



IS CLIMATE INSURANCE A GLOBAL SHIELD, OR DOES CLIMATE-RELATED LOSS AND DAMAGE REQUIRE A DIFFERENT APPROACH?

A Discussion Paper

lossanddamagecollaboration.org



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Authors: Julie-Anne Richards and Eva Peace
Mukayiranga with Erin Roberts

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For any queries or clarifications regarding this briefing note, please email Julie-Anne Richards at the following address: jar@jarclimate.net

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TABLE OF CONTENTS

I. INTRODUCTION	4
II. WHAT IS LOSS AND DAMAGE?	5
III. IS INSURANCE RELEVANT FOR LOSS AND DAMAGE? HOW IS IT BEING USED SO FAR?	7
A. Benefits of insurance in the right circumstances	8
B. Limitations of insurance now	8
C. Further limitation on insurance in a climate changed future	10
D. The inequity of insurance	10
E. Case studies	11
<i>Hurricane Irma, Antigua Barbuda</i>	11
<i>Malawi Drought</i>	13
<i>R4 Rural Resilience Initiative</i>	14
F. Insurance championed by rich countries for ideological reasons	14
IV. THE GLOBAL SHIELD PROGRAM	15
A. Will the Global Shield focus on insurance?	17
B. Is the Global Shield's goal to support or undermine the UNFCCC?	20
C. Will Global Shield funding cannibalise other climate funding?	21
D. Path forward for Global Shield	21
V. MAKING LOSS AND DAMAGE FINANCE FAIRER AND MORE EQUITABLE	22
VI. RECOMMENDATIONS AND NEXT STEPS	26
Annex A: Potential innovative sources of finance for loss and damage	29
Annex B: Definition: private versus public insurance	30

INTRODUCTION

Across the world, communities are being affected by extreme weather events, which increase in frequency every day as well as slow onset climatic processes which are escalating in magnitude. It is the communities facing the worst of these impacts who have done the least to cause the climate crisis. This is where the calls for climate justice lay. The provision of finance for addressing climate-related loss and damage¹ has been a priority for developing countries on the frontline of impacts for over three decades.

The historical emissions of developed countries in pursuit of economic development are largely responsible for global climate change and its impacts. Research by the Center for Global Development has found that developed countries are responsible for 79 percent of the emissions from 1850 to 2011². This economic growth fueled by greenhouse gas (GHG) emissions has provided developed countries with the capacity to address loss and damage. In contrast, food insecurity, an increasing debt burden coupled with the climate change crisis, among other challenges like the COVID-19 pandemic, make it harder for developing countries to address loss and damage.

The economic cost of loss and damage is projected to be between 290 billion and 580 billion USD a year by 2030 and to reach at least 1 trillion USD annually by 2050³. With the development setbacks of the COVID-19 pandemic these costs will likely be higher⁴. Moreover, these estimates do not capture non-economic loss and damage. Mobilising Loss and Damage finance is necessary for developing countries to build resilience to and recover from the aftermath of climate change impacts without jeopardising their economic growth. Nonetheless, developed countries continue to resist establishing a Loss and Damage fund and have tended to focus instead on climate risk insurance as the primary tool to address loss and damage, which is at best a small piece of the puzzle in financing Loss and Damage. This paper looks at the role of insurance in addressing loss and damage with a focus on the recently launched Global Shield, an initiative by the G7 and more recently, the V20. In doing so, we draw on two case studies to illustrate the cost of loss and damage and the role played by insurance and highlight resource capabilities between developed and developing countries to cover the funding gap between insurance payouts and the cost of recovery.

The paper concludes that the role of insurance in addressing loss and damage is limited, it must be combined with other instruments and follow pro-poor principles and it must not distract from the urgent provision of finance to address loss and damage to meet the needs of households, communities and countries on the frontlines of climate change in the global South.

“**The provision of finance for addressing climate-related loss and damage has been a priority for developing countries on the frontline of impacts for over three decades.**”

“**Nonetheless, developed countries continue to resist establishing a Loss and Damage fund and have tended to focus instead on climate risk insurance as the primary tool to address loss and damage, which is at best a small piece of the puzzle in financing Loss and Damage.**”



WHAT IS LOSS AND DAMAGE?

Loss and damage refers to climate change impacts beyond what people can adapt or mitigate to. The findings from contributions of Working Group II to the Sixth Assessment Report from the Intergovernmental Panel on Climate Change (IPCC) are clear: human-induced climate change has caused loss and damage to both human and natural systems⁵ and even the most effective adaptation measures have not, cannot and will not fully avoid loss and damage yesterday, now, and tomorrow.

Loss and damage from climate change is occurring in all regions and countries. However, those with the fewest resources are least able to cope with the impacts of climate change and face the worst loss and damage. Consequently, these communities and countries are the focus of the Loss and Damage discussions at the international level under the United Nations Framework Convention on Climate Change (UNFCCC).

Loss and damage takes different forms and can be both economic and non-economic in nature⁶. When a cyclone hits and destroys homes, schools, or roads, the cost can be quantified and is defined as an economic loss. Non-economic loss and damage are equally as devastating as economic loss and damage. These are impacts not accounted for in monetary terms such as when lives are lost or when households or communities lose their homes they also lose history, identity, cultural and social connections to the land and one another.

Loss and damage results from a spectrum of climate change impacts which are different in nature. Some climate related hazards hit immediately and cause loss and damage instantly, such as rapid onset events, often called extreme weather events, while slow onset climate processes cause loss and damage over time, such as increasing temperature, desertification, loss of biodiversity, land and forest degradation, glacial retreat, sea level rise, ocean acidification, and salinization⁷.

We are currently living in the era in which climate-induced disasters are becoming more and more frequent and severe. Already heatwaves are 28 times more frequent, droughts are 1.7 times more frequent, and extreme precipitation 1.3 times more often⁸. The frequency of these intense events will increase even further with rising temperatures. Some of the recent examples include:

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- The KwaZulu-Natal floods in South Africa in April 2022 caused the loss of 461 lives, left 30,000 displaced and affected more than 120,000 people. It also caused more than 1.57 billion USD in infrastructure damage⁹.
- In early September 2022, torrential monsoon rains triggered the most severe flooding in Pakistan's recent history, and the cost of the damage is estimated at 10 billion USD, with 1.6 million homes lost or damaged, 5,000 kilometres of roads destroyed and over 700,000 livestock lost¹⁰. The minister responsible for climate change, Sherry Rehman, told the Guardian that, "there is only so much adaptation we can do. The melting of glaciers, the floods, drought, forest fires, none will stop without very serious pledges being honoured"¹¹.
- In April 2021, Mexico dealt with the worst drought experienced in 30 years, leading to a water shortage in the country with approximately 60 large reservoirs, mostly in northern and central Mexico, were below 25 percent capacity¹². A report prepared by the United Nations Convention to Combat Desertification found that droughts have claimed the lives of 650,000 people since 1970, mostly in countries that have contributed the least to the factors intensifying the effects of drought such as climate change¹³.

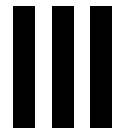
Loss and damage can also result from cascading and multiplying effects of climate change across interconnected socio-economic systems. Some examples of such compound events from the Organization for Economic Cooperation and Development (OECD)¹⁴ include:

- Two or more extreme events occurring simultaneously or successively, e.g. Tropical Cyclone Harold affected several Pacific island states in 2020 while people and systems were responding to and coping with COVID-19.
- Combinations of extreme events with underlying conditions that amplify the impact of the events, e.g. Hurricane Harvey leading to floods in Texas in 2017, which was amplified by land subsidence.
- Combinations of events that would not in themselves be considered extreme, but which cumulatively lead to a large impact. With climate change such mutually reinforcing slow-onset changes and extreme events could cause diverse potential impacts, such as large disruptions of food production around the world.¹⁵

With a global average temperature increase of 1.2°C¹⁶ already realised, the impacts of climate change are already being felt. Current commitments to reduce GHG emissions will likely result in 2.7°C¹⁷ temperature increase compared to the pre-industrial period, invariably increasing the frequency of loss and damage.

“The world’s wealthiest developed countries, who have historically contributed the most to the climate crisis, must offer immediate assistance in addressing the loss and damage caused by their GHG emissions.”

IS INSURANCE RELEVANT FOR LOSS AND DAMAGE? HOW IS IT BEING USED SO FAR?



Climate risk insurance is used to transfer risk from the individual, business, organisation or government and to another organisation, typically to an insurance company but could also be to a government institution, which spreads the risk across their many clients, and often further via a reinsurance company¹⁸. There are two kinds of insurance relevant for loss and damage:

- **Indemnity insurance**, where a specific loss is insured against if an event occurs, typically based on an assessment of the loss. For instance typical flood insurance where an insurance company will assess the damage to a house before making a payout; and
- **Parametric or index insurance**, which pays out when specific conditions - for instance the amount of rainfall or wind speed - are met. Parametric insurance typically provides faster payouts in the aftermath of loss and damage¹⁹.

