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IMPLEMENTATION OF ARTICLE 4, PARAGRAPHS 8 AND 9, OF THE CONVENTION

PROGRESS ON THE IMPLEMENTATION OF ACTIVITIES UNDER DECISION 5/CP.7

Views from Parties on possible additional terms of reference for the workshops on insurance referred to in decision 5/CP.7

1. The Subsidiary Body for Implementation (SBI), at its sixteenth session, stressed the importance of the workshops referred to in decision 5/CP.7, paragraph 34, on insurance and risk assessment in the context of climate change and extreme weather events, and in decision 5/CP.7, paragraph 35, on insurance-related actions to address the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and from the impact of the implementation of response measures. It invited Parties to submit, by 1 August 2002, their views on possible additional terms of reference for these workshops, and on the possible engagement and role of other relevant institutions in the proceedings of the workshops (see FCCC/SBI/2002/6, para. 26 (d) and (e)).
2. The secretariat received six such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced in the language in which they were received and without editing.¹

¹ These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

Parties making submissions

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Views on possible additional terms of reference pursuant to FCCC/SBI/2002/CRP.5 for the workshops referred to in decision 5/CP.7, paragraph 34 and 35, on insurance and risk assessment in the context of climate change and extreme weather events, and on insurance-related actions to address the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and from the impact of the implementation of response measures, including the possible engagement and role of other relevant institutions in the proceeding of the workshops

General Approach:

Canada acknowledges the important contribution of the 2001 Third Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), in particular, the assessment contained in IPCC Working Group II dealing with Impacts, Adaptation and Vulnerability. The IPCC report notes that recent regional climate changes, particularly temperature increases, have already affected many physical and biological systems, and that there are preliminary indications that communities have been affected by recent increases in floods and droughts. Canada also notes the IPCC finding that one of the human systems that is sensitive to climate change is the insurance and financial services sectors (Chapter 8, WGII).

Canada recognizes the vulnerability of human societies and natural ecosystems to climate extremes and notes that some of these extreme events are projected to increase in severity and/or frequency in the 21st century, with corresponding increases in the severity of their economic and societal impacts. Canada further acknowledges the IPCC finding that those with the least resources have the least capacity to adapt to climate change and are most vulnerable to its effects. For all of these reasons, Canada supports the two workshops on insurance and risk assessment and on insurance-related actions to address the specific needs of developing countries arising from the adverse effects of climate change and the implementation of response measures.

Canada suggests that the proposed workshops should build on the lessons learned by the insurance and financial sectors as they may have a role in addressing the specific needs of developing countries associated with the anticipated adverse effects of climate change. Tools and techniques developed by the insurance and financial sectors can contribute to discussion at the workshops and help in scoping out possible future actions by Parties. Canada believes that developing country needs related to insurance and risk assessment are best addressed, not solely through public sector provision and administration of insurance programs, but also through special public-private partnerships that draw upon the most recent thinking of the insurance and financial sectors. Similarly, multilateral and regional organisations also need to be engaged.

In this vein, Canada urges that the workshops draw on the expertise resident in the private insurance sector, as well as in multilateral and regional organisations and government agencies, with a view to improving our collective understanding of the most recent advances in dealing with insurance and risk assessment, given that this is a relatively new area of work.

Suggestions for Terms of Reference:

D) With respect to the workshop on Insurance and Risk Assessment in the Context of Climate Change and Extreme Weather Events, Canada suggests the following be considered in the preparation of terms of reference for the workshop:

- *Informational session on how the financial services sector and other relevant agencies measures risk from climate change and weather related events. Discussion should include the problem of disaggregating climate change causes from socio-economic causes and the limitations of information and technical infrastructure in performing risk analysis, with a special emphasis on the limitations in developing countries. Participation from the insurance and financial services sector is recommended.*

Insurance and reinsurance provision for weather-related disasters have had limited market penetration, and has been scaled back in many of the markets where it had previously been successful. The absence of incentive for greater local use of insurance is in large part due to the inability of disaster risk models to accurately predict the probable losses due to extreme weather events. However, these issues are inherent in assessing risk and the longer-term process of adaptation, including the potential risks of mal-adaptation. A discussion on how the insurance sector/practitioners measures risk and what obstacles exist in developing accurate risk assessment tools for measuring insurance risk from climate change related events would be helpful. Such a discussion will allow workshop participants to focus on understanding weather modelling and monitoring capacity that responds more specifically to the risk assessment needs of governments, the insurance and financial sectors and other relevant stakeholders.

