

Global reinsurance experts urge investment in open-source risk models

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Strategic management experts say greater collaboration between the insurance industry and state policy makers, including investment in open-source risk models, could improve society's ability to recover from disasters linked to climate change.

The increasing frequency and severity of [climate](#)-change-driven disasters threaten lives and livelihoods, [food security](#), water supply, property security, and [economic prosperity](#) across the globe.

Adapting to climate change, by increasing our ability to recover from specific disasters, reducing vulnerability around the globe and promoting both financial and physical resilience to its effects, is vital to society—and insurance can be a key tool in this.

Using insurance is a step away from crisis towards [risk management](#), and it strengthens socio-economic resilience under a changing climate.

However, it is only one of the available disaster-risk financing mechanisms and needs to be considered within a broader fiscal framework that also includes international assistance, catastrophe debt drawdowns, and other financial securities, disaster reserves and budgets.

In a background paper submitted to the Global Commission on Adaptation, Cass Business School's Professor Paula Jarzabkowski, Birkbeck, University of London's Dr. Konstantinos Chalkias and their co-authors make seven recommendations to maximise the benefits of insurance for climate adaptation.

1. Invest in open-source models that provide a long-term view of climate risk and link to insurance solutions.

2. Joined-up policy-making to put climate-risk models at the heart of national adaptation

strategies.

3. Develop consistent climate adaptation regulation and standards across countries.

4. Foster insurance innovations that can respond to a changing climate risk landscape.

5. Strengthen dialogue between insurers and policy-makers around Build Back Better.

6. Converge insurance, humanitarian and development agendas.

7. Promote and invest in risk literacy throughout society

Within their first recommendation the authors write that improved risk data and analysis of the impact of climate change—essential to increase understanding about the risk profiles of different countries, regions, assets and populations—should enable modelling of the frequency and severity of climate events and potential financial losses attributed to them.

"The data should then be modelled according to differing projections of the rate of climate adaptation: in other words, by different estimates of how much the vulnerability of the natural and built environment may have been reduced, over various periods of time," the authors write.

"This will ensure that climate risk data, covering both a near-term and long-term view of climate adaptation, can be linked to insurance and the risk-transfer process."

The most important part of this first recommendation is that models created with the data remain open and widely available.

"This will ensure that they can be used to support public and private insurance mechanisms, including

the piloting of insurance innovations, without the pressure to recoup costs from commercial transactions," the paper's lead author, Professor Paula Jarzabkowski said.

Professor Jarzabkowski and her co-authors also recommend that climate-risk models and data be better used to inform policy makers of the hazards and vulnerabilities in their respective countries.

"We need joined-up policy-making between treasury, environment and disaster-management divisions within government. These divisions must also work collaboratively with development agencies to put climate risk data at the heart of national adaptation strategies," Professor Jarzabkowski said.

To improve global society's resilience to the effects of [climate change](#) related disasters, the paper recommends consistent international standards for climate adaptation regulation be established by the International Monetary Fund or a similar supra-national actor.A

"Appropriate regulation ensures that climate-related insurance is safe for the consumer, in terms of ensuring both appropriate conduct by insurers, and that they will be able to pay claims and won't all file for insolvency after a large disaster," the authors write.

"Consistency across coun-tries is important as sound climate-risk [insurance](#) typically requires an appropriate balance between retaining risks in-country, and transferring to globally diversified interna-tional markets."

More information: The Global Commission on Adaptation will use the [background paper](#) prepared by Professor Jarzabkowski and her colleagues to inform its annual flagship report that will be released on September 10th 2019.

Provided by City University London

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