Climate risk insurance can be at the level of individuals (micro-insurance), taken out by cooperatives, non-government organisations (NGOs), or financial institutions (meso-insurance) as well as at the country or regional level (macro level insurance).

Insurance is designed for extreme events with high costs that happen infrequently, and is not fit for addressing slow onset climatic processes. Nor is insurance relevant for non-economic loss and damage; for instance loss of culture is uninsurable²⁰.

There has been a lack of rigorous evidence, measurement and evaluation, on disaster risk financing, including insurance²¹. What exists focuses strongly on success stories²², demonstrating a bias from supporters of insurance. Notwithstanding that significant limitation, below we outline the typical strengths, weaknesses and other considerations of insurance.

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BENEFITS OF INSURANCE IN THE RIGHT CIRCUMSTANCES

A

In the right circumstances, insurance can be an appropriate solution for some aspects of addressing loss and damage. In these circumstances benefits include:

- For parametric (index) insurance, there can be fast payouts if agreed triggers are met²³ which reduce flow-on impacts, or erosive coping strategies²⁴, such as foregoing food, selling productive assets, taking children out of school or, in the case of governments, setbacks in development plans²⁵;
- Assured payouts (if agreed triggers are met) are not reliant upon the generosity of governments and donors²⁶;
- Improved creditworthiness of insurance clients, as they are less likely to face catastrophic loss, therefore facilitating loans and investments²⁷; and
- Insurance can lead to investment in risk assessments, although investment in risk assessments can and should be undertaken regardless of whether insurance is assessed as a useful tool, and insurance is not a necessary precursor.

“In the right circumstances, insurance can be an appropriate solution for some aspects of addressing loss and damage.”

LIMITATIONS OF INSURANCE NOW

B

The costs and drawbacks of insurance when considering loss and damage from climate change are significant. This section summarises some of the key limitations.

The average cost of insurance premiums generally surpasses average payouts for premium holders. This is in order to cover the ‘risk premium’, the costs of doing business such as holding capital and reinsurance, and the profit of the insurance company²⁸. For households who face potentially catastrophic, yet unlikely risk, this approach may make sense. For governments and large businesses, this approach may make less sense than ‘self-insuring’ assets. For instance a study of US state and local governments indicated that the bigger the government the more likely they were to self-insure²⁹.

Insurance is limited in its scope for addressing loss and damage as it typically only pays out a small proportion of the loss and damage; country level insurance provided through regional risk pool insurance such as the African Risk Capacity (ARC), Caribbean Climate Risk Insurance Facility (CCRIF), Pacific Catastrophe Risk And Finance Initiative often pay out as low as 2 percent of the cost of loss and damage leaving countries looking for other sources of funds to cover the remainder of the cost³⁰.

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Insurance can result in 'moral hazard' or a reduced incentive to reduce risk by implementing climate action measures. This can be contained to some extent with incentive structures built into the insurance products, such as reduced premiums if adaptation action is undertaken³¹.

Insurance holders may have a false sense of security. For parametric insurance, the requirement to closely define the danger/risk/parameters means that insurance may not pay out if the parameters are not met exactly, even though significant damage is incurred, see the Malawi case study. For private insurance holders, it is not uncommon to discover that their insurance does not cover, for example, river floods but only rainfall ingress or damage from flash floods. This means to get climate insurance right, significant resources need to be expended on understanding exactly the risk faced. In the case of Malawi, down to understanding what seed is being used and what its germination cycle is. This may, in fact, still not be enough because it can be a combination of cascading factors that lead to the loss and damage suffered.

As climate impacts interact with existing vulnerabilities and other impacts, they will not be insurable. For instance, people with low incomes face multiple challenges - a range of climate related ones, they may face drought some years, flooding other years, increased insect attack destroying crops - and also health problems and conflict related challenges and so on. An insurance product will not address all of these vulnerabilities, and may come at the expense of savings, which are a more flexible coping strategy³².

Insurance is not a relevant response for the poorest. People struggling to make ends meet tend not to see payment of an insurance premium as a priority, particularly as the cost of insurance premiums can outweigh their incomes³³. Programs such as the R4 Rural Resilience Initiative have overcome this by allowing low-income farmers to pay for the insurance premiums with their own labour (see case studies for more information). In a system that relies overly on insurance as a solution, and therefore provides assistance and subsidies to the middle income leaving the lowest income without social support, inequality is likely to increase.

This privatisation of social safety nets places the onus to pay premiums on the most vulnerable individuals (who may not be able to afford them), providing a much less effective safety net than one provided by government where risks can be shared fairly across society, and can therefore act to increase inequality³⁴.

It is worth noting that commercial insurance is primarily a Western concept and is often unknown or poorly understood in many developing countries³⁵. Rates of insurance are very low in Asia, South America, and Africa³⁶. Implementation can therefore be complex as it must be tailor-made to the cultural environment in which it operates³⁷. In addition, the low uptake of insurance can be linked to levels of

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education and literacy and the complexity of insurance policies³⁸. Accordingly, insurance may in fact be unsuitable or inappropriate in many contexts³⁹.

FURTHER LIMITATION ON INSURANCE IN A CLIMATE CHANGED FUTURE

As climate related extreme weather events increase in frequency and intensity, premiums will become more expensive and therefore unaffordable, resulting in areas becoming uninsurable⁴⁰. France's central bank undertook climate stress tests in 2021 and found that natural disaster-related insurance claims could increase up to five-fold in the nation's most affected regions. That would cause premiums to surge as much as 200 percent over 30 years⁴¹. As floods become more frequent in Australia, it is estimated that 1 in 25 properties will be uninsurable by 2030. In the ten most at risk areas it is 1 in every 7 properties⁴². Low-income people who are more vulnerable to climate change also tend to live in areas and housing more exposed to climate impacts, therefore they are likely to be left without affordable insurance nor other options.

The insurance industry itself may not be able to cope with the increased risk and costs of climate change. As events become more frequent, widespread, and disastrous than before, existing catastrophe models and rate-setting practices will become less effective. Especially since increasingly widespread disasters could reduce the protection afforded by diversification across geographic locations. One notable example occurred recently in California, where wildfires have been intensifying. After a series of destructive wildfires in 2017 and 2018, insurers in California had to pay out 29 billion USD in claims while collecting just 15.6 billion USD in premiums, with one insurer losing more than half a billion dollars⁴³.

THE INEQUITY OF INSURANCE

Perhaps most concerning, is that if premiums are paid for by vulnerable countries or households who have made negligible contributions to climate change, rather than the highly polluting countries and industries that did cause climate change. This is a unfair and unequal system that transfers cost onto those least able to afford the costs and least responsible for them in the first place⁴⁴. It is fundamentally unfair that developing countries in the global South are essentially paying substantially more to address climate-related loss and damage via insurance schemes that work against them due to their own climate vulnerabilities, despite having historically contributed the least to climate change. This unfairness goes against the principles of equity underpinning the UNFCCC.

C

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It is worth noting the various ways in which the insurance industry benefits. Whilst seeking to develop new products and attract new customers via climate risk insurance, they are simultaneously providing insurance coverage to, and investing heavily in, the fossil fuel industry and therefore causing climate change. According to one estimate, US insurance companies have 582 billion USD invested in fossil fuels⁴⁵, and in New York state, for example, 11 percent of insurers' investments are in carbon-intensive sectors⁴⁶. Whilst many insurers have made commitments to phase out their coverage for fossil fuels, such as coal and unconventional oil, the industry is moving far too slowly and most insurance companies still insure the expansion of the conventional oil and gas industry, including major insurance companies who have committed to the Net Zero Insurance Alliance⁴⁷. The insurance industry has failed to align with International Energy Agency (IEA) advice that no new fossil fuel projects should be developed⁴⁸.

Finally, we note that insurance is a way to financialise disaster risk management, commodifying climate risks and creating a new way in which to accumulate capital, amplifying inequality as financiers make profits at the expense of vulnerable people and countries. This motivation can work against an effective solution, look for example to the offsets market. Given the strong argument that capitalism is significantly to blame for the climate crisis⁴⁹ using a market-based solution as the primary response hardly seems the best way to deal with climate impacts.

CASE STUDIES

The case studies discussed below are examples of climate-related extreme weather events in developing countries, considering the total economic cost of loss and damage and the role insurance played. The first case study explores Hurricane Irma in 2017 on Antigua Barbuda and the second the 2015/2016 drought in Malawi. Following from that is a consideration of the R4 Rural Resilience initiative.

HURRICANE IRMA, ANTIGUA AND BARBUDA

On September 6, 2017, Hurricane Irma hit the islands of Antigua and Barbuda and made landfall as a category 5 storm. Irma was the most powerful hurricane ever recorded in the Atlantic, with wind speeds of more than 185 miles per hour (298 km/hour) accompanied by torrential rainfall⁵⁰, which affected more than 25,000 people. The hurricane severely impacted lives and livelihoods, housing and infrastructure and basic services such as health, telecommunication, electricity, water, sewage and waste systems, agriculture and fisheries. Approximately 80 percent of the homes in Barbuda were destroyed⁵¹.