Workshop participants may wish to focus on insurance industry initiatives such as the **Risk Prevention Initiative** or the **World Institute for Disaster Risk Management** for guidance on what specific capacities need to be developed in order to strengthen risk assessment in the context of climate change. Current capacity constraints are 1) climate models with poor predictive ability and, 2) a lack of comprehensive historical data on weather events. Essential to this discussion are the capacity needs of insurance risk assessment. The Canadian Standards Association has developed a Risk Management Framework which has been used successfully for climate change in the Caribbean. The Institute for Catastrophic Loss Reduction of University of Western Ontario, a partnership with the Insurance Bureau of Canada also play a key role.

- *Discussion of how to 'fill the gaps' of both scientific and economic information that is needed to properly assess and manage the risks associated with climate change. Topics should include: a forum for greater cooperation between the scientific and financial services communities and fostering greater awareness of the risks and opportunities on the part of the insurance sector.*

The objective of this discussion is to address the limitations of analyses of recent trends and of modelling the effects of climate change on weather-related disasters in a way that responds to the risk-assessment needs of insurance. There is clear mutual benefit in cooperation between the insurance practitioners and the climate scientist community. An example of such cooperation is the Risk Prevention Initiative (RPI) that was formed by a partnership of insurance and reinsurance companies with the objective of making climate change prediction understandable, usable, and relevant to the global (re)insurance industry. The workshop should explore the opportunities for further engagement of the insurance industry in a global network of regional initiatives such as the RPI in both developed and developing countries. Any such initiatives would have to address the issues of improving the predictive power of climate models, providing adequate regional climate and weather data and their analyses, and providing an adequate measurement of the costs of climate and weather events.

Additional issues to be discussed are: the development of region-specific parametric indicators used in the damage functions of risk assessments, and furthering the initiative for standardized environmental

reporting needed to improve the quality and availability of data, including on disaster damages, used in insurance risk assessment. The **UNEP Insurance Industry Initiative** is currently engaged in developing standardized environmental reporting under the auspices of the **World Business Council for Sustainable Development (WBCSD)**.

- *What can governments do to promote greater private insurance penetration and investment in adaptive measures? Discuss the role of governments in leveraging insurance and financial services sector involvement in re-insurance, disaster preparedness and relief, and risk-pooling.*

Discussion is needed on the promotion of greater private and local use of insurance and investment in adaptive measures by assisting in the development of risk assessment capacity, potential risk coverage and damage compensation. This will also reduce the potential risks of mal-adaptation. Many of the objectives designed to ‘fill in the gaps’, as discussed above, will require the assistance of governments and governmental agencies in developing capacity. The discussion should stress government participation in insurance risk assessment capacity building and explore the potential for the involvement of the private sector in adaptation investment.

II) With respect to the workshop on insurance-related actions to address the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and from the impact of the implementation of response measures, Canada suggests the following be considered in the preparation of terms of reference for the workshop:

- *Discussion the potential and dynamics of insurance and financial services sector engagement in adaptation strategies for developing countries to mitigate the costs of climate change and improve rapid-response measures;*

The workshop should explore the possibility of incorporating private sector insurance-focused disaster mitigation programs in adaptation strategies for developing countries drawing from working examples of natural disaster adaptation strategies that leveraged private sector insurance penetration.

