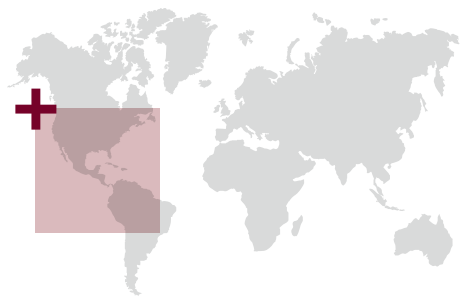


CLIMATE RISK ADAPTATION AND INSURANCE IN THE CARIBBEAN



AT A GLANCE

Name

Climate Risk Adaptation and Insurance in the Caribbean

Duration

March 2011 - March 2014

Focus Area

Caribbean (Saint Lucia, Grenada, Jamaica)

Target group

Rural small holding farmers and day wage labourers whose livelihoods are very sensitive to weather-related extreme events in the Caribbean. United Nations Framework Convention on Climate Change (UNFCCC) negotiators and relevant decision makers.

Funds available

The project is funded by the International Climate Initiative (ICI) of the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) with EUR 3.3 million.

The project is jointly implemented by ...

Caribbean Catastrophe Risk Insurance Facility (CCRIF), MicroEnsure, private reinsurance company Munich Re and calculation agent DHI (former Danish Hydrological Institute).

The core objective is ...

to overcome barriers and catalyze solutions to address middle-level weather-related risks and facilitate public safety nets and public-private insurance solutions for vulnerable people.



BACKGROUND

The Intergovernmental Panel on Climate Change (IPCC) 4th Assessment Report (2007) noted that the projected impacts of global climate change on the Caribbean region are expected to be devastating, and will be reinforced due to limited adaptive capacity of small islands and low-lying coastal states. Tropical storms and heavy precipitation events on one side and disruptions in rainfall and freshwater supply on the other are expected to escalate. Between 1995 and 2000, the region experienced the highest level of hurricanes on record, and regional losses from extreme weather events alone over the past 30 years have been estimated to reach USD 3.3 billion. According to a regional adaptation strategy by the Caribbean Community Climate Change Centre (CCCCC), “the very existence of the Caribbean Community and Common Market (CARICOM) countries” is threatened by climate change.

Natural hazards already represent a significant risk to inhabitants and economies in the Caribbean. In terms of damage incurred, hurricane-induced wind damage has the largest damage potential, accounting for up to 90% of the overall damage in some of the Caribbean countries. Annual expected losses from wind storm, storm surge and inland flooding amount to up to 6% of GDP.

According to the MCII-GIZ demand study on microinsurance in the Caribbean (2012), the existing coping strategies of vulnerable populations were negatively impacting their long term resilience: In response to severe weather events, the majority of the population in Saint Lucia and Jamaica would use savings. However, the study also found that many people could not afford to make repairs after an extreme weather event.



APPROACH

The project is a pilot project focusing on the development and implementation fostering innovative insurance products: the **Livelihood Protection Policy (LPP) and the Loan Portfolio Coverage (LPC)**. These index-based insurance products against extreme weather events are applicable to vulnerable communities across the Caribbean region. By linking the insurance products to disaster risk reduction (DRR) measures, their scalability can be greatly enhanced. The project was structured in three workstreams:

1. Operational showcase

Implement activities to demonstrate microinsurance products targeted to the most vulnerable, link these products with disaster risk reduction, and remove barriers for the implementation of microinsurance solutions in a vulnerable target region. Demonstrate the value added of a regional facility. Implement a process to monitor the operational phase, document lessons learned and good practice.

2. Creating a suitable regulatory and institutional framework for developing extreme weather insurance

Government institutions provide support to develop the market for innovative extreme weather insurance and adapt the regulatory and institutional frameworks, so that these kinds of insurance products can be promoted.