The post disaster needs assessment reported that the total damage of hurricanes Irma and Maria for Antigua and Barbuda amounts to 136.1 million USD, while losses amount to approximately 18.9 million USD.

“According to one estimate, US insurance companies have 582 billion USD invested in fossil fuels, and in New York state, for example, 11 percent of insurers' investments are in carbon-intensive sectors.”

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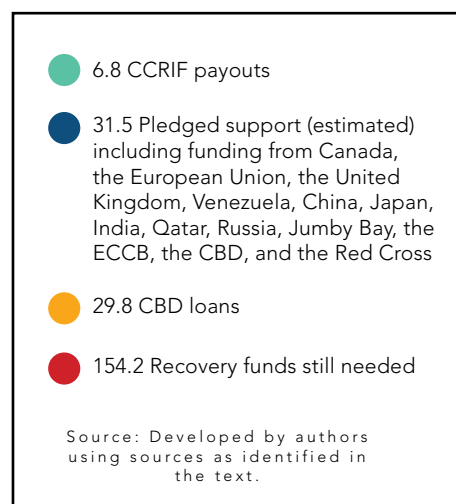
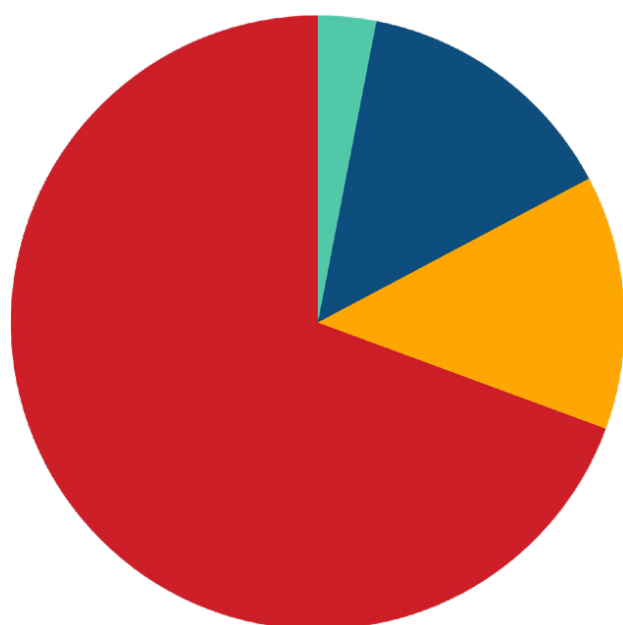
“The total damage of hurricanes Irma and Maria for Antigua and Barbuda amounts to 136.1 million USD, while losses amount to approximately 18.9 million USD.”

The total recovery needs, once environmental costs are taken into account, totalled 222.2 million USD⁵².

The CCRIF made payouts totalling 6.79 million USD within 14 days of the event to the Government of Antigua and Barbuda⁵³. Antigua and Barbuda received assistance, in the forms of grants and in kind support from Canada, the European Union, the United Kingdom, Venezuela, China, Japan, India, Qatar, Russia, Jumbay Bay, the Eastern Caribbean Central Bank the Caribbean Development Bank (ECCB) and the Red Cross, totally approximately 31.5 million USD^{54,55}.

In addition to this, the Caribbean Development Bank (CDB) provided an immediate response loan of 750,000 USD and a further loan of 29 million USD for recovery efforts.

Figure 1: Sources of funding for financing the recovery from Hurricane Irma in Antigua and Barbuda (in USD millions).



This means that of the recovery needs, insurance provided from the CCRIF paid out 3 percent of the costs, grants covered less than 15 percent of the costs, and loans covered 13 percent. Nearly 70 percent of the costs were left to be covered by the Government of Antigua and Barbuda. Moreover, just one day after Hurricane Irma hit, the government was forced to pay the International Monetary Fund (IMF) 3 million USD as part of repayment of a loan⁵⁶. The IMF told the government that it would rather lend Antigua and Barbuda more money than delay the repayment of its current debt, a decision which seems to defy logic and demonstrates how climate impacts can push vulnerable countries into ever greater debt burdens⁵⁷.

Higher debt levels also impact the country's ability to invest in climate resilient public services. The example of the cascading impacts of Irma on Antigua and Barbuda demonstrate how important it is to ensure that the countries that have historically contributed the least to climate change do not bear the financial consequences of climate impacts on their own.

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MALAWI DROUGHT

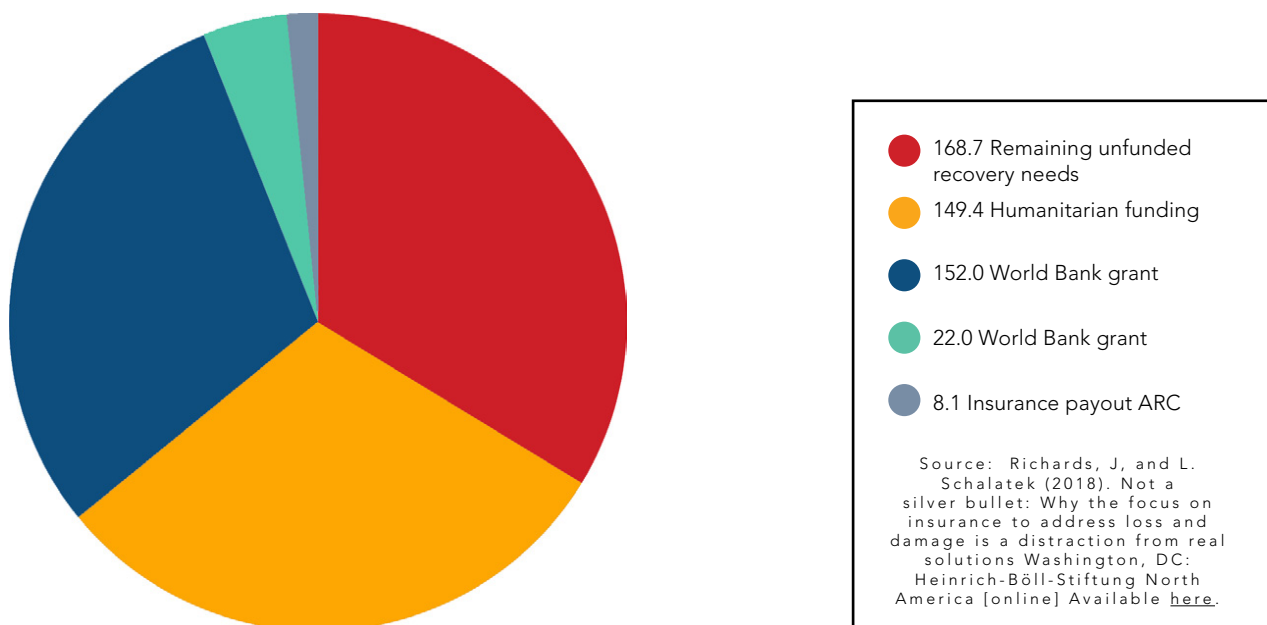
The 2015/2016 agricultural season was greatly affected by strong El Nino conditions and resulted in erratic rains and prolonged dry spells across most parts of the country. In response to the dry spells, the Government of Malawi declared a state of disaster in April 2016, and a post disaster needs assessment (PDNA) was initiated in mid-May under the leadership of the government⁵⁸. The damages stemming from the drought amounted to 36.6 million USD with losses (projected to March 2017) of 329.4 million USD and the economic impact estimated at 365.9 million USD.

The total amount of financial assistance mobilised by the government and international partners was 149 million USD. The World Bank provided 174 million USD via grants of 152 million and loans of 22 million respectively. To cover the remaining costs of the recovery, the Government of Malawi was forced to reallocate funds from the national budget.

Malawi had purchased drought insurance from the ARC at a premium of 4.7 million USD⁵⁹ but the ARC initially concluded in the aftermath of the drought that the threshold was not met to trigger a payout as according to its calculations too few people were affected by the drought, which was likely impacted by the maize seed farmers planted being different to the seed assumed in the modelling, hence rainfall being needed at different times for crops, and the parametrics that insurance was based on were wrongly set⁶⁰. However after nine months, and following re-examination, the ARC reassessed its model and determined that a payout of 8.1 million USD should be made⁶¹. This payout was “too little, too late” according to an assessment by ActionAid, and left the Government of Malawi seeking funds to cover the drought and try and reduce the hardship of its citizens⁶². Many decision makers interviewed as part of the research undertaken by ActionAid indicated they would not choose to renew the policy if given the choice⁶³.

“The damages stemming from the drought amounted to 36.6 million USD with losses (projected to March 2017) of 329.4 million USD and the economic impact estimated at 365.9 million USD.”

Figure 2: Malawi recovery needs from 2015-2016 drought and sources of funding (in USD millions).



A note that on average ARC pays out in 120 days⁶⁴, which belies the oft repeated benefit of parametric insurance that it provides quick payouts.

