

Ten concerns about climate and disaster insurance schemes – and one rights-based alternative

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Climate and disaster insurance is being oversold and community-based risk reduction overlooked in the rush for resilience

I'm not the first person to suggest that insurance is being oversold.

Indeed, even most promoting it acknowledge in words that it can only be one part of the solution to protecting the poorest and most vulnerable. Actions tell a different story: while implementation of the most critical parts of a holistic approach to risk reduction crawls along at a snail's pace, the insurance train ploughs full steam ahead.

The momentum of climate and disaster insurance has been imparted by the World Bank, the G7, the Paris climate agreement (where developing countries were on the wrong end of a bad deal on loss and damage), the insurance sector... So this week, as the insurance train passes through the World Humanitarian Summit in Istanbul, climate talks in Bonn and G7 Summit in Japan, it's time to pull on the brake, look at the evidence, and come up with a mutually inclusive approach to climate and disaster insurance, equity and effectiveness. It's also time to look more closely at what communities are doing to build their own resilience and self-reliance, and prioritise supporting this.

So what kind of insurance schemes are we talking about?

The two main types of climate and disaster insurance schemes that are currently multiplying are sovereign risk-pooling and weather-indexed agricultural insurance. The first of these sees countries getting together to purchase insurance for a certain set of disasters, such as hurricanes, drought or earthquakes. By doing this as a group, they obtain lower premiums than they would have individually. Such schemes include the African Risk Capacity and CCRIF (with members from the Caribbean and Central America). The second involves farmers buying insurance against hazards that cause crop failure or livestock deaths. Both tend to use index-based insurance, in which – in contrast to traditional indemnity-based insurance where payouts are based on actual loss assessments – payouts are triggered when certain parameters fall within certain values. For example, these parameters – or indices – could be rainfall, windspeed or earthquake strength.

We can't insure ourselves out of the climate change problem

Even a good insurance model can only be effective as an integrated part of a holistic approach to resilience building and risk reduction. This statement does not seem contentious, but since insurance is so dominant in current discussions on resilience and loss and damage, it seems worth starting my list of concerns with three reasons why it is true:

1. Insurance is not a substitute for social protection and good governance

This point was made strongly by the High Level Panel of Experts on Food Security and Nutrition (HLPE) of the Committee on World Food Security: *"in contexts of high poverty, high risk and high premiums, it would be naïve to assume that private insurance markets can supplant publicly provided social protection in the near future."* (HLPE, 2012)

2. Climate change will make many risks uninsurable, especially for the most vulnerable

The insurance industry itself has voiced this concern, particularly for communities facing inevitable loss and damage, for example from rising sea levels or recurring cyclones. Alternatives are therefore needed, such as planned relocation in advance.

3. Not all losses are economic

Can a payout fully compensate a person for the loss of their loved ones, religious structure or culture or for being forced to relocate permanently due to climate change? Or women who face increased violence as climate change makes them walk further to collect water?

Problems with the prevailing models of climate and disaster insurance

Evidence from analyses of past and present insurance schemes in developing countries, particularly sovereign risk-pooling and agricultural insurance schemes, raises the following specific concerns:

4. *Insurance schemes risk diverting scarce public resources from more effective resilience-building strategies and from meeting adaptation finance needs*

Rich nations must not allow the current focus on insurance to divert them from resilience-building options that are proven to deliver value-for-money; nor from significantly increasing their adaptation finance to meet their fair share of needs in developing countries. This is critical, since global adaptation grants from rich to developing nations need to rise steadily from \$3-5 billion (bn) per year in 2013 to \$140-300bn per year by 2030 ([ActionAid, 2015](#); [UNEP, 2016](#)).

Developing countries are also diverting their public funds from other priorities to pay for climate and disaster insurance, with some of them having to take out further loans to do so.

5. *Insurance schemes tend to increase inequality*

Insurance schemes are generally not accessible or affordable for the poorest and most marginalised ([ILO & Munich Re Foundation, 2012](#)). They can result in wealthier members withdrawing from existing informal risk pooling mechanisms such as savings and credit associations, exacerbating inequalities ([Clarke & Dercon, 2009](#)).