Insurance sector engagement in the development of adaptation strategies goes beyond the opportunities for greater insurance coverage and investment in adaptation. The insurance sector is able to provide important risk assessment and management expertise to the process of developing adaptation strategies. Insurers can raise awareness by sharing information on the cost of weather events and on the probable loss due to such events in the future. Discussion on how to involve the broader insurance community in the risk assessment process for the development of adaptation strategies would be useful. Pricing of insurance can be designed to encourage appropriate adaptation measures.

Another important driver to investment in adaptive measures, in particular for the insurance sector, is asset security in light of environmental risk. Banks and pension funds are large institutional investors that are potential contributors to adaptation projects as a means to minimize exposure to potential adverse effects of climate change. Investments in projects with environmental returns often involve a significant degree of risk due to difficulties in measuring environmental assets. Both banks and pension funds are engaged in an initiative to develop environment-related metrics for asset management. Asset managers measure profitability and security in investment.

More robust and comprehensive asset management tools will build a stronger basis for investment, including in developing countries. Not only will it create more certain investment environment for adaptation projects, but it will help to identify deficits in security and profitability. Involving banking and pension fund institutions from developing countries in the adaptation strategy process will help to identify these deficits.

- *Survey of disaster relief programs and how they have been managed, including risk-pooling mechanisms, better building code development and enforcement, and other practices that mitigate the risk of insurance loss;*
- *Discussion of adaptation capacity building in developing countries and incorporating the capacity needs for greater engagement of the indigenous financial services sector in funding adaptation. Greater collaboration between public and private sectors in developed and developing countries would be an important component. Marrakech decisions such as Decision 2 and 3/CP.7 should help provide consistency. Issues for discussion include:*
 - *Training professionals in climate studies, severe weather prediction, environmental impact assessments, vulnerability and adaptation assessments, integrated coastal zone management, and soil and water conservation;*

Building institutional capacity in any given area should contribute to having trained professionals who are capable of assessing and managing the risks, administering and enforcing insurance related programs or regulations, providing disaster preparedness, and so on. Training is an important part of adaptation strategies for developing countries. It would be useful to discuss how such capacities could be enhanced in a collaborative fashion that would also take advantage of the expertise in the financial and insurance sectors and banking institutions.

- *Strengthening climate and hydrological monitoring stations and related forecasting capability as part of GCOS and regional networks to improve rapid-response measures and provide information for risk assessment purposes;*

Weather-related events tend to occur on a regional scale and the impact of climate change on such events is equally region specific. Providing adequate infrastructure for insurance penetration requires regional specific meteorological and hydrological data for performing insurance risk assessment. The workshop should explore opportunities for strengthening global network of regional meteorological and hydrological monitoring as part of GCOS.

- *Public education and outreach programs on climate change issues;*

For insurance coverage to play any significant role in an adaptation strategy, it will need public support. For a climate or weather-related disaster insurance market to exist, there needs to be an awareness of the risks posed by the insured event and some ability to quantify that risk. Public education and outreach programs that form part of adaptation strategies will need to address the issue of risk to residential and commercial property value.

- *Investigate the use of modern financial hedging techniques for countries adversely affected by implementation measures;*

Workshop participants should consider the use of modern financial hedging techniques as a relevant option in addressing the impact of response measures. Financial tools such as hedging are currently used by companies and governments to manage market risks such as price and demand volatility. Discussion is needed on what financial hedging techniques are available to developing countries who could be adversely affected by carbon constraining response measures. Input from the financial services sector on hedging techniques to respond to changes in energy prices and demand would be particularly beneficial.

PAPER NO. 2: DENMARK ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES AND CROATIA, CZECH REPUBLIC, LITHUANIA, HUNGARY, POLAND, SLOVAKIA AND SLOVENIA

SUBMISSION BY DENMARK ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES AND CROATIA, CZECH REPUBLIC, LITHUANIA, HUNGARY, POLAND, SLOVAKIA AND SLOVENIA

COPENHAGEN, 30 JULY 2002

ADDITIONAL TERMS OF REFERENCE FOR THE INSURANCE-RELATED WORKSHOPS UNDER DECISION 5/ CP.7, PARAGRAPHS 34 AND 35

On behalf of the European Community and its Member States and Croatia, Czech Republic, Lithuania, Hungary, Poland, Slovakia and Slovenia, Denmark presents its suggestions, as requested in FCCC/SBI/2002/CRP.5, on the additional terms of reference for the workshop on insurance and risk assessment in the context of climate change and extreme weather events (paragraph 34); and also on the workshop on insurance-related actions to address the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and from the impact of response measures (paragraph 35).