R4 RURAL RESILIENCE INITIATIVE

Probably the most widely recognised successful example of a microinsurance scheme is the aforementioned R4 Rural Resilience Initiative which has projects in 14 developing countries⁶⁵. Led by the World Food Programme, R4 takes a comprehensive approach to risk management by integrating risk reduction, including sharing climate and weather forecasts and risk reduction strategies with farmers, with financial tools like credit, savings and insurance⁶⁶. Low-income farmers paid for crop insurance with their own labour through existing social safety nets and similar schemes⁶⁷. This combined approach enables farmers to take positive risks, such as investing in seeds and fertiliser, in order to improve food security and generate income⁶⁸. An evaluation found that the program limited the impact of the 2015 drought on farmers' food security and prevented many from selling off productive assets as a coping strategy⁶⁹. Although farmers did not perceive insurance to be the most impactful component of the program⁷⁰.

INSURANCE CHAMPIONED BY RICH COUNTRIES FOR IDEOLOGICAL REASONS

In the Loss and Damage discussions at the international level under the UNFCCC, climate risk insurance has been championed as an approach to deal with loss and damage, in particular by rich, historically high polluting countries⁷¹. Meanwhile, very little finance⁷² has been made available to support efforts to address loss and damage. The finance that has been provided has largely been allocated to climate insurance, risk pooling and risk transfer arrangements such as different instruments pursued under the umbrella of the InsuResilience Global Partnership⁷³.

Additionally, in reviewing the work of the Executive Committee (ExCom) which guides the Warsaw International Mechanism (WIM), the oversight body on Loss and Damage under the UNFCCC, Gewirtzman et al (2018) found that the ExCom had manoeuvred its work, through a series of intransparent steps, from a broad mandate to 'enhance', 'mobilise' or 'provide' finance for loss and damage to an almost exclusive focus on market-based, private sector instruments with an emphasis on insurance⁷⁴. Evidence of this is that one of the most significant outcomes from the work of the ExCom has been the establishment of the Fiji Clearing House on Risk Transfer following a request from Parties in the decision accompanying the Paris Agreement. The Fiji Clearing House serves as a repository for information on insurance, connecting experts, including those from insurance companies, with interested parties.

“Low-income farmers paid for crop insurance with their own labour through existing social safety nets and similar schemes.”

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“Climate risk insurance has been championed as an approach to deal with loss and damage, in particular by rich, historically high polluting countries. Meanwhile, very little finance has been made available to support efforts to address loss and damage.”

Insurance often provides a lower value for money option, yet is sometimes implemented for ideological reasons. The initial cost-benefit analysis that was undertaken for the ARC identified that supporting countries to retain risk at the national level through, for example, budget allocation or country created emergency funds has significant benefits, with gains more than twice those that could be expected from the ARC model. The analysis also noted that the very act of pooling risk between countries and spreading response costs over a three-year horizon would reduce costs dramatically (essentially a public, non-market based, insurance model), and also that adopting a (private-sector) reinsurance model is not critical to the value proposition of ARC⁷⁵. Despite this, the insurance/reinsurance model was the one adopted⁷⁶.

This emphasis on climate risk insurance by wealthy countries, belies its relatively limited scope in addressing loss and damage, and fits with two of the four discourses of delay identified by Walsh and Ormond-Skeaping (2022)⁷⁷. Firstly, delay by redirecting responsibility back onto vulnerable countries. Where rich countries emphasise poor governance, or poor preparedness back onto vulnerable countries as a way of dodging their own responsibility for causing the increase in climate risk via their historical emissions. Secondly, delay by pushing non-transformative solutions and instead tinkering at the edges with solutions such as insurance which undermine the true scale and urgency of the problem.

Rich countries have been following these discourses of delay for decades now⁷⁸. As Prime Minister of Barbados Mia Amor Mottley has said, “We are being fobbed off with words of technical assistance and insurance, which the victim pays”⁷⁹.

In the section that follows we consider whether the recently announced Global Shield program continues these discourses and emphases, or whether it is turning a new corner.

THE GLOBAL SHIELD PROGRAM

At the Petersberg Climate Dialogue launch of the Global Shield Germany’s Development State Secretary Jochen Flasbarth declared that:

*to stop the climate crisis from becoming worse, we need to firstly drive global climate action with even greater commitment. And secondly, we must do more in the field of adaptation to limit the damage. And it is high time for industrialised countries to honestly address a third issue. We must acknowledge that there is climate-related loss and damage and that the most vulnerable countries, in particular, need our solidarity in dealing with it*⁸⁰.

“**Insurance often provides a lower value for money option, yet is sometimes implemented for ideological reasons.**”

“**As Prime Minister of Barbados Mia Amor Mottley has said, ‘We are being fobbed off with words of technical assistance and insurance, which the victim pays’.**”

IV

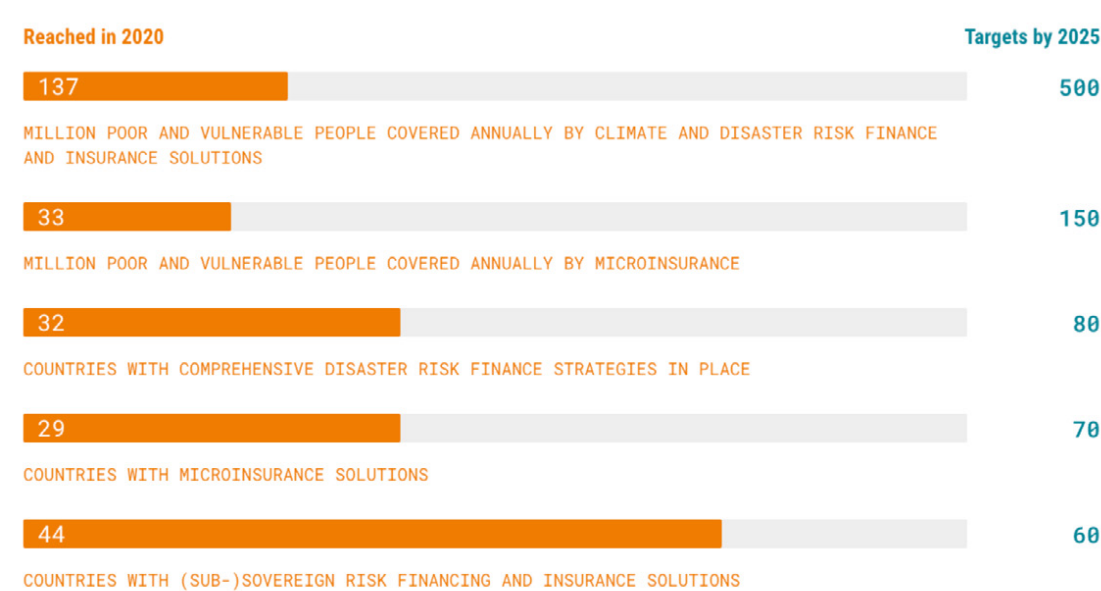
This is a laudable sentiment. However, as it follows decades of delay and obfuscation from wealthy, polluting countries on the issue of Loss and Damage, these positive sentiments are met with some caution. The real test is how genuine rich countries are in living up to their obligation to fund efforts to address loss and damage at the scale of the needs.

The concept for the Global Shield against Climate Risks was developed under the German G7 Presidency and supported by G7 leaders at their summit in June 2022⁸¹. Germany aims to launch the Global Shield at this year’s COP27 in Egypt together with the Vulnerable 20 Group (V20), which includes many countries most affected by climate change⁸².

The Global Shield builds upon the InsuResilience Global Partnership. InsuResilience has a focus on expanding the role of insurance to address climate risk. More than 80 percent of InsuResilience funds in its first three years from 2015 were dedicated to supporting insurance schemes⁸³. Its five key target indicators are largely about expanding insurance coverage, as indicated in the graphic below from the InsuResilience 2020 annual report. The private sector members of the InsuResilience are largely from insurance and reinsurance companies though there are also NGOs, think tanks, multilateral development banks engaged in InsuResilience⁸⁴.

Figure 3:Key Target Indicators for InsuResilience.

VISION 2025 - KEY TARGET INDICATORS



Source: InsuResilience Global Partnership (2020) Annual Report 2020; InsuResilience at a Glance [online] Available [here](#).

There is a danger that the Global Shield will continue InsuResilience’s over-reliance on insurance as a tool. To date there is relatively little information on the Global Shield, as the concept is being developed. The information available to date is examined below.

“ More than 80 percent of InsuResilience funds in its first three years from 2015 were dedicated to supporting insurance schemes.”

“ There is a danger that the Global Shield will continue InsuResilience’s over-reliance on insurance as a tool.”

WILL THE GLOBAL SHIELD FOCUS ON INSURANCE?

A

In September 2022, the G7 and V20 released a joint ambition statement: Working towards a Global Shield against Climate Risks⁸⁵, with the vision and objectives as laid out in the box below.

Vision and Objectives of the Global Shield

The Global Shield will increase protection for poor and vulnerable people by substantially enhancing pre-arranged finance, insurance and social protection mechanisms against disasters. Greater financial protection, and faster and more reliable disaster preparedness and response, will help to cost-efficiently and effectively minimise and address losses and damages exacerbated by climate change.

