MCII

Discussion Paper Series MAY 2022

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PRINCIPLE(S) MATTER: A Compilation and Review of Governance Principles in Climate and Disaster Finance

Principle(s) Matter: A Compilation and Review of Governance Principles in Climate and Disaster Finance

Munich Climate Insurance Initiative 2022

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This publication is supported by Engagement Global with funding from the German Federal Ministry for Economic Cooperation and Development. MCII is responsible for the content of this publication.

Supported by

ENGAGEMENT GLOBAL
Service für Entwicklungsinitiativen

With funding from the

Federal Ministry
for Economic Cooperation
and Development

Published May 2022

Contents

Published May 2022

List of Tables

1. Introduction

One of the major objectives of climate risk management (CRM) is to strengthen the resilience and protect the lives and livelihoods of poor and vulnerable people against the impacts of disasters by reducing the protection gap. One way of doing this is by providing affordable disaster risk financing solutions. The current financial protection gap against climate and disaster risks is 98%[1] across climate vulnerable low and lower middle-income countries. Towards this, various global and regional initiatives are taking a principled approach that puts peoples' needs at the center of Climate and Disaster Risk Finance and Insurance (CDRFI). These initiatives emphasize consensus-building and experience-driven principles that can guide climate and disaster risk financing in the broader context of disaster risk management.

However, over the last decade, not only global and regional initiatives, but also various inter-governmental organizations, national governments, NGOs, MDBs and other stakeholders are moving towards a principled approach to govern climate risks. At the heart of these approaches lie three basic elements:

(1) Moving toward a proactive (and more cost-effective) approach to financial planning, that protects the lives and livelihoods of the poor and vulnerable from the impacts of disasters;

(2) Complementing this with other elements of a comprehensive disaster risk management strategy, ranging from investments in risk reduction to improved preparedness and resilient recovery and reconstruction;

(3) Understanding how effective climate and disaster risk finance and insurance solutions can be applied in various other sectors (i.e. gender, banking) that directly or indirectly affect the outcomes of climate risk management practices at local, regional and global levels.

This publication gives an overview of various principle documents to inform ongoing discussions under the UNFCCC Technical Expert Group on Comprehensive Risk Management.

[1] https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/understanding_and_addressing_global_insurance_protection_gaps.pdf

2. Governance Principles for Climate and Disaster Risk Finance and Insurance

While the Paris Agreement on Climate Change and the Sendai Framework for Disaster Risk Reduction 2015-2030 have recognized the need for (better) climate risk management and to develop and advance new and innovative financial instruments, disaster risk finance as a governance and policy agenda is still in its infancy. One development over the past years has been the formulation of "governance principles" to influence institutional arrangements for disaster risk finance and the implementation practice by major initiatives.

The UNFCCC Warsaw Mechanism aims to promote implementation of approaches to address loss and damage associated with the adverse effects of climate change under the UNFCCC. Several expert groups were launched - supporting the role of the Executive Committee to deliver the work-plan of the mechanism and prepare annual guidance to the climate summit (Conference of the Parties - COP). This publication serves as an output to the Technical Expert Group on Comprehensive Risk Management[2], and can help to bring broader discussions under governance principles into the concrete guidance of the UNFCCC.

The emergence of (pro-poor) principles for climate and disaster risk insurance in the field of climate risk management has provided an important springboard to rethink governance of climate risk finance that works for the most vulnerable and low-income populations. Various stakeholders, global and regional organizations, have drafted their own governance principles to guide the implementation of CRM efforts while giving special consideration to the needs of the most vulnerable. These principles, however, are scattered across various sectors and stakeholders working in the field of climate risk management and disaster risk insurance.

This document aims to synthesize and review the existing pro-poor governance principles related to climate risk management including disaster risk finance and insurance. We analyzed publicly available documents of various global and regional organizations and synthesized the findings. Although the list is in no way exhaustive, it does provide a summary on the current use of pro-poor governance principles in the field of disaster risk finance and insurance. We reviewed 16 sets of climate and disaster risk

[2] See Activity C.1. of the Plan of Action - available https://unfccc.int/sites/default/files/resource/TEG-CRM%20Plan%20of%20Action_Approved%20version.pdf

finance principles similar to the pro-poor principles that have been proposed, adopted, or formulated by different stakeholders in the field spanning five important sectors (1) Climate and disaster Risk Insurance, (2) Disaster Risk Reduction, (3) Infrastructure, (4) Climate Bonds Market, (4) Insurance Industry, and (5) Gender.

