



Key Principles for Climate-Related Risk Insurance

By Pete Ogden, Ben Bovarnick, and Yume Hoshijima August 2015

Introduction and summary

In December, the more than 190 countries that are party to the U.N. Framework Convention on Climate Change will convene in Paris to seek a new international agreement on climate change.¹ One of the critical issues they must resolve is how the international community will increase finance for climate change mitigation and resilience. The Obama administration has taken important steps to ramp up its activities in the area of climate finance, including a \$3 billion pledge to the Green Climate Fund, which will help address mitigation and adaptation needs. In the months leading up to the Paris conference, however, both the United States and the international community can do more to support a successful outcome by taking steps toward realizing the June 2015 pledge by the Group of Seven, or G-7, to expand access to climate-related insurance across the developing world.²

The impacts of extreme weather events fueled by climate change—which are exacting an increasing economic toll both domestically and abroad—are most acutely felt in developing countries. Losses from natural disasters in developing countries averaged \$54 billion per year from 1980 to 2004, and more than 1.9 billion people in developing regions were affected by natural disasters from 2003 to 2013.³ Climate change magnifies the severity of future weather events and places developing nations at greater risk of catastrophe.⁴

The limited resources of many developing countries can leave them unable to finance disaster recovery efforts in the aftermath of natural disasters. In response to this trend, national governments, international financial institutions, and the private sector are increasingly developing and deploying innovative ways to help countries and people cope with post-catastrophe financial hardship—particularly in the area of risk management through insurance.

At the G-7 annual summit in June 2015, the leaders of the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom zeroed in on the opportunity to help more countries and people in the developing world make use of insurance programs to better manage climate-related risks. At the summit, they announced an ambitious goal: to increase access to insurance

against climate-related risks for 400 million new people in the most vulnerable developing countries by 2020.⁵ Climate-related risk insurance is currently available to 100 million people in developing countries and major emerging countries; achieving the G-7 goal would require creating five times as much coverage over the span of five years.⁶ From 1980 to 2006, the share of insured economic losses in developed countries grew from 20 percent to 40 percent, while in the developing world it held steady at approximately 3 percent.⁷

Parametric risk insurance—insurance policies that use environmental measurements, such as wind speed or the amount of rainfall, to trigger an immediate payout—can play a key role in reducing the risks of climate change in developing countries. This report examines the ways in which parametric insurance programs can most efficiently limit the risks that climate change poses to developing countries. As G-7 leaders and the international community move forward with future programs to effectively address climate-related risks, the Center for American Progress has identified the following five principles by which to abide:

1. Parametric insurance will require the support of international partners.
2. Parametric insurance pricing should encourage and reward an individual or country for enhancing climate resilience, rather than incentivize extra risk taking.
3. Parametric insurance programs can and should work in tandem with each other.
4. Information gathered by programs should be shared and made available through a clearinghouse.
5. Parametric insurance pools should be regionally or globally diversified.

There is no way to meet the climate challenge without cutting greenhouse gas emissions and investing in enhanced resilience at home and around the world. G-7 leaders, however, are right to recognize that expanding insurance coverage could immediately help people and countries cope with the growing risks of climate change. By adhering to the principles outlined in this report, parametric insurance programs can be designed to help manage these risks and incentivize smart resilience investments in developing countries around the world.

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