To achieve its objective, the Global Shield will close urgent protection gaps in countries by designing, funding, and facilitating interventions. All interventions will be based on national ownership. The Global Shield will ensure more systematic, coherent, and sustained financial protection through the following building blocks:

1. Strengthened coordination within the global Climate and Disaster Risk Finance and Insurance (CDRFI) architecture across G7, V20 and other climate vulnerable economies to ensure coherence of different institutions' and donors' efforts at the global, regional and national level.
2. A global, flexible, and collaborative financing structure to mobilise and pool respective donor and other funds and enable a more systematic global approach to closing protection gaps.
3. Sustained protection in the face of increasing climate risks by scaling up existing successful CDRFI programmes and preparing country-specific, needs-based CDRFI support packages, including the scaling up of smart premium and capital support to address affordability barriers.

Source: G7 and V20 (2022). A joint G7 and V20 ambition: Working towards a Global Shield against Climate Risks [online] Available [here](#).

Objective one can be seen as focused on structure, objective two on funding, and objective three as programmatic. The third programmatic objective, reinforces the focus the Global Shield will have on Climate and Disaster Risk Finance and Insurance (CDRFI), with the only concrete example to scale up support for insurance, via premium and capital support. Thus seemingly entrenching a focus on insurance.

The G7 and V20 paper⁸⁶ goes on to note that the Global Shield will work by, 'identifying key protection gaps' ' for participating countries, and then provide "a set of adequate instruments and partners to close these gaps'. Technical assistance will be provided on, 'policy reforms, CDRFI strategies, strengthened regulatory frameworks, and capacity building'. The paper indicates that financial assistance:

will be available [...] for systems like adaptive social safety nets, capitalise risk carriers, and (co)finance insurance premiums. In addition, the private sector will be mobilised to deliver risk analytics, design products and triggers, and underwrite respective risk transfer solutions⁸⁷.

“The third programmatic objective, reinforces the focus the Global Shield will have on Climate and Disaster Risk Finance and Insurance (CDRFI), with the only concrete example to scale up support for insurance, via premium and capital support. Thus seemingly entrenching a focus on insurance.”

Whilst noting that insurance is not the sole focus here, and social safety nets are mentioned, it would appear that the work of the Global Shield, as currently envisioned, seems highly skewed towards finding and filling a need for insurance. A dramatic rebalancing towards social safety nets, and other programs as identified in the following section on fairer and more equitable approaches to address loss and damage below, would be advisable. In addition, it is not clear what resources will be truly additional as provided under the Global Shield, i.e. if financial assistance 'will be available' from existing sources or through the Global Shield specifically.

This paper now considers how the groups sponsoring the Global Shield have referred to it.

In early information on the Global Shield the German Government continued its focus on insurance. Indicating the Global Shield was envisioned to include support for preparedness plans drawn up by developing countries, early warning systems in the especially vulnerable countries, and financing systems that provide quick support when a harmful event occurs, including insurance schemes or social protection systems⁸⁸.

The detailed paper available from Germany includes this statement:

Germany is very engaged in (further) developing support programmes for dealing with climate-related losses and damages, with a view to providing insurance against climate risks for as many poor and vulnerable people as possible.

Of the four examples provided in the paper, three present insurance as the solution⁸⁹.

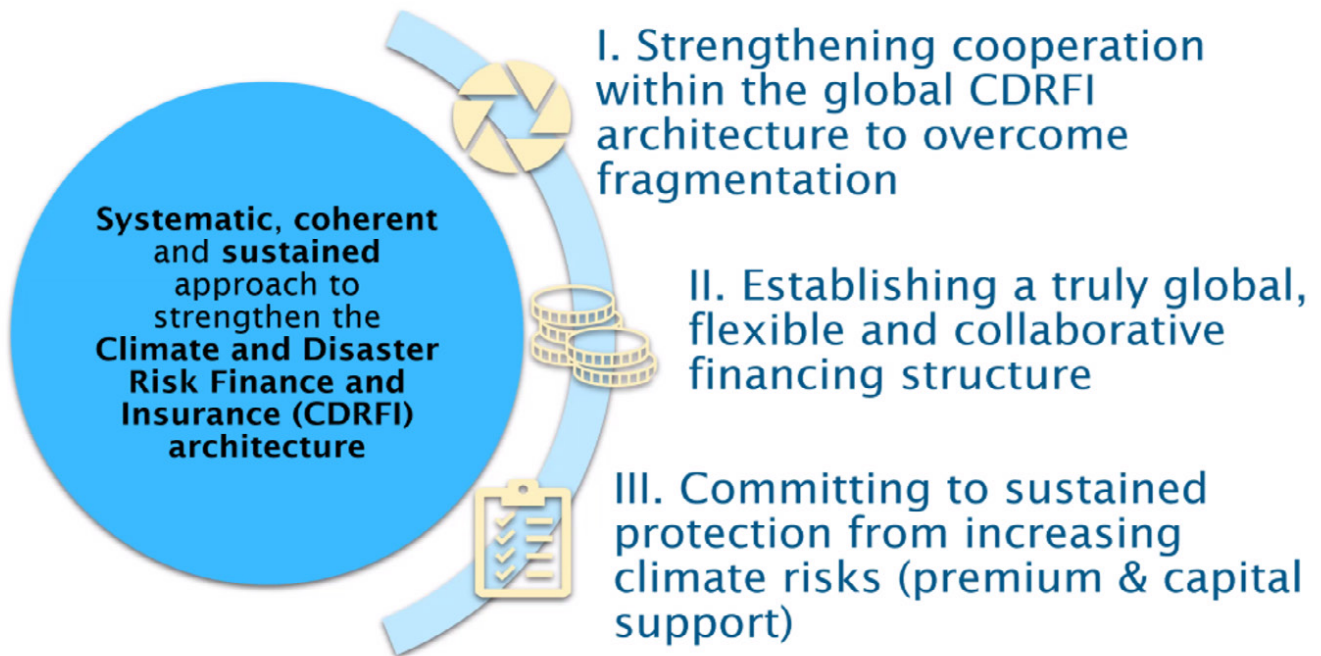
At an event hosted by the German G7 presidency on the Global Shield in May 2022 the emphasis was squarely on insurance. The opening statement from the moderator declared that an effective health system would be impossible without insurance, provided as an example to how important insurance would be in addressing climate impacts. It is worth noting that insurance based health schemes generally exacerbate inequality and have the worst outcomes for the highest costs⁹⁰. Heike Henn, Director for Climate, Energy and Environment at the German Federal Ministry for Economic Cooperation and Development (BMZ), Germany, described the Global Shield at this event, as represented in the key slide (below). Describing the Global Shield within the context of climate and disaster risk finance and insurance, with the only identified use for finance contributed via the Global Shield as insurance premium and capital support. Demonstrating the intended centrality, if not singular focus, of insurance within the Global Shield plans for key sponsor Germany.

“**It would appear that the work of the Global Shield, as currently envisioned, seems highly skewed towards finding and filling a need for insurance.”**

“**The Global Shield was envisioned to include support for preparedness plans drawn up by developing countries, early warning systems in the especially vulnerable countries, and financing systems that provide quick support when a harmful event occurs, including insurance schemes or social protection systems.**”

Figure 4: Building blocks for the Global Shield.

Building blocks for a global shield against climate risks



bmz.de

Source: InsuResilience Global Partnership (2022, June 1). Toward greater financial resilience: enhancing the Global Disaster Risk Finance Architecture. YouTube recording of side event [online] Available [here](#).

It is worth noting the European Union Council's conclusions ahead of COP27 in describing the Global Shield emphasised insurance:

*Welcomes ... the G7 initiative of the Global Shield against Climate Risks aiming to strengthen the global climate and disaster risk finance and insurance architecture*⁹¹.

In October 2022 the V20 released a pre-COP27 communique⁹² that referred to the Global Shield as a way to:

*close the financial protection sinkhole ... against climate risks principally through the G20/V20 InsuResilience Global Partnership and, its successor, the G7/V20 Global Shield against Climate Risks as critical financial protection cooperation, including through premium subsidies towards building domestic and regional markets through the Sustainable Insurance Facility*⁹³.

This again reinforces the emphasis of the Global Shield on insurance albeit incorporating premium subsidies, which would improve the equity of outcomes.

“ This again reinforces the emphasis of the Global Shield on insurance albeit incorporating premium subsidies, which would improve the equity of outcomes.”

IS THE GLOBAL SHIELD'S GOAL TO SUPPORT OR UNDERMINE THE UNFCCC?