Main findings

This review is based on two interrelated and important concepts of 'scale' and 'governance'. First, like any other environmental solutions, disaster risk finance can be applied at different scales (i.e. global, regional, local) and these actions should account for scales to accurately deliver the results.[3] Secondly, disaster risk finance can be seen as a multilevel governance process. 'Multilevel' not only refers to different government levels (e.g. national, sub-national), but also to the involvement of both public and private actors at these levels[4]. Governance refers to sustaining a wide variety of actors with different purposes and objectives.[5]

Our review shows that principles for climate risk insurance and disaster finance are being applied at different scales and at governance levels. The scale of application varies from micro to regional, and national governmental scales and governance levels vary from political to impact levels. Our review finds five major governance levels as continuum (i.e. political level, institutional level, policy level, product level and impacts level as shown below in figure 1). Such categorization is not without challenges. All five domains are cross-cutting and complement each other, while some of their underlying principles and aims are somewhat distinct. However, we argue that distinguishing between these governance levels can help clarify the aims, objectives of pro-poor principles.

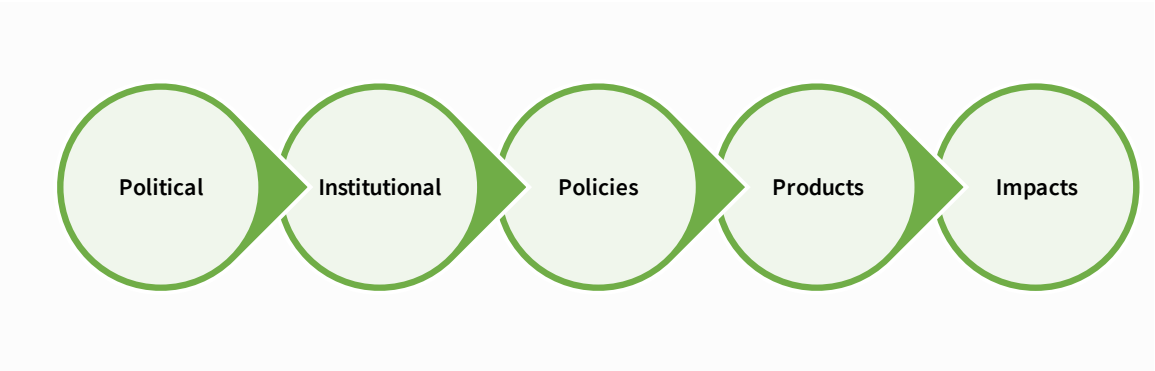

Figure 1: Pro-poor principles and disaster risk finance governance levels

[3] Moreno-Mateos, D., and F. A. Comin. 2010. Integrating objectives and scales for planning and implementing wetland restoration and creation in agricultural landscapes. *Journal of Environmental Management* 91(11):2087-2095.

[4] Krasner, S.D. (ed.) (1983). International regimes. Ithaca, NY: Cornell University Press.

[5] Pierre, J., editor. 2000. *Debating governance: authority, steering and democracy.* Oxford University Press, Oxford, UK.

Key takeaways

(1) Existing principles are fragmented and cut across different sectors depending on the organizational focus and objectives.

(2) There has been inadequate focus on the role of pro-poor principles at political level, its operationalization, or commitment through states and governments.

(3) There has been less integration of the idea of climate justice into the existing pro-poor principles. Although many pro-poor principles are based on the idea of equity, there is a need for governance of disaster risk finance to integrate the idea of justice into pro-poor principles.

(4) Monitoring and evaluation of impacts of pro-poor principles on the climate vulnerable population has received relatively little attention.

(5) While there have been many principles originating from organizational level, there are very few sets of principles originating from a process of intergovernmental engagement.

Organization of the paper

In defining and deciding important governance principles in the space of CDRFI, we found two different types of existing sources based on the processes to arrive at the principles. While most principles (11 out of 16) have been constructed by different organizations themselves based on practical or research experience with no or limited participation from governments, we could only find 5 sets of governance principles which have been defined and decided through an intergovernmental process involving different national and international stakeholders.

The results from our review of governance principles is shown in section 3 the tables below. Table 1 summarizes the research and gives an overview of key governance principles on different levels. Table 2 lists the five sets of principles originating from intergovernmental processes, their key features and other characteristics. Table 3 describes the other eleven sets of principles originating from the organizational level or based on research and practice. Section 4 outlines the principles for further reference.

