



Federal Ministry
for Economic Cooperation
and Development



InsuResilience

KfW

»» The Role of Insurance in Climate Adaptation

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Scaling Up Agricultural Adaptation through Insurance

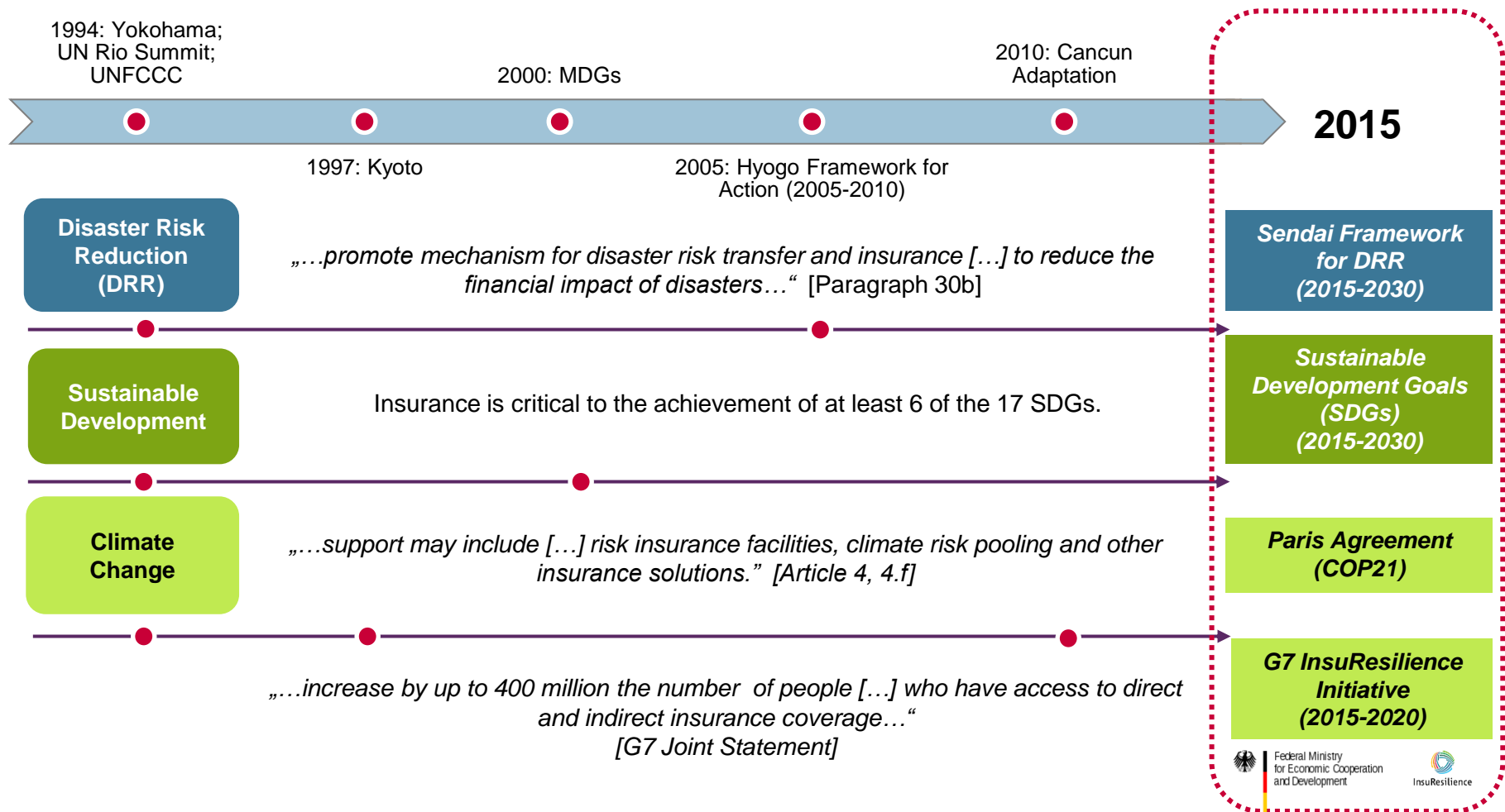
Bonn, 14 May 2017

»» The Role of Insurance in Climate Adaptation

Key Questions

1. How can insurance improve adaptation and increase resilience?
2. When is insurance the right instrument for adaptation?
3. How to make the agricultural sector more resilient to climate risks?