The subject of ‘Insurance and other Financial Services’—as a risk-spreading mechanism through which the costs of extreme weather-related events are distributed between other sectors and throughout society—is dealt with in the TAR. As expressed in the TAR WG II report it is extremely difficult to separate natural from human driving forces knowing that socio-economic trends are also increasing society’s exposure to weather related losses. As stated in the TAR, we are clearly at a very early stage in relation to the issues stated in 5/CP.7, paragraphs 34 and 35.

Based on the above, we propose to hold a workshop – at this point in time – where the main objectives are:

- to improve our common understanding of the current state of knowledge
- to exchange experiences and practices and
- to clarify the current status for the different regions.

This workshop could provide the necessary basis for deciding how to proceed, including the definition of the terms of reference and how to organise future work and research. This could also allow for a better account of issues of specific relevance for selected groups of developing countries and give time for further consultations with the target audience.

In addition to the issues raised in the TAR (mentioned above), the workshop’s terms of reference should also address the following questions:

- To what extent do public and private sectors in developing countries have a policy on insurance?
- How widespread is the use of (private) insurance?
- How are impacts of extreme weather events (and other natural disasters) covered?
- What is the impact on the national economy and what is the ‘share’ covered by insurance?
- What (public) databases on climate-related insurance records (events, victims, damage, premiums, compensation payouts, etc.) are available?
- What type of (climate-related) loss estimation models do the insurance sector use?

The following sources of information should be used:

- Insurance companies

- Reinsurance companies
- Research Institutions
- UN agencies – UNEP insurance initiative
- International Financial Institutions
- WTO - regarding rules and regulations
- National communications which inform on insurance work

It is unfortunate that there has been little opportunity to discuss progress under 5/CP.7 except for the section concerning workshops. (In this context, please also refer to the EU submission on “the workshop on the status of modelling activities under decision 5/CP.7, paragraph 33, and issues relating to progress in the implementation of decision 5/CP.7”.) In particular we would like to make progress on improving the guidelines for the preparation of the national communications from Parties not included in Annex I to the Convention. Indeed, national communications and/or NAPAs are the main source of information relating to country specific adaptive capacity and this information is an extremely important input for assessing risks related to climate change and extreme weather events and designing and assessing actions to address their adverse effects.

**PROPOSAL OF THE ISLAMIC REPUBLIC OF IRAN ON THE ISSUE OF INSURANCE
RELATED ACTIONS & RISK ASSESSMENT IN THE CONTEXT OF CLIMATE CHANGE
AND EXTREME WEATHER EVENTS**

Scope :

* Insurance as recognized in article 4.8 of the Climate Change Convention is a significant instrument which its proper and efficient application could enhance meeting the specific needs and concerns of developing country parties arising from the adverse effects of climate change and/or impact of the implementation of response measures;

* Incorporation of developing countries' climate concerns in the policies and activities of private and/or state-owned insurance companies of Annex-1 countries could have direct effects on various areas of sustainable development in developing countries, particularly on areas as foreign direct investment and access to state-of-the-art technologies and economic diversification;

* Developing countries are seriously concerned that as the result of climate change and extreme weather events, a considerable number of their development plans and projects to be more affected by continuous increase in the rates and costs of insurance activities of foreign related companies. Such an unwarranted increase intensifies the adverse effects of climate change, since developing countries are forced to spend a higher amount of their financial resources for insurance coverage of those projects instead of financing their adaptation activities;

* Therefore, it is worthwhile, some discussions and information sharing on insurance related actions to be conducted in such a way:

1- to identify restrictions and obstacles which insurance policies of private and/or state-owned companies of Annex-1 countries have generated or may cause for achieving sustainable development and climate friendly activities in developing countries, particularly those whose economy are highly dependent on the production and export of fossil fuels;

2- to evaluate and analyze the individual and combined impacts of planned or implemented insurance policies of Annex-1 countries on promotion of economic competitiveness in developing country parties;

3- to identify the positive effects of insurance incentives on encouraging further environment friendly activities in developing countries, including preferential or affordable rates for energy efficiency and production of cleaner energy sources – like natural gas- by insurance companies of Annex-1 countries;

4- Given the importance of minimization of adverse impacts of implementation of the Annex-1 response measures on the developing countries, it is strongly believed that insurance incentives including considering lower rates could play a significant role in this respect. Accordingly, it is essential to examine the ways and means of enhancing the effectiveness of those incentives.

Structure:

* The participants in the workshops (delegates, IGOs and NGOs) should be invited in a fair and balanced manner.

* The terms of reference of the workshops should be clear and decided prior to those meetings.

* The developing countries particularly those whose economy are highly dependent on the production and export of fossil fuels should be represented in the workshops in a fair and equitable manner. However, such representation and participation in this process does not imply any commitment for developing countries to share information or take policy and measures in this respect.

VIEW OF MYANMAR

Poor countries are the most vulnerable to the impact of the climate change and extreme weather events. Insurance issue regarding the climate change impact is the primary concern to the security of the poor nations. Series of seminar and workshops should be launched in this connexion.

PAPER NO. 5: REPUBLIC OF UZBEKISTAN

VIEW OF THE REPUBLIC OF UZBEKISTAN

Seminars mentioned in the decision 5/CP.7, paragraphs 34 and 35

The Republic of Uzbekistan shares a preoccupation of the developing countries about climate change adverse consequences. The statement of such problem on alternative mechanisms of the financial support for developing countries of vulnerable regions is timely. Holding of a seminar on a sequence and realization ways of measures connected to insurance and an estimation of risks in a extreme weather phenomena will be useful for beginning of dialogue with the developed countries.

The basic adverse consequences of climate change are concentrated in threats to national food safety and health of the population of vulnerable regions. So, the cooperation with such organizations as FAO and WHO and also the using their estimations and experience is necessary decision of related problems.

**Subsidiary Bodies
Seventeenth session, New Delhi, 23 October-1 November 2002**

**Additional terms of reference for the insurance-related workshops under decision 5/CP.7,
paragraphs 34 and 35**

In response to the call at the sixteenth session of the SBs to express views on the terms of reference on the above-mentioned workshops, Switzerland presents the following views.

1. Switzerland strongly supports the view that the workshops referred to in decision 5/CP.7 paragraphs 34 and 35, on insurance and risk assessment in the context of climate change and extreme weather events, and on insurance-related actions to address the specific needs and concerns of developing country Parties arising from the adverse effects of climate change have to be organised with the aim of dealing with the information contained in chapter 8 of the IPCC WG II TAR, *Insurance and other financial services*.
2. The IPCC TAR emphasises, among other issues, the need to address vulnerability and adaptive capacity considered as risk reduction and generating co-benefits in combating climate change, as well as the provision of insurance and catastrophe relief by various actors such as private and public entities and the states.
3. We strongly believe that a careful consideration of this information during these workshops is a prerequisite for further discussion of these matters under the Convention's process.
4. Furthermore, we recognise that there is already much international experience on matters related to financial services and climate change and to natural disaster reduction and relief (e.g. UNEP; UN Interagency Secretariat of the International Strategy for Disaster Reduction; UN Office for the Co-ordination of Humanitarian Affairs; International Red Cross). We consider as a priority inviting to the workshops these organisations and associating them to further consideration of this agenda item.
5. As regards the impact of the implementation of response measures, we consider that further political guidance should be provided by the SBSTA on the terms of reference of such a workshop.
