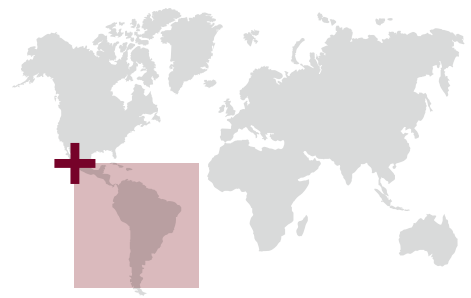


INSURANCE FOR CLIMATE CHANGE ADAPTION PROJECT



AT A GLANCE

Name

Insurance for Climate Change Adaption Project

Duration

November 2010 – October 2013

Focus Area

Peru

Focus Regions: La Libertad, Lambayeque, and Piura

Target group

Producer associations, agro-exporters, fishing companies and financial and government institutions located around the north coast of Peru

Funds available

The project is funded by the International Climate Initiative (ICI) of the German Ministry for Environment, Nature Conservation, Building and Nuclear Safety (BMUB) with 2.0 million Euro.

The project is jointly implemented by ...

Superintendency of Banks, Insurance and Pension Fund Administrators (SBS), Ministry of the Economy and Finance (MEF), Ministry of Agriculture (MINAG), regional governments of Piura, Lambayeque and La Libertad, financial and insurance companies and agricultural and fisheries productions and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

The core objective is ...

to provide the target group with the opportunity to obtain insurance by means of an innovative insurance scheme for extreme weather events.



BACKGROUND

According to article 4.8 of the United Nations Framework Convention on Climate Change (UNFCCC), Peru is included as one of the ten most vulnerable countries to climate change.

The aspects that make Peru vulnerable to climate change are: low lying coastal areas, arid and semi-arid areas, deterioration of forest resources, flood-prone areas, a high incidence of drought and desertification.

Further ongoing factors are: population growth, the inhabitation of areas threatened by extreme weather events, such as the El Niño phenomenon (ENP), climate-dependent economic activity, and the lack of institutions, organizational capacity and resources to tackle the impacts of climate change.

According to the Latin American Development Bank (CAF), the ENP caused over three billion dollars' worth of damage to the north coast of Peru in the periods between 1982-1983 and 1997-1998, respectively equating to 7% and 5% of their gross domestic product.

Since 2011, the Risk Management Law has given national and local governments the leading role and responsibility for prevention, preparedness and response in the event of catastrophic weather emergencies. Farmers have experienced extreme El Niño events in the past and have developed their own risk reduction and management strategies. They often lack, however, the financial resources to make effective risk reduction measures. Climate change adaptation is inevitable and requires risk mitigation strategies and, above all, financial instruments for transferring risk, such as (extreme) weather insurance.



APPROACH

The project is a pilot project fostering the development of an innovative insurance product: the extreme El Niño index insurance product. The index-based insurance against extreme El Niño events can be applicable to several regions in Peru as well as to several sectors. El Niño insurance is unique in the world because it pays before the catastrophic consequences of flooding occur. This is because the sea-surface temperature is an indicator that predicts the event. The project has promoted the development of a specific and unique insurance product which is being sold by the insurance company, La Positiva Seguros, as one of the first forecast based index insurance products in the market.

The Insurance for Climate Change Adaption Project concentrates on the following outcomes:

1. Analyzing and strengthening regional demand for extreme weather insurance

The key actors, government institutions, insurance companies, financial institutions, international reinsurers and the Peruvian National Meteorological and Hydrological Service use quantitative and qualitative information on regional demand to promote extreme weather insurance products and, in so doing, raise public awareness about why this type of insurance is necessary and advantageous in reducing climate risks.

2. Developing the offer for extreme weather insurance

Financial institutions offer innovative extreme weather insurance products in target regions, which have been adapted in advance to the needs of the target group and in accordance with technical, institutional and financial criteria.

3. 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. Capacity building for these government institutions has already been carried out, so that they will be equipped to support the insurance market.

Challenges:

1. Overall lack of understanding of and interest in (climate) insurance among most stakeholders,
2. Widespread lack of trust in insurance companies amongst the population,
3. Lack of research with respect to climate insurance products / index-based insurance, and
4. Lack of sufficient prevention and risk management strategies amongst the population with respect to "El Niño" phenomenon and climate risks.



Opportunities:

1. Strong interest of the Peruvian private sector to develop products for key sectors of the economy.
2. The Peruvian agricultural sector, which is fundamentally important to the national economy, has been particularly affected by natural hazards caused by climate change.

OUTCOME

Campaigns to create awareness amongst the population, producer associations and regional governments are carried out in rural areas. Several comics explaining the insurance concept in plain language and how insurance against climate risks can protect against natural phenomena were distributed to more than 10,000 people. Further initiatives like press conferences and radio programs, theatre performances, direct training of potential clients, development of online diploma courses, and the distribution of educational materials were implemented. The insurance company La Positiva Seguros offers the extreme El Niño index insurance, and has sold the insurance to a microfinance institution in order to protect its credit portfolio in the regions exposed to the extreme El Niño phenomenon. The Ministries of Agriculture and Irrigation and the Ministry of Economy and Finance are aware of the importance of their

systematic role and have drafted a new law to be passed in the year to come.

In close cooperation with the private sector, other strategies have been drafted concerning large investments for a country-wide system for agriculture disaster risk management. A strong institutional relationship has been established with SBS to provide support in formulating regulatory policies for extreme weather insurance.

LESSONS LEARNED

1. It is important that financial instruments, like weather insurance, become part of a comprehensive risk management and transfer strategy.
2. It is not possible to develop a market for insurance against climate risks only with a specific insurance product.
3. It is important to develop a system of agricultural insurance that encompasses all types of risks and financial instruments that can be offered to the producers.



CASE STUDY

Implementation of an index-based insurance product against severe weather events

The index-based insurance instrument for extreme El Niño occurrences is offered by the insurance company, La Positiva Seguros. Unlike other insurance options, it uses a climatic indicator defined in the insurance policy to authorize payment of the sum insured, which is independent of the cost of actual damages. This index has been developed using the average ocean surface temperature in November and December, as published

by the United States' National Oceanic and Atmospheric Administration (NOAA). As the indicator is based on the months of November and December, insurance payments are made in January, prior to any possible losses. The insurance product will be implemented for different actors who are concerned with making preparations and adopting changes to prevent possible damage.

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