»» Growing Importance of Insurance

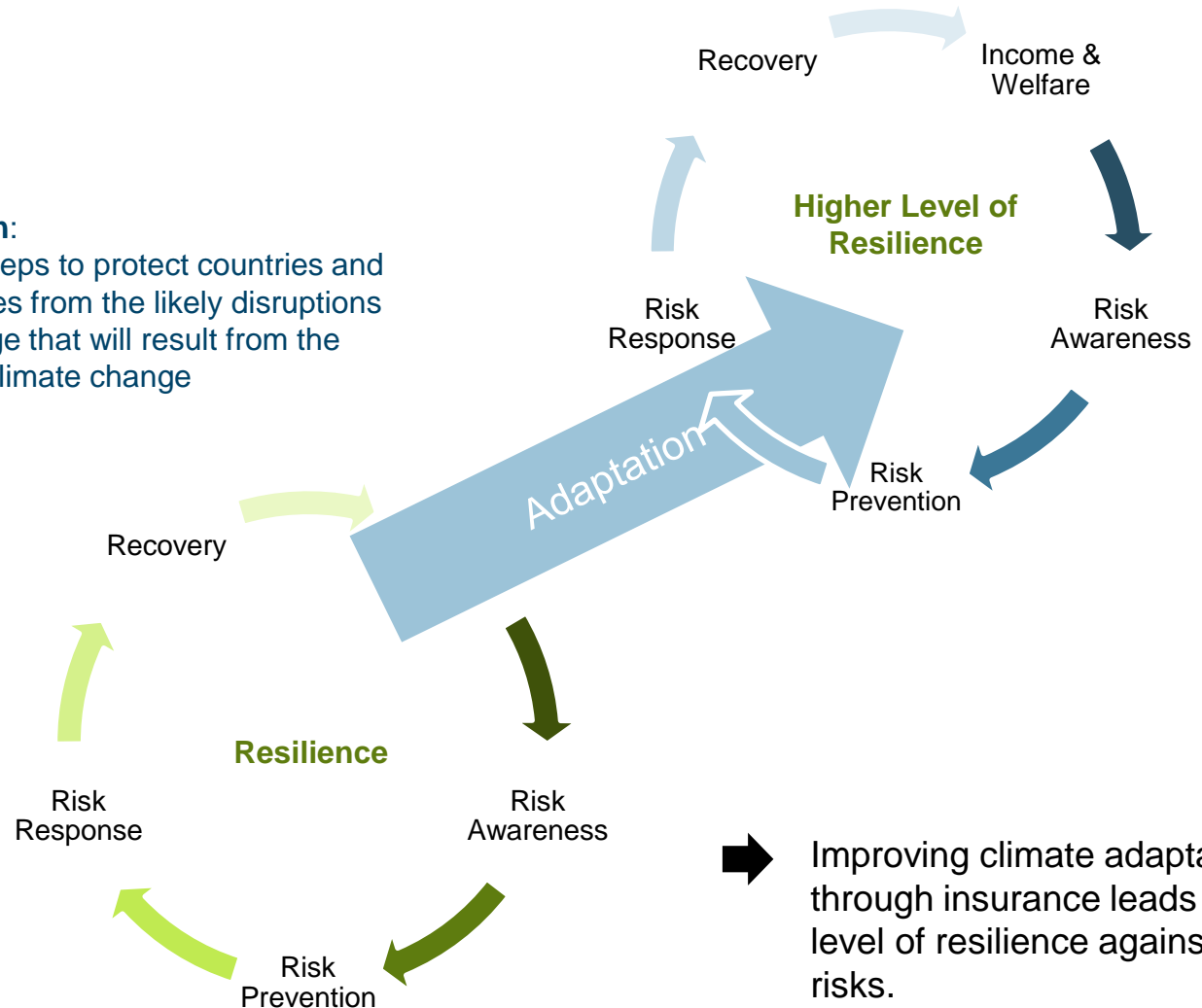


»» 1. How can insurance improve adaptation and increase resilience?

The virtuous cycle of resilience

Adaptation:
Practical steps to protect countries and communities from the likely disruptions and damage that will result from the effects of climate change (UNFCCC).