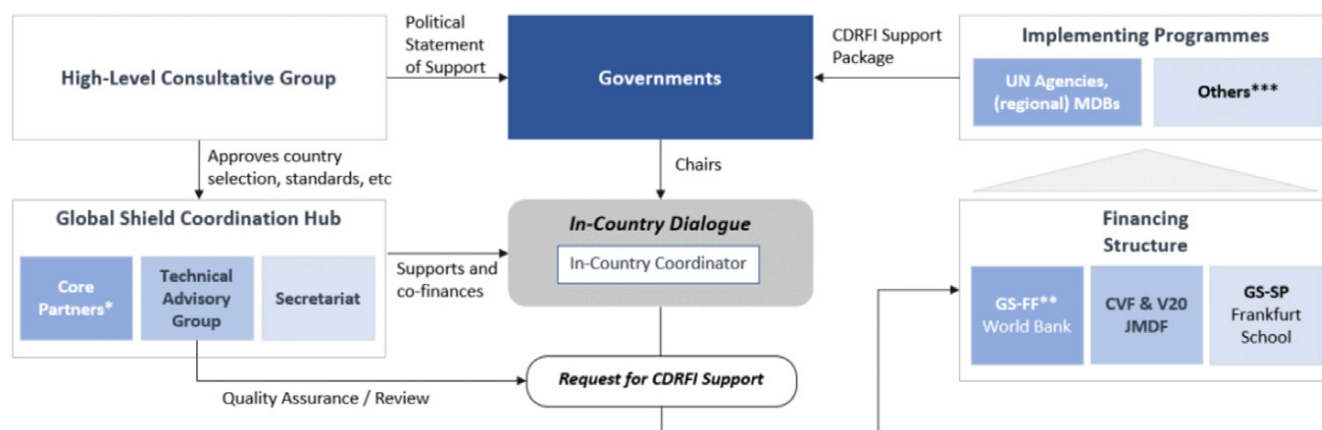
B

The proposed structured laid out in the G7 and V20 paper⁹⁴ is elaborate, identifying a high-level consultation group, a coordination hub, implementing programs, financing structure, and a role for governments receiving the support (see box below). There is no specific mention of the UNFCCC⁹⁵. The paper identifies that the structure will be, 'led by Global Shield standards and decision making', which may be intended to rule out UNFCCC principles and processes.

It is of benefit for countries to work together to have proactive proposals to bring to COPs. However, in the context of decades of delay and obfuscation, including the recent refusal of rich countries to agree to establish a loss and damage finance facility at COP26, there is concern that the Global Shield may be an attempt to control and constrain what is provided as loss and damage finance, keeping it outside of the UNFCCC and its principles of polluters pay and common but differentiated responsibility and respective capability; and rather ensure that what is provided is done via the private insurance sector with an emphasis on the responsibility of impacted communities and countries, absent principles based on justice and equity.

“There is concern that the Global Shield may be an attempt to control and constrain what is provided as loss and damage finance, keeping it outside of the UNFCCC and its principles of polluters pay and common but differentiated responsibility and respective capability.”

Global Shield Proposed Structure⁹⁶



* V20 Sec, BMZ, FCDO, ADB, Centre for Disaster Protection, KfW, UNDP, World Bank, IDF Sec

** GS-FF can fund both World Bank-executed projects and external projects via transfer-outs

*** Private Sector, Risk Pools, IIF, NDF, GIZ, V20 SIF/UNEP FI PSI, V20 Loss and Damage Funding Program, Climate Prosperity Plans, bilateral G7 programs

The Global Shield (GS) is proposed to consist of the following elements:

- Political guidance and oversight provided by the **GS High-Level Consultative Group** (HLCG, based on the IGP HLCG). In addition to the current HLCG set-up, further donors of the Global Shield Financing Structure and additional vulnerable countries may join the HLCG.
- Overarching technical work, global coordination beyond country-specific dialogues and preparation of decisions for the GS HLCG by the **GS Coordination Hub**. The Coordination Hub consists of the reformed IGP Program Alliance (PA) and is supported by the GS Secretariat (strengthened IGP Secretariat) and a Technical Advisory Group (TAG). PA membership will be expanded to become more inclusive.

- iii. Identifying country-specific CDRFI needs, gaps and options of interventions / instruments through inclusive **in-country-dialogues** under the leadership of host countries. Country dialogues will aim at crowding in and leveraging existing and additional CDRFI support from a wide range of partners and identify remaining support gaps in view of arriving at comprehensive country protection packages.
- iv. Covering support gaps through additional GS-focused financing provided through a central GS Financing Structure with a single entry point encompassing three complementary vehicles: the Global Shield Solutions Platform (GS-SP) (building on the InsuResilience Solutions Fund and hosted by Frankfurt School), the reformed Global Shield Financing Facility (GS-FF, the reformed Global Risk Financing Facility (GRiF)) hosted by the World Bank, and the CVF & V20 Joint Multi-Donor Fund (V20 JMDF). The three will supplement existing CDRFI programmes and finance urgent protection gaps by channelling funding to governments, implementing organisations, private sector, non-governmental organisations, and humanitarian agencies **led by GS standards and decision making**.

It is worth noting the European Union Council's conclusions⁹⁷ ahead of COP27 welcomed the Global Shield, positioned it as relevant to loss and damage under the UNFCCC negotiations, and made no reference to the Loss and Damage finance facility which was the subject of negotiation at COP26 and expected to be a focus at COP27.

In their pre-COP communique⁹⁸ Ministers of the V20 called for the Global Shield to be included as a contribution to the implementation of the Paris Agreement at COP27 within a broader suite of outcomes envisioned on Loss and Damage at COP27.

WILL GLOBAL SHIELD FUNDING CANNIBALISE OTHER CLIMATE FUNDING?

Despite announcing the Global Shield, the German Government has not made it clear how much funding they will contribute to it, nor have other contributor governments. No commitments have been made that this funding will be additional to existing climate finance and Official Development Assistance commitments. This is an essential consideration, given the high levels of loss and damage from climate change that vulnerable countries are facing - estimated at 290 billion to 580 billion USD per annum by 2030⁹⁹. These figures are well beyond that considered likely more than a decade ago when the 100 billion USD goal for mitigation and adaptation finance was established.

PATH FORWARD FOR GLOBAL SHIELD

Of course, it is early days, and it need not be like this. When presented with the Global Shield concept the V20 Ministers of Finance of the Climate Vulnerable Forum (CVF) underlined that the Global Shield needs to:

- focus on mobilising and providing access to new and timely financial resources;

“**The V20 called for the Global Shield to be included as a contribution to the implementation of the Paris Agreement at COP27 within a broader suite of outcomes envisioned on Loss and Damage at COP27.**”

“**The German Government has not made it clear how much funding they will contribute to it, nor have other contributor governments.**”

C

D

- tackle affordability barriers through time-bound subsidisation strategies;
- develop effective and appropriate delivery structures; and
- include V20 representation in global governance processes¹⁰⁰.

In their pre-COP communique¹⁰¹ V20 Ministers went on to “urge all major polluting nations and companies to contribute finance to address loss and damage in light of the shortfall of action and finance on adaptation and mitigation, as well as the escalation of impacts on the most vulnerable and least equipped countries and economies.”; to reinforce its call for funding for the CVF & V20 Joint Multi-Donor Fund it called for the Global Shield to be included as a contribution to the implementation of the Paris Agreement; and for the Glasgow Dialogue to have an outcome of comprehensive funding arrangements for developed countries to provide finance to address mounting loss and damage in vulnerable developing countries.

Further the CVF & V20 Joint Multi-Donor Fund for loss and damage is included as an element of the financing structure of Global Shield, and this is to be welcomed. How this finance is used should be driven by the CVF and V20, and not constrained by the insurance preferences of the countries which contribute to the Global Shield.

For the G7 sponsors of the Global Shield to progress Loss and Damage financing, in a spirit of equity and fairness, it will be important to explore how to expand beyond insurance, to better address loss and damage including non-economic loss and damage and slow onset impacts. For instance, prioritising social protection systems and social safety nets and other programs as outlined in the next section. Further, adequacy, accessibility and fairness of funding should be key features of such proposals within the UNFCCC to reinforce Loss and Damage in the Paris Agreement and to improve its integration in climate finance goals¹⁰².

Civil society and think tanks involved in InsuResilience, and who may therefore be involved in the Global Shield, do so in order to influence it in a positive direction. They must make their voices heard inside and outside calling for insurance to be at best a very small part - in line with the small role it has to play - of the Global Shield, with other fairer and more equitable approaches taking the lead. The approaches that require more focus from all countries - especially the rich and historical polluters - are outlined in the following section.

“**For the G7 sponsors of the Global Shield to progress Loss and Damage financing, in a spirit of equity and fairness, it will be important to explore how to expand beyond insurance, to better address loss and damage including non-economic loss and damage and slow onset impacts.**”

“**Civil society and think tanks involved in InsuResilience, and who may therefore be involved in the Global Shield, do so in order to influence it in a positive direction. They must make their voices heard inside and outside calling for insurance to be at best a very small part.**”

MAKING LOSS AND DAMAGE FINANCE FAIRER AND MORE EQUITABLE

V

At COP 26 the G77 and China put forth a proposal to the COP 26 presidency for the establishment of a Loss and Damage finance facility to mobilise and channel finance to vulnerable developing countries for addressing loss and damage. This call has been supported by many civil society organisations (CSOs) and movements including the Climate Action Network¹⁰³. On October 19th, 2022 the Alliance of Small Island States (AOSIS) released a briefing in which they articulated a call for a Loss and Damage Response Fund¹⁰⁴. In addition, both developing countries and CSOs have also called for Loss and Damage to be a sub-goal separate and distinct from mitigation and adaptation finance in the new collective quantified goal on climate finance (NCQG)¹⁰⁵.

