

# **BUILDING CLIMATE AND DISASTER-RESILIENT COMMUNITIES AND ECONOMIES: HOW THE INSURANCE INDUSTRY<sup>1</sup> AND GOVERNMENTS CAN WORK TOGETHER MORE EFFECTIVELY**

## *Summary*

Typhoon Haiyan, which has devastated larger parts of the Philippines in November 2013, gave us an impression of what we can expect in a warmer world. Today, we have come together as leaders in global risk management to issue a collective call to action to proactively address climate threats and build societal resilience. The insurance initiatives represented in this statement have a combined membership that includes more than 100 of the world's leading insurers across Africa, Asia, Europe, North and South America, and Oceania:

ClimateWise ([www.climatewise.org.uk](http://www.climatewise.org.uk))

The Munich Climate Insurance Initiative (MCII) ([www.climate-insurance.org](http://www.climate-insurance.org))

The United Nations Environment Programme Finance Initiative (UNEP-FI) ([www.unepfi.org](http://www.unepfi.org))

## **Need for action**

Since the 1980s, the number of loss-relevant weather-related catastrophes has almost tripled in comparison to the number of geophysical events over the same period of time. The recent IPCC 5<sup>th</sup> Assessment Report supports analysis that the effects of global warming are aggravating risk situations around the world<sup>2</sup>. Without rapid and ambitious action to reduce global greenhouse gas emissions, the capacity to keep global temperature rises within limits considered manageable or “safe” will narrow significantly<sup>3</sup>, leading to major shifts in risk landscapes worldwide and threatening human and economic wellbeing. Both public and private actors need to engage in a broader societal discussion about the use of insurance in the context of climate- and disaster-resilient development.

## **Insurers agree to actions in the following key areas:**

- Demonstrating leadership to decarbonise economic activity at the scale and pace demanded by scientific consensus, and supporting corresponding public sector decision-making.
- Identifying and developing incentives to reduce climate risk by promoting risk awareness, risk prevention measures on all levels accompanied by adaptation strategies combating the effects of global warming and strengthening disaster-resilience – also using insurance related solidarity concepts and approaches.
- Where risks cannot be effectively reduced or retained, supporting the transfer and sharing of such risks through insurance mechanisms including risk pooling mechanisms.
- Considering how insurance industry responses to climate-related events can shape the behaviours and decisions of governments, communities and businesses in managing climate risks.

## **Need for collaborative action between governments and the insurance industry**

Public authorities and insurers have a common interest in managing climate risks and risk reduction. This provides the basis for partnership in forging climate and disaster-resilient development pathways. The global

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<sup>1</sup> “Insurance Industry” refers to both insurers and reinsurers

<sup>2</sup> Summary for policymakers of the IPCC Working Group I assessment report Climate Change 2013: the Physical Science, IPCC, 2013

<sup>3</sup> A safe operating space for humanity, Nature, Volume 461, Rockström, J., 2009

insurance industry is uniquely placed in our economies as a market mechanism for risk sharing as the management of risks is its core business. Governmental authorities and agencies provide the frameworks within which insurers manage their risk exposures. Furthermore, regulatory frameworks, incentives and public-private collaboration are critical to providing vulnerable communities, particularly in developing countries, access to risk management services and risk transfer products offered by insurers. A mutually dependent relationship between governments, society and the insurance industry is therefore obvious.

### **Recommendations for the multilateral community**

A number of international public policy processes, frameworks and platforms to promote sustainable development are on the global agenda. We urge the multilateral community to support widespread action on disaster risk reduction and climate change mitigation and adaptation, and their effective integration into public policy. The multilateral community can make use of the risk management expertise and resources of the global insurance industry to support meeting the challenge of building climate and disaster-resilient communities as well as resilient economies. This can be done effectively and efficiently by focusing action along the insurance risk management value chain, risk identification and analysis, risk prevention and reduction and risk transfer, to:

- Support the provision, co-ordination and standardisation of risk identification and analyses to facilitate the management of weather-related risks. In particular support the availability, accessibility and quality of weather and climate information services.
- Identify and develop incentives that will result in risk prevention and risk reduction and embed risk transfer in wider resilience-building efforts<sup>4</sup>, ensuring alignment in policy and regulation.
- Facilitate, through insurance mechanisms, the provision of timely finance to reduce the financial repercussions of volatility related to extreme weather events and ensure more timely and targeted delivery of support when disasters strike.
- Establish regional risk management institutions and platforms to foster collaborative action to co-ordinate the management of weather-related risks and build risk prevention and reduction capabilities.

The insurance industry, over decades, has proven that economically sustainable disaster prevention works. Risk prevention is an investment in a safer world and long-term partnerships, including Public-Private-Partnerships, are key to improving the risk situation of people at risk and building more resilient communities.

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<sup>4</sup> e.g. National Adaptation Plans (NAPs) under the UNFCCC