseeing the creation of the necessary funds and insurance mechanisms, and the effectiveness of funds allocated to adaptation, including linking with effective risk reduction and to enable and support the creating of partnerships among companies and research institutions of developed and developing countries for adaptation technologies and the implementation of adaptation activities; |
Annex: Text changes for micro-insurance

<table>
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<tr>
<th>Microinsurance &amp; local level risk transfer</th>
<th>Possible functions</th>
<th>Location in Non-Paper 31 (adaptation)</th>
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| Weather monitoring                        | • Possible to link with regional centers                                           | Section C, para 16(b) Section E para 27 Annex I (f), (i), (s) | C. Means of implementation  
Capacity-building  
16. In furthering the objective of the adaptation framework and the implementation of adaptation action, developed country Parties, in partnership with developing country Parties, shall support capacity-building, inter alia, for:  
(a) Systematic observation, data collection and archiving, analysis, modelling and dissemination, including the use of climatic information, weather monitoring, and model outputs in national and sectoral planning;  
Annex I  
Activities to plan and prepare for the implementation of adaptation action (paragraph 8)  
(a) Support the supply and availability of climate information (including through research and systematic observation), weather monitoring, tools, methods and models, particularly in the most vulnerable countries;  
(i) Enhance or develop the needed information and knowledge base (both biophysical and socio-economic), including improving scientific research, data systems and data collection, weather monitoring, to support adaptation and catalyze adaptation investments. This includes enhancing observations and data, and making that data available, to inform assessment and planning for adaptation and provide inputs for approaches such as parameterized insurance;  
(a) Improving availability and application of climate and environmental information, including but not limited to remote sensing, weather monitoring, and decision-making tools; |
Annex: Text changes for micro-insurance

| Back up systems for microinsurance pilots and programs | Section C para 16(d) | C. Means of implementation
|------------------------------------------------------|----------------------|------------------------------------------------------
| *Provide risk cover for pilot programs on a non-profit basis*<br> *Could be linked with with regional centers.*<br> *Could be linked with global center for excellence on best practice* | | Capacity-building<br>16. In furthering the objective of the adaptation [framework] [programme] and the implementation of adaptation action, developed country Parties, in partnership with developing country Parties, [shall] [should] support capacity-building, inter alia, for:<br>(d) Analysing institutional vulnerabilities in developing countries in order to build national capacities in specialized areas, such as modelling, adaptation planning and implementation, back-up systems for risk sharing pilots and programs, and strengthen the relevant institutional capacities.

**Section E Institutional Arrangements**<br>32. Regional adaptation centres, including virtual centres, networks, organizations, initiatives and coordinating [bodies] [entities] should be established and/or strengthened in developing country regions under the authority of the Subsidiary Body for Adaptation to facilitate action on adaptation. Regional centres will be a key source of guidance, information and expertise within the regions for adaptation and risk management activities including risk sharing such as reserve funds, microinsurance, and other back-up mechanisms, and Parties will be encouraged to interact with their regional centres for such support.
### Annex: Text changes for micro-insurance

<table>
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<tr>
<th>Building of microinsurance project management capacity</th>
<th>Section C para 16(a) and 16(c) Annex 1 (p)</th>
<th>Capacity-building</th>
</tr>
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</table>
| • link with regional centers  
• also builds capacity for effective DRR and community-based adaptation | 16. In furthering the objective of the adaptation [framework] [programme] and the implementation of adaptation action, developed country Parties, in partnership with developing country Parties, [shall] [should] support capacity-building, inter alia, for:  
(a) Operational planning of adaptation, including capacity for detailed project design and management, costing of adaptation action, increasing adaptive capacity and implementation of adaptation actions;  
(c) Improved disaster risk reduction and emergency response capabilities, improved project management capacity for microinsurance within regional centers, governance structures that encourage efficient use and coordination of local, national and international resources |}

**Annex I**  
Activities to plan and prepare for the implementation of adaptation action (paragraph 8)  
(a) Using meteorological, earth-observation and socio-economic information, and local and indigenous knowledge to best coordinate disaster planning and response and build capacity for local-level risk management and transfer;
# Annex: Text Changes for Reserve Pools/Climate Insurance Pools

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<td>(Regional) joint reserve fund</td>
<td>• Possible linked with regional centers&lt;br&gt;• Providing technical assessments and support&lt;br&gt;• Helping countries in a region better manage the impact of large weather-related events</td>
<td>Section B para 12(b)(iv)&lt;br&gt;Section E para 27(c)</td>
<td>Section B&lt;br&gt;Implementation of adaptation action&lt;br&gt;12(iv) Encouraging projects related to microinsurance and regional or global join reserve funds, disaster reserve funds, and global risk pooling;</td>
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<td>Country or regional disaster reserve fund</td>
<td>• Possibly linked with regional centers&lt;br&gt;• Good for big countries but inefficient for smaller countries&lt;br&gt;• Every country should have a rainy day fund for more common events, financial risk management tools / deductible</td>
<td>Section E para 27(c)</td>
<td>Section E. Institutional Arrangements&lt;br&gt;Institutional arrangements at regional level&lt;br&gt;27. Regional [adaptation] centres, including virtual centres, networks, organizations, initiatives and coordinating [bodies] [entities], should be strengthened to the extent possible and, where necessary, established in developing country regions [under the authority of the Subsidiary Body for Adaptation] to facilitate action on adaptation. Regional centres should be designated by the countries they serve and be guided by and complement national adaptation action and priorities. Parties could use them as a source of guidance, information and expertise. Regional centres should operate with a view to:&lt;br&gt;(a) Facilitating sharing of knowledge and information between regions and centres at all levels;&lt;br&gt;(b) Organizing and delivering information between the Convention process and national focal points;&lt;br&gt;(c) Providing technical support, backstopping and capacity-building for adaptation and risk management activities including risk sharing such as reserve funds, microinsurance, and other back-up mechanisms;&lt;br&gt;(d) Enhancing the implementation of adaptation action, particularly at the regional level through cross-border projects and programmes, where appropriate;&lt;br&gt;(e) Facilitating development, diffusion and transfer of technologies for adaptation.</td>
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<tr>
<td>National insurance programs</td>
<td>• Tiered approach&lt;br&gt;• Private market involvement&lt;br&gt;• With back-up from the international community</td>
<td>Section E para 27(c)</td>
<td>Section B&lt;br&gt;Implementation of adaptation action&lt;br&gt;12(iv) Encouraging projects related to microinsurance and regional or global join reserve funds, disaster reserve funds, and global risk pooling;</td>
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