A continuous push for insurance as a 'solution' is an intentional strategy of developed countries to, '[sever] the causal link between emissions and impacts' and '[place] responsibility on countries to find ways to reduce their own vulnerabilities, using their own resources.'¹⁰⁶ as it demands vulnerable communities who are the least responsible for global warming but losing their lives, home, and livelihoods to pay the cost of loss and damage from climate change impacts. One of the lessons learned from initiatives such as the R4 Rural Resilience Initiative is that climate risk insurance must be combined with other risk management measures and financial tools in order to be effective at comprehensively addressing loss and damage. In a study on how InsureResilience could have a pro-poor focus, the Munich Climate Insurance Initiative proposed seven pro-poor principles¹⁰⁷ for climate risk insurance including:

- **Comprehensive needs-based solutions:** Solutions must be tailored to local needs and circumstances.
- **Client value:** Climate risk insurance must provide reliable coverage and are valuable to the insured.
- **Affordability:** Climate risk insurance must be affordable to the poorest and most vulnerable.
- **Accessibility:** Climate risk insurance must be efficient and provided through cost effective deliver channels tailored for the local context.
- **Participation, transparency and accountability:** To be successful insurance schemes must ensure meaningful engagement of vulnerable beneficiaries who are involved in both the design and implementation.

“**At COP 26 the G77 and China put forth a proposal to the COP 26 presidency for the establishment of a Loss and Damage finance facility to mobilise and channel finance to vulnerable developing countries for addressing loss and damage.**”

“**A continuous push for insurance as a 'solution' is an intentional strategy of developed countries to, '[sever] the causal link between emissions and impacts' and '[place] responsibility on countries to find ways to reduce their own vulnerabilities, using their own resources.'**”

- **Sustainability:** Provisions must be in place to ensure that insurance products and schemes must be economically, socially and ecologically sustainable.
- **Enabling environment:** Insurance schemes must build an enabling environment which both accommodates and encourages solutions which are pro-poor.

As articulated above, the first principle is that solutions must be tailored to local needs and conditions¹⁰⁸. This could mean that insurance may not be the right tool, and in almost all instances that it will need to be combined with other tools and instruments to be effective; including social protection programs and social safety nets. In fact, research has concluded that countries can better respond to disasters when they have robust safety nets in place¹⁰⁹. The World Bank launched the Sahel Adaptive Social Protection Program in 2014 which provides support to six countries in the Sahel, Burkina Faso, Chad, Mali, Mauritania, Niger, and Senegal, in the development of implementation of social protection programs which support efforts to build resilience to the impacts of climate change. The further development of social safety nets, given their high levels of efficacy, broad relevance and flexibility, should be a priority over market-driven instruments such as insurance.

Given the importance of comprehensive risk management measures, particularly social protection programs, must be integrated with any use of insurance, recognising that pushing insurance-related tools as standalone solutions to address loss and damage is not in developing countries' best interests. As one tool in so many when it comes to Loss and Damage finance, we must ensure climate risk insurance effectively supports poor and vulnerable communities in addressing loss and damage.

As articulated above, the cost of loss and damage for developing countries is estimated to increase between 290 billion and 580 billion USD a year by 2030 and to reach at least 1 trillion USD annually by 2050¹¹⁰. Meeting the needs of developing countries for addressing loss and damage will require mobilising trillions. Therefore, Loss and Damage finance requires more than insurance-based tools and mechanisms. Moreover, the Global Shield must not be conflated with Loss and Damage finance, sideline efforts to mobilise trillions to address loss and damage, nor divert from the establishment of a Loss and Damage finance facility.

A new finance facility is important in ensuring the provision of loss and damage finance meets climate justice principles, and is fairer and equitable. This means a fairer and equitable approach to addressing loss and damage puts the needs of vulnerable communities at the core of its design. A just system recognizes the 'common, but differentiated responsibilities' of countries and the 'polluters pay principle'. Common in the sense of a shared vision to protect our environment, whereby 'differentiated responsibilities' recognise the difference in terms of countries' historical contribution to climate change and

“**Insurance may not be the right tool, and in almost all instances it will need to be combined with other tools and instruments to be effective; including social protection programs and social safety nets.”**

“**The Global Shield must not be conflated with Loss and Damage finance, sideline efforts to mobilise trillions to address loss and damage, nor divert from the establishment of a Loss and Damage finance facility.”**

their respective financial capacities to combat climate change.

Developing countries have been vocal on the urgency of a Loss and Damage finance facility to guide and coordinate support for climate change impacts by ensuring rapid response, additionality, a distinction of finance flows for adaptation and mitigation, transparency, and accountability.

This V20 Joint Multi-Donor Fund is now incorporated as an element of the Global Shield, and should be prioritised for funding. It has the potential to demonstrate how a loss and damage fund would work and help affected communities, making it the first financial mechanism to address loss and damage¹¹¹. It came in response to the urgent need for a Loss and Damage finance facility developing countries demanded at COP 26. It will demonstrate how a loss and damage fund would work and help affected communities, making it the first financial mechanism to address loss and damage.

Apart from the CVF & V20 Joint Multi-Donor Fund, AOSIS held workshops in August 2022 on possible activities that should be eligible for finance to address loss and damage. They insisted¹¹² that modalities to access Loss and Damage finance must be distinct from the existing UN climate funds designed for mitigation and adaptation projects.

Several approaches to finance Loss and Damage have been identified that allow for meeting the needs of the community on the ground:

- Firstly, Loss and Damage finance should be a locally-centred and demand driven. Local and national institutions should take the lead in identifying Loss and Damage needs and how and on which activities the funds should be disbursed. Furthermore, provide direct access and immediate response after loss and damage to communities affected. A media briefing note prepared by AOSIS discussed one of the key concepts for a fit for purpose loss and damage fund must be country owned and driven as well as gender responsive and with modalities that enhance direct access particularly through existing regional and national entities¹¹³.
- Additionally, the right approach should be corrective in nature; developed countries responsible for 37 percent of current emissions and 92 percent of past excess emissions must correct their wrongs by providing finance to vulnerable climate countries¹¹⁴. Furthermore, finance to address Loss and Damage should be grant-based, additional to existing finance, and predictable.

The table overpage illustrates a range of activities to fund when addressing loss and damage, and demonstrates that insurance is a very small part of the puzzle.

“**The V20, a coalition of finance ministers from climate vulnerable economies in April 2022, agreed to, develop and test a funding facility to address the losses and damages of lives, livelihoods, and infrastructure caused by climate impacts.**”

“**developed countries responsible for 37 percent of current emissions and 92 percent of past excess emissions must correct their wrongs by providing finance to vulnerable climate countries.**”

Table 1: Types of activities to fund when addressing loss and damage.

Loss and damage type	Sudden-onset events	Slow-onset events
Economic loss and damage	Compensation and other social protection measures	Planned relocation /assisted migration
	Short and long-term recovery and rehabilitation	Reskilling and alternative livelihoods provision
	Rebuilding damaged infrastructure	Compensation and other social protection measures
	Planned relocation / assisted migration	
	Support for rebuilding livelihoods	
	Insurance and risk transfer	
Non-economic loss and damage	Recognition and repair of loss (whether or not accompanied by financial payments)	Recognition and repair of loss (whether or not accompanied by financial payments)
	Enabling access / safe visits to abandoned sites	Enabling access / safe visits to abandoned sites
	Active remembrance (e.g. through museum exhibitions, school curricula)	Active remembrance (e.g. through museum exhibitions, school curricula)
	Counselling	Counselling
	Official apologies	Official apologies

Source: Excerpted from Shawoo, Z. et al. (2021) Designing a fair and feasible loss and damage finance mechanism. Stockholm: Stockholm Environment Institute [online] Available [here](#).

RECOMMENDATIONS AND NEXT STEPS

VI

As this paper has shown, climate risk insurance covers a fraction of the cost of loss and damage, and it is ill-suited to address non-economic loss and damage and slow onset climatic processes. Insurance based measures and schemes tend to be designed in a manner that burdens those in developing countries with premiums they cannot or can barely afford. Climate risk insurance is just one tool in so many; it should come as a complement to other

“**Climate risk insurance covers a fraction of the cost of loss and damage, and it is ill-suited to address non-economic loss and damage and slow onset climatic processes.**”

existing public finance and not used as a standalone. As the frequency of extreme weather events increases, it is important that Loss and Damage finance be mobilised at the scale of the needs, where the cost of climate change impact is not paid by the least responsible for the climate crisis and where polluters provide finance for loss and damage.

