



Briefing Note (December 2011)

Building effective and sustainable risk transfer initiatives in low- and middle-income economies: what can we learn from existing insurance schemes?

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Headline issue

Negotiators for Parties to the United Nations Framework Convention on Climate Change (UNFCCC) are exploring if and how risk transfer solutions could enhance adaptation efforts in those countries that are most vulnerable and exposed to the impacts of extreme weather events that are expected to be affected by climate change. One concept that is being investigated is a climate insurance facility.

Grantham Research Institute
on Climate Change and
the Environment

Chair: Professor Lord Stern
of Brentford

This paper is intended to inform the UNFCCC's discussions about 'Loss and Damage' by providing evidence-based information about existing risk transfer schemes in developing countries. It examines 123 natural hazard risk transfer initiatives from the Disaster Risk Transfer Compendium collated by the ClimateWise insurance initiative.

Key findings

- Existing risk transfer schemes come in many different forms - they often have very different objectives and operational approaches. This supports the view that there is no 'one-size-fits-all solution'.
- There is very limited evidence of existing schemes taking into account the risk of climate change. Only one of the operational schemes listed in the Compendium explicitly addresses the impacts of climate change.
- The roles played by public, private and third sector players differ between schemes. The private sector provides risk transfer in 89% of schemes, and dominates this function across all regions and scheme types. Public funds are being used for implementation and operational functions in 68% of all schemes.
- For the majority of schemes (14 out of 16) where a direct link between risk transfer and risk reduction has been identified, the public sector is involved in financing. This suggests that broad partnerships are key to unlocking the adaptation potential of risk transfer schemes.
- Assessing the effectiveness and sustainability of a risk transfer scheme remains a challenge. This goes beyond pure economic cost-benefit analysis, and it needs to include the recognition of the different stakeholder objectives such as vulnerability reduction, commercial viability, affordability, and the financial sustainability of a scheme in the context of changing risk levels due to climate change. The database sheds some light on this, but further work is required.

The full policy paper can be found at www.lse.ac.uk/grantham from 5 December 2011. For more information, please contact Swenja Surminski: S.Surminski@lse.ac.uk or +44 (0) 20 7107 5429