3. Feedback into policy

Provide a platform during UNFCCC and other relevant processes for policy makers to examine lessons learned about expanding risk management capabilities for medium-level weather-related risks in vulnerable regions (operational and technical analysis at side events, policy and donor fora, delegate dinners, etc.).

By working with a wide variety of strong local and regional partners, this project aims to be fully embedded in the region and tie into existing government and international projects.



Challenges:

Introducing first-of-its-kind insurance products into a region which has a low awareness of index-based insurance raises a number of challenges, including:

1. Difficulty in finding effective ways to link to DRR measures.
2. Lack of sufficient data to design effective and affordable insurance products.
3. Lack of awareness and appropriate legislation for insurance regulation.
4. Microinsurance schemes are often too small to effectively engage the international reinsurance market.
5. Products may fail.
6. Political risk due to uncertainties around the outcomes of the UNFCCC process.

Opportunities:

1. The political will was high as a result of MCII's engagement with the Small Island Developing States (SIDS), Alliance of Small Island States (AOSIS) as well as national delegations to the UNFCCC process facilitated project implementation.
2. Local insurers could see the value in this Bottom of the Pyramid approach that the project was introducing, allowing them to reach out to a significant market segment that had been previously overlooked.
3. There was also a high degree of confidence in the project consortium by the stakeholders which also eased implementation. The fact that Munich Re provided reinsurance capacity gave confidence to the local insurers.

OUTCOME

The research has shown that there is an implicit demand (need) for microinsurance in the region with approximately 31% considering themselves at a high/very risk of losing income due to extreme weather; while 23% of respondents stated a high/very high explicit demand. The design and marketing of the product is assumed to have a large effect on the realized outreach.

Design and implementation of two innovative insurance projects which will help secure the livelihoods of vulnerable communities and will help lending institutions bridge liquidity gaps in the post-disaster time period. Through the introduction of these products, the local capacities of insurers, regulators, government officials and end users will be enhanced through awareness raising and training activities.

The project will serve as a lighthouse activity in the UNFCCC climate negotiations, illustrating how fast track adaptation financing might be used in strategic ways to leverage adaptation (i.e. through risk reduction and insurance). The project will illustrate practical models which are institutionally light, assisted with data and technical matters by a regional facility (CCRIF) together with "backoffice" capacity of MicroEnsure.

Combination of risk reduction measures and insurance: A unique part of the MCII-GIZ proposal to the UNFCCC is that adaptation can be enhanced through coordinated use of disaster risk reduction and insurance (not just one or the other). The project will focus on climate change vulnerability and identify the most vulnerable countries and groups of people within a region.

LESSONS LEARNED

1. Development of a consistent marketing strategy, in which appropriate individual activities take place, is crucial for all stakeholders.
2. Comprehensive knowledge building campaign on the connections between disaster risk reduction and weather index insurance must be undertaken at the micro, meso, and macro levels.
3. A strong cooperation and open exchange with the regulators allows for product delivery to be more effective and efficient.
4. Open dialogue with national and international decision makers result in recognition of the role of insurance in managing climate risks.
5. Design publications with clear and concise language aimed at informing policy processes.
6. Develop institutionally light business models to help ensure efficient and effective delivery channels.



CASE STUDY

Livelihood Protection Policy (LPP)

Protecting the livelihoods of low-income, vulnerable groups by improving their ability to cope with weather-related risks can make a positive contribution to socio-economic development in the Caribbean. Targeted at individuals, the LPP helps protect the income flows of low-income people by improving their ability to absorb extreme weather related shocks and mitigate risks, reducing poverty and vulnerability in the long term.

Loan Portfolio Coverage (LPC)

The credit portfolios of financial institutions are exposed to extreme weather risks and if left unmanaged, it can significantly hinder financial sector growth in the Caribbean. In view of this, the LPC has been designed to strengthen the equity base of financial institutions in the face of weather related shocks, so that they do not have to resort to reducing access to credit, curbing economic activity which would consequently impede economic growth and poverty reduction.

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