The landless, such as tenant farmers and sharecroppers, face a particular struggle in accessing insurance ([NITI Aayog, 2015](#)). More research is required on the impacts of insurance schemes on gender equity: women are more likely to be landless than men, while evidence from health insurance shows that it is generally very expensive to add family members to insurance cover, with women and girls most often being left out ([ILO & Munich Re Foundation, 2012](#)).

Governments often subsidise agricultural insurance schemes. However, this can result in the poor taxpayer subsidising rich insurance companies. Data from eight years of India's Weather-Based Crop Insurance Scheme shows that **farmers received payouts amounting to only 40% of the money paid to insurance companies in premiums and subsidies**, of which 60% came from the farmers and 40% from the government ([AIC, 2015](#)).

6. *Climate and disaster insurance schemes are not being financed in accordance with equity and climate justice*

Climate change is increasing the demand for and cost of insurance. Yet poor people and nations – those least responsible for climate change – are paying the vast majority of the premiums and, in many cases, risk actually losing money as a result. *The poor are effectively being asked to gamble on the weather – but the house always wins.*

In the African Risk Capacity (ARC), the African countries least responsible for climate change are paying 80% of the premiums ([Artemis, 2015](#)).

Private (re)insurance companies, many of which hold huge investments in fossil fuels and other high-emission sectors, are profiting from this risk, with the help of government subsidies.

All of this represents a huge climate injustice.

7. *Insurance schemes are ignoring the root causes of vulnerability*

A prime example is the Indian crop insurance case. India is experiencing a farm debt crisis that is the most common reason for the 10-20,000 farm suicides recorded every year, according to official statistics ([The Hindu, 2015](#)). Crop insurance is promoted as a response to this crisis. However, even if farmers receive insurance payouts for crop losses, since these are set based on the price determined by the government for the crops, this will not be enough. Farmers are locked in a cycle of debt because this price is often lower than their production costs, which include interest on loans and purchase of inputs such as seeds and synthetic fertiliser. What is

really required is a fair price for crops that makes farming viable, a shift to agroecology, which does not rely on external inputs, and reform of agricultural subsidies in rich nations.

8. Insurance schemes are often incentivising not more resilient behaviours, but maladaptation and entrenched vulnerability

Major agricultural insurance schemes are undermining, rather than incentivising through reduced premiums or eligibility criteria, the necessary shift to more resilient and sustainable agroecology by tying insurance to risky, unsustainable farming practices.

The Agriculture and Climate Risk Enterprise (ACRE) scheme in East Africa – the largest agricultural insurance scheme in sub-Saharan Africa – provides such a case. This was initiated by the Syngenta Foundation for Sustainable Agriculture (Syngenta is a global agribusiness that sells agrochemicals and seeds). Among the ways in which insurance is sold to farmers is by including it in the price of hybrid seed and linking it to loans that have to be used to buy ‘improved inputs’ such as proprietary seed or mineral fertiliser ([CCAFS, 2015](#)).

9. Insurance schemes are being used as vehicles for powerful external actors to influence policies and practices in developing countries

While donors suggest that they are merely responding to a demand for insurance from developing countries, the Independent Evaluation Group noted that the provision by the World Bank to Haiti of a grant to enable it to join CCRIF had been “*supply-driven in the sense that the insurance solution was the modality on offer when ... a broader, demand-driven approach [seemed more appropriate]*” ([World Bank, 2011](#)).

10. Many major insurance schemes lack transparency and accountability, as well as local ownership

[Christian Aid \(2010\)](#) reported that the CCRIF initiative lacked transparency and community ownership. Likewise an independent review of ARC highlighted severe gaps in its ability to track how payouts are actually spent, let alone their impacts ([Kimetrica, 2014](#)).