Resilience:
Amount of change a system can undergo without changing state (IPCC, 2001).



➔ Improving climate adaptation through insurance leads to higher level of resilience against climate risks.

»» Example: Macro-level Insurance

African Risk Capacity (ARC)



KfW



Goal:

- › Drought insurance for African states combined with ex-ante contingency planning

Product:

- › Index-insurance based on satellite data

Ownership:

- › African States as members of ARC

Current state:

- › Total sum insured in 2015/2016: 178 mn USD
- › Product development for tropical cyclone, flood



ARC Insurance Company Ltd.

Established: 2013

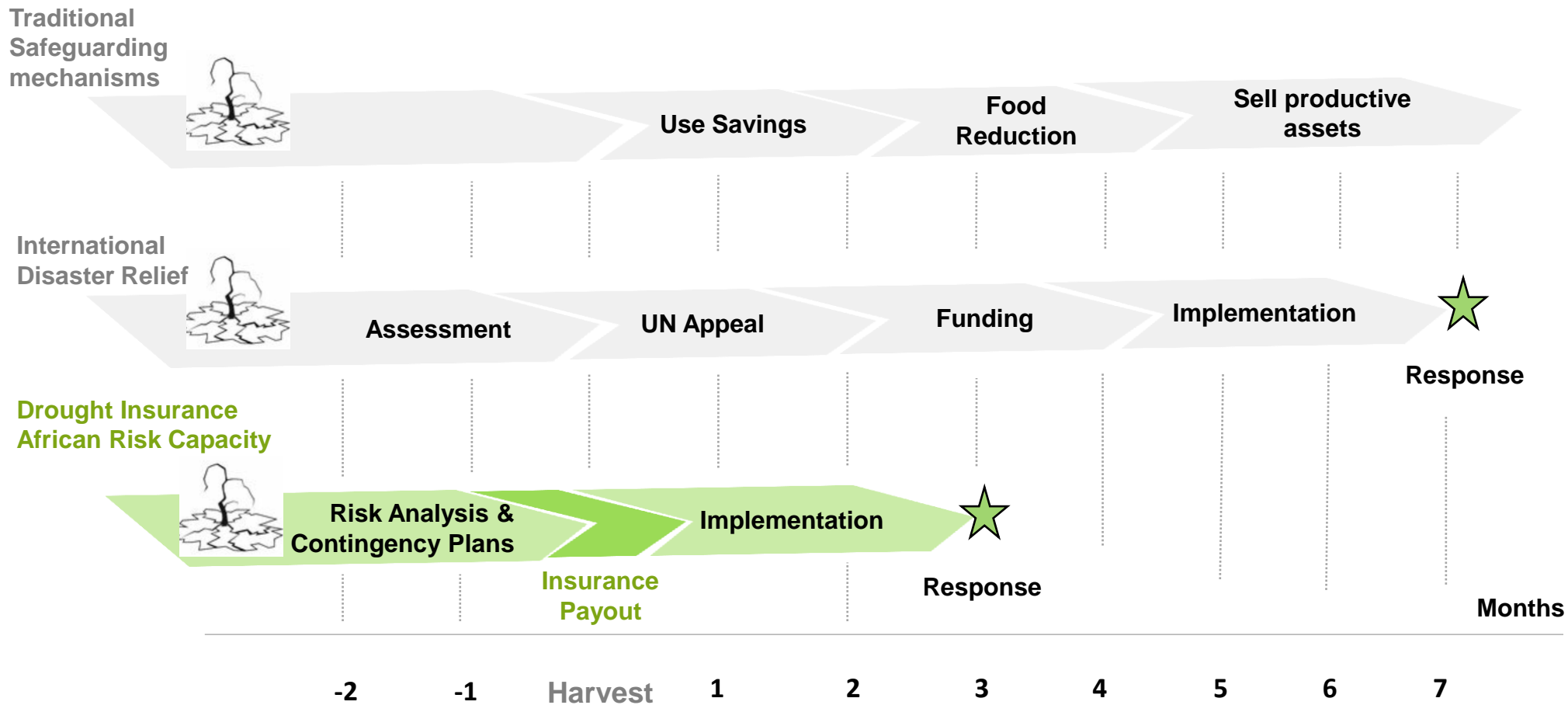
KfW on behalf of BMZ: Capital 78 mn EUR
Technical assistance
14 mn EUR