There are two elements to our recommendations. First, the Global Shield program must be designed and implemented in a way that best meets the needs on the ground. As such, we recommend:

- The Global Shield should support, as a priority, vulnerable developing countries in establishing, and strengthening existing, social protection programs and social safety nets, at the countries discretion, to provide more comprehensive protection particularly to the most vulnerable households and communities.
- As stated in the V20 communique the Global Shield should support the CVF & V20's Joint Multi-Donor Fund including through both amplifying and contributing to the fund. In addition, the Global Shield should also identify a package of national and institutional solutions tailored to the needs in vulnerable developing countries¹¹⁵.
- The Global Shield should establish a set of principles as guidelines including for how to support the poorest and most vulnerable households and communities in vulnerable developing countries. Given the limited role for insurance in addressing loss and damage, the Global Shield should establish a cap on insurance spending with a clear majority of its funding being spent on alternatives that offer greater equity, fairness and are more flexible. We suggest a cap of 20 percent expended upon insurance may be an appropriate starting point.
- The Global Shield should support, as a priority, capacity building in vulnerable countries, including in establishing risk assessment and risk reduction capabilities such that vulnerable countries are able to judge for themselves whether insurance is an appropriate response.
- The Global Shield should undertake a detailed and non-biased program of measurement, evaluation and learning that genuinely assesses whether insurance is a value for money and appropriate tool, and the conditions under which it is appropriate, and not perpetuate a cheer-leading, positive only approach to reporting.
- The Global Shield must ensure the participation and engagement of a broad range of stakeholders including the beneficiaries of its programs and civil society so that solutions are demand-driven, fit for purpose and tailored to local to national contexts. This engagement should not be limited to partners of the program; open calls for input should be made.

“As the frequency of extreme weather events increases, it is important that Loss and Damage finance be mobilised at the scale of the needs.”

“The Global Shield program must be designed and implemented in a way that best meets the needs on the ground.”

“Given the limited role for insurance in addressing loss and damage, the Global Shield should establish a cap on insurance spending, ensuring that not more than 20 percent of its funds are expended upon insurance.”

- The Global Shield must not detract from the efforts to mobilise trillions to address loss and damage on the ground in vulnerable developing countries, nor should it in any way undermine UNFCCC negotiations nor institutions. The relationship between the Global Shield and UNFCCC must be made clear.

The second element is mobilising finance at the scale of the needs to address loss and damage in vulnerable developing countries. We recommend the following:

- The establishment of a Loss and Damage finance facility under the UNFCCC with contributions from G7 and other developed countries in addition to their contributions to the Global Shield. The contributions to the Global Shield must not diminish the contributions to Loss and Damage finance under the UNFCCC.
- The Loss and Damage finance facility should be set up in a way that enables the mobilisation of the trillions needed to address loss and damage, and have sufficient funds to disburse for the full range of activities needed to address loss and damage.
- The Loss and Damage finance facility should be established with predictable financial support for action to address loss and damage, which is new and additional to existing commitments and provided with certainty. This should be rooted in the UNFCCC principle of common but differentiated responsibilities, as well as the 'polluter pays principle'.
- Loss and damage should be included within the NCQG as a sub-goal that is separate and distinct to other climate finance, such as adaptation¹¹⁶.
- The G7 should commit to fully resourcing the Santiago Network and constructively agree on the institutional structure, including an advisory body, among other things, being led by vulnerable countries' needs.
- To mobilise trillions we will also need to explore and cultivate new and innovative sources of finance. Some of the potential innovative sources of finance for Loss and Damage can be seen below in appendix A, which could complement financial contributions from developed countries.

“Contributions to the Global Shield must not diminish the contributions to Loss and Damage finance under the UNFCCC.”

“The Loss and Damage finance facility should be established with predictable financial support for action to address loss and damage, which is new and additional to existing commitments and provided with certainty.”

“The G7 should commit to fully resourcing the Santiago Network.”

POTENTIAL INNOVATIVE SOURCES OF FINANCE FOR LOSS AND DAMAGE

ANNEX A

The following table details potential innovative sources of finance for loss and damage.

Source	Brief description	Revenue estimates
Tax on international shipping emissions (bunkers)	Shipping emissions are a massive contributor to global emissions, yet are barely regulated. A 'bunkers' tax would levy a carbon price per tonne of emissions produced.	Carbon price of around 25 USD per tonne on shipping emissions could raise 25 billion USD per year.
Climate Damages Tax (CDT)	A charge on the extraction of coal, oil and gas based on how much CO ₂ equivalent is embedded. To be equitable, it is proposed that 50 percent of revenue in high-income countries contributes to loss and damage; low-income countries would keep all revenues, with a scale in between.	At 5 USD per tonne of CO ₂ equivalent, the CDT could raise around 210 billion USD in its first year.
Carbon markets, e.g. the EU ETS	The EU Emissions Trading System (ETS) allows companies to buy (and sell) permits to produce CO ₂ , and member states have spent the majority of revenues on energy and climate-related activities.	Between 2013–2019, the EU ETS raised €49 billion, a portion of which could be allocated to loss and damage.
Domestic taxes, e.g. a frequent flyer levy	A frequent flyer levy would progressively tax flights, meaning price increases with each flight taken in a year.	In the UK, one estimate puts progressive frequent flyer levy revenues at 5 billion USD per year.
Wealth tax	A tax based on a person's assets targeted at those in the highest percent of net wealth.	Oxfam estimates that a one-off 99 percent emergency tax on new, pandemic-era billionaire wealth of the top 10 richest men would raise 812 billion USD, a share of which could be spent on loss and damage.

Special Drawing Rights (SDRs)	SDRs are an international reserve asset, created by the IMF to supplement member countries' official reserves. These can be exchanged with other countries to use on loss and damage finance or used to free up other funds, which could then be channelled to address loss and damage.	In 2021, the largest ever SDR allocation of about 650 billion USD was approved, a share of which could be allocated to addressing loss and damage.
Redirecting fossil fuel subsidies	These generally take the form of tax breaks and direct payments for producers or subsidies to reduce the price of fossil fuels for consumers. Finance spent on subsidies could be shifted to supporting people with loss and damage.	The UNDP estimates global fossil fuel subsidies are 423 billion USD per year.

Source: Excerpted from Shawoo, Z. et al. (2021) Designing a fair and feasible loss and damage finance mechanism. Stockholm: Stockholm Environment Institute [online] Available [here](#).

ANNEX B

DEFINITION: PRIVATE VERSUS PUBLIC INSURANCE

There are fully private, fully public, and a mix of public-private partnership (PPP) insurance systems.

For fully private systems the government's role is limited, often to a regulatory role only. Premiums are the main source of income, and they tend to be the most expensive. Two examples are of flood insurance systems in Germany and in the UK which are fully private, reinsurance is obtained from the private market, in which the risk is diversified between insurers, reinsurers and insurance pooling. Premiums are the main source of income and no government financing is available, except for post-disaster relief¹¹⁷.

“For fully private systems the government's role is limited, often to a regulatory role only. Premiums are the main source of income, and they tend to be the most expensive.”

In PPP insurance systems, the government and the private sector cooperate in sharing risks or selling insurance policies with the aim of achieving a high market share and making optimal use of the expertise and capacity to carry risks of both sectors. PPP systems vary in the role that the public sector and the private sector play, and the risks that each carry¹¹⁸.

For example the National Flood Insurance Program (NFIP) in the US is administered by the Federal Emergency Agency (FEMA), which is responsible for covering the risks. Premiums and loans from the federal government are the main sources of funding for the NFIP. One quarter of the total NFIP insurance contracts are subsidised and their premiums are, on average, 35–50 percent of the actual risk¹¹⁹. Private insurance companies only play the role of financial intermediary in the NFIP. They sell the flood insurance for which they receive an allowance¹²⁰. Households or companies can purchase flood insurance from the NFIP or buy more expensive commercial insurance. In addition to NFIP compensation, after a large flood disaster the U.S. Government provides disaster assistance. In response to Hurricane Katrina in 2005, emergency relief of approximately 88.4 billion USD was provided, which amounted to more than the combined total of private insurance and NFIP claims triggered by Katrina¹²¹.

In public systems the government plays all, or most of the roles. For instance in Spain the Consorcio de Compensación de Seguros (CCS) is a legal national framework that covers extreme risks, which includes both natural and man-made disasters. Catastrophe coverage, which includes for example floods, is compulsorily included in property insurance policies, which is based on solidarity and collective risk sharing¹²². The public sector is responsible for covering the risks and paying out claims and the government provides an unlimited guarantee to the CCS. The CCS system provides broader coverage with lower premiums and deductibles compared with the other systems. All natural hazards, such as earthquake, pandemics, flood and other losses to people or property in Spain caused by extraordinary events are covered. The role for the private sector is sales and administration. A premium is collected by insurers on behalf of the insurance Consortium, for which the insurers retain a fee of 5 percent of the premium¹²³.

“**In response to Hurricane Katrina in 2005, emergency relief of approximately 88.4 billion USD was provided, which amounted to more than the combined total of private insurance and NFIP claims triggered by Katrina.**”

“**In public systems the government plays all, or most of the roles.**”

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IMAGE CREDITS

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