A rights-based alternative is needed

A rights-based, more effective and integrated approach would focus on putting in place the essential pillars of transformative implementation of the SDGs, Paris climate agreement and Sendai Framework for Disaster Risk Reduction:

- i) national transformative and adaptive social protection systems backstopped by an equitably financed global social protection and crisis fund; and**
- ii) support for resilient livelihoods; within**
- iii) a just transition to equitable, resilient and sustainable food, energy and economic systems.**

Within this rights-based, more effective approach, **the right type of insurance would comprise two tiers:** i) **Local member-owned groups, such as women’s self-help groups (SHGs) and cooperatives, can form associations or federations** at local, regional and national levels capable of providing mutual insurance to their members; ii) These associations should then be **backstopped by an equitably financed global social protection and crisis fund** channelled through their governments.

Meanwhile, the global insurance industry should rapidly accelerate its initial steps towards divestment from fossil fuels and use its huge investment portfolio as a force for risk reduction, adaptation and sustainable development.

Resilience requires strengthening institutions of the poor, not selling insurance to the poor
Women’s SHGs, cooperatives and other “institutions of the poor” can play a catalytic role in the delivery of a comprehensive social protection and livelihood support system that supports transformation from vulnerable to more resilient livelihoods.

Such member-owned collectives, particularly if federated at scale, can also offer their members insurance products where, crucially, any money left over after payouts remains within the group. This has been shown to be the best way to enable equitable access to insurance schemes for women, girls, and the poorest and most marginalised groups ([ILO & Munich Re Foundation, 2012](#)).

Examples of SHGs and cooperatives organising at scale include India's Self-Employed Women's Association and National Rural Livelihoods Mission, Myanmar's Socio Economic Development Network (with support from ActionAid Myanmar), and the Philippines CLIMBS cooperative.

Rich nations must provide backstopping to member-owned groups offering insurance and other resilience-building services

Federations of cooperatives or SHGs offering insurance, no matter how large they become, will still need to be protected from catastrophic risk through government and international backstopping.

This is where a global social protection and crisis fund is required, which must be equitably financed by rich nations: i.e. in accordance with their capacity and (to some extent) their responsibility for climate change. Back in 2008, two of the UN Special Rapporteurs on human rights, [De Schutter and Sepúlveda](#), proposed a global social protection fund that would a) top up the maximum available domestic resources that developing countries can mobilise to implement national social protection floors; and b) provide immediate relief to ensure such social protection floors be maintained in the face of a crisis. This is still an excellent starting point. Can the parallel discussions on climate, disaster risk reduction and social protection come together and deliver an integrated response?

This global fund may need a reinsurance element for extremely large financial risks. A rights-based approach would be to design this reinsurance element as a not-for-profit company.

The international insurance industry should accelerate steps towards divestment from fossil fuels and use its huge investment portfolio as a force for sustainable development

Governments should demand that insurance companies who seek to profit from selling climate insurance to the poor must divest from fossil fuels and other high-emissions sectors, and use their investment portfolios to support sustainable development before being able to do so. Insurance companies collectively manage around \$25 trillion, or one third of the funds managed globally by institutional investors ([Ceres, 2014](#)), so such a condition could represent a truly transformative contribution towards achievement of the SDGs and Paris climate agreement.

Principles for equitable and effective climate and disaster insurance

The insurance train will not be derailed. But perhaps it can be steered onto a better track. For those involved in the design, implementation, review and regulation of insurance schemes unwilling to get behind the model I outlined above, I suggest at least adopting the following principles might help:

- i. **Equitable burden-sharing** (including climate justice, i.e. not asking the poor to pay for protection against climate risk caused by the rich)
- ii. **Affordability and accessibility** (and no adverse impact on income and gender inequality)
- iii. **Incentivising more resilient and sustainable behaviours** (not maladaptation and greater vulnerability)
- iv. **Integration** (of insurance into a holistic and transformative resilience approach)
- v. **Value-for-money** (and prioritisation of more cost-effective resilience building options, where these are equitable and sustainable)
- vi. **Local ownership and women's leadership** (demand-driven and delivered through local member-owned institutions of the poor, particularly those led by women)
- vii. **Transparency and accountability** (in the insurance schemes and their regulation)

Do you think they capture all the important issues?

ActionAid will be deepening our research on insurance up to COP22 in Marrakesh and beyond.