Direct beneficiaries: potentially all
members of the
African Union

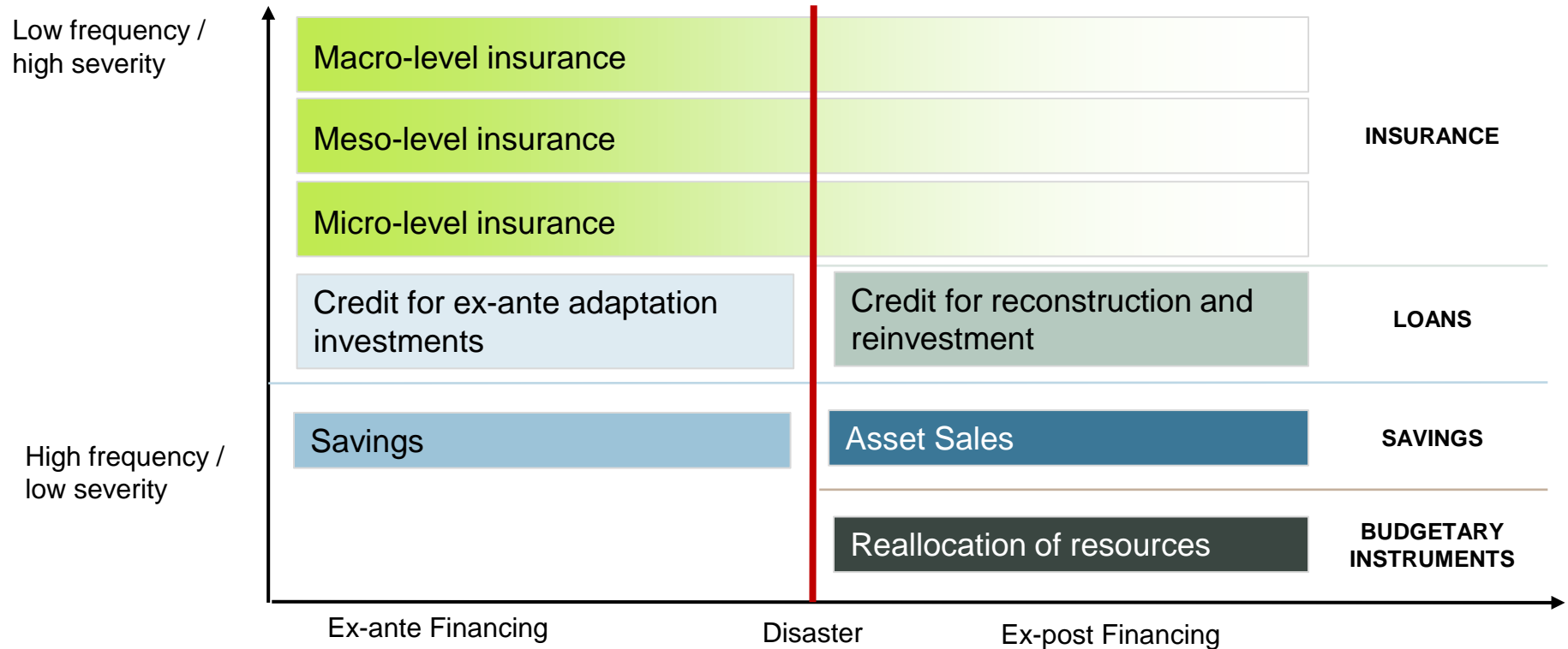
Indirect beneficiaries: poor and vulnerable
households/farmers

»» 1. How can insurance improve adaptation and increase resilience?

The impact of insurance: an example of drought insurance in African states



»» 2. When is insurance the right instrument for adaptation?



Insurance as adequate tool to cope with high-severity, low-frequency climate risks.

»» 3. How to make the agricultural sector more resilient to climate risks?

| Who bears climate risks? | What kind of risks? | Insurance solutions |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Governments | <ul style="list-style-type: none"> › human losses › costs for disaster response › damages of public infrastructure and buildings › development setbacks | Macro-level insurance: <ul style="list-style-type: none"> › index-based climate risk insurance (e.g. ARC) › Cat-bonds etc. |
| Agricultural service providers | <ul style="list-style-type: none"> › loss of income and profits › damage of assets › credit failures › bankruptcy | Meso-level insurance: <ul style="list-style-type: none"> › bundled insurance products › index-based insurance, etc. |
| Farmers / pastoralists | <ul style="list-style-type: none"> › income losses and reduced consumption › asset losses › persistent poverty | Micro-level insurance: <ul style="list-style-type: none"> › harvest/livestock insurance › index-based/indemnity-based insurance etc. |

 Insurance solutions at all levels are crucial to increase resilience of the agricultural sector.

»» How to Scale-up Adaptation through Insurance?

Key conclusions:

1. Insurance improves climate adaptation at different stages of risk management leading to a virtuous cycle of resilience.
2. Insurance is a complementary instrument of adaptation to better cope with high-severity, low-frequency climate risks.
3. Insurance solutions at all levels are crucial to improve climate resilience of the agricultural sector.

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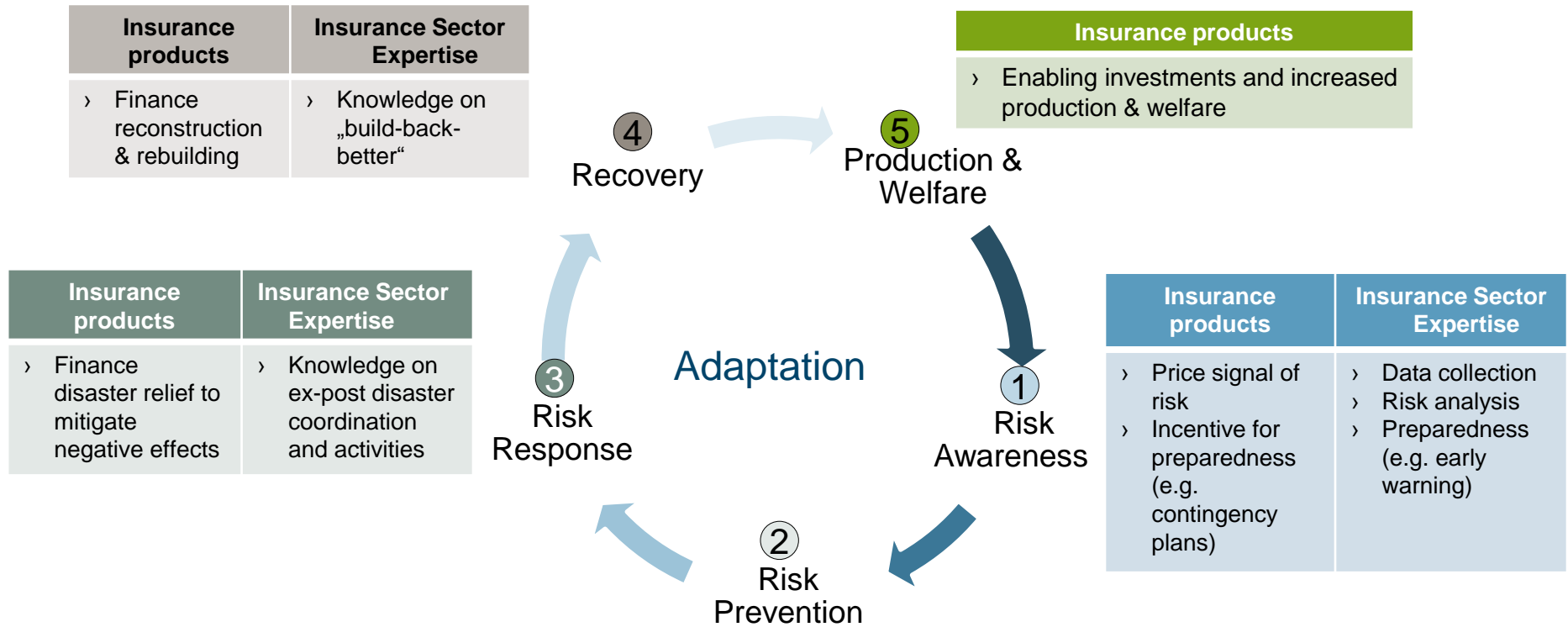
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»» 1. How can insurance improve adaptation and increase resilience?

Insurance products and insurance sector expertise foster adaptation through...



➔ Insurance supports climate adaptation at different stages of risk management process.