Table 1: List of Major Pro-poor Principles used at different Governance Scales

Political level principles	Institutional level principles	Policy level principles	Product level principles	Impact level principles
Accountability	Transparency	Participatory	Accessibility	High impact on the poor and the vulnerable
Adequate enabling conditions	Timeliness of Funding	Do no harm	Affordability	Client Value
State responsibility	Effective disbursement of funds	Need-based solutions	Value for Money	Poverty reducing impacts
Protect human rights and right to development	Trusted Guarantee	Quality Implementation	Risk-layering	Learning (M&E)
Market building	Promote dialogue on risk financing	Complementarity	Cost-effectiveness	Underlying risk reduction
Sustainability	Embed environmental social and governance issues in Insurance Business Operations	Ownership	Customized CDRFI products	Data and analytics
Gender Responsive	Implement Climate Related Financial Disclosure	Empower people and communities at risk		Resilience building (with the right incentives)
Build back better	Build and encourage competitive disaster risk insurance market	Inclusive and informed decision-making including gender perspective		Climate Resilient Infrastructure
Shared responsibility between central Government and national authorities	Undertake climate related physical risk assessment	Gender smart climate disaster risk insurance solutions		Measurable value for the poor and the vulnerable
Risk-Layering practices	Climate proofing investment	Leave no one behind (equity)		Climate Resilience Benefit Assessment
		Align implementation with local conditions		Consistency

Note: Some principles may overlap at various scales and levels depending on the division of the governance scales

3. Principles, Key Features and Characteristics

- **Purpose**: purpose, objectives, aims as stated by developer
- **Principles (or equivalent):** Governance principles, guidelines, pillars, major components
- **Key related features:** Main components/ composition of the tool/ indicator
- **Methods**: General description of approach taken or facilitated by tool (if available)
- **Level/target group:** For whom, at what level (global, regional, local)
- **Sector focus:** Main sector or issue area to which tool is applied (e.g., 'governance' in general, disaster risk insurance)
- **Application:** Where/ when tool has (not) been applied in practice (aspirational/practical)
- **Limitations:** What are the major limitations (if any)

Table 2: Principles, key features and characteristics of principles related to climate and disaster finance: Intergovernmental Processes

	Principles	Key features & methods	Characteristics	Advantages & Limitations
The InsuResilience Pro-Poor Principles for Climate and Disaster Risk Financing and Insurance Solutions	The InsuResilience Pro-Poor Principles for Climate and Disaster Risk Financing and Insurance Solutions InsuResilience Global Partnership, 2019 **Purpose:** Aspirational principles for members of the partnership which they should strive to achieve. **Principles:** Impact, Quality, ownership, complementarity, equity.	**Key features:** • Sub-principles can serve as indicators for the M & E framework for CRI. • Focus on the poor and the vulnerable in the context of CRI. • Aimed at stakeholders of the partnership **Method:** Qualitative assessment based on • Call for submissions, webinars and workshops • Inclusive and consensus based	**Level**: Global **Focus**: Disaster Risk Finance and Insurance Solutions **Detail**: Moderate **Application:** At project planning and implementation level.	**Advantages:** • Useful conceptual model helpful for a broad range of stakeholders including governments, CSOs, development partners and private sector. • Strong focus on the poor and the vulnerable. • Recognizes equity as a major principle. **Limitations:** • Voluntary All the principles are not fully tested at project level and by participating stakeholders.

SMART Principles for Premium and Capital Support for Climate Risk Insurance

SMART Principles for Premium and Capital Support for Climate Risk Insurance

InsuResilience Global Partnership, 2021

Purpose: To present a common understanding among InsuResilience members and partners regarding recipient eligibility, volume, duration, and form of premium and capital support as well as the conditions under which this support will be provided.

Intended to inspire a principled, coordinated approach on PCS provision and use among stakeholders.

Principles: (1) Sustainable impact on the most vulnerable (2) Value for Money (3) Accessibility (4) Resilience building incentives (5) Transparency and accountability

Key features:

- Summary of key principles, concepts and issues;
- Provides an initial framework on application of these principles

Method:

Based on inputs from High Level Consultative Group (HLCG) members of the IGP and other stakeholders from academic and CSOs

Level: Global

Focus: PCS principles for CDRFI

Detail: Moderate

Application: N/A

Advantages:

- Conceptual guidance for the provision, channeling and use of PCS by donors, implementers, clients and other recipients
- Based on vulnerable country perspectives

Limitations:

Details on the application of principles not fully developed yet.

Principles of Sendai Framework for Disaster Risk Reduction

Principles of Sendai Framework for Disaster Risk Reduction

United Nations, 2015

Purpose: To provide Member States with concrete actions to protect development gains from the risk of disaster.

Principles: State as primary agent for DRR & DRP, shared responsibilities between governments and non-govt actors, human rights protection, engagement from all of the society, full engagement of state institutions, inclusive decision making, empowerment of local authorities and communities, coherence of DRR and sustainable development, accounting of local conditions for DRR, addressing underlying risks, build back better, effective international cooperation, support from developed countries for tailored need in developing countries.

Key features:

- Applicable globally
- Consensus based principles

Method:

Based on inputs from, and agreement among UN member states.

Level: Global, national, local

Focus: Disaster Risk Reduction and Prevention

Detail: High

Application: Available at Sendai framework online monitoring tool

Advantages:

- Globally applicable
- Based on global level deliberations and discussion
- Address a wide range of aspects related to DRR

Limitations:

Mostly focuses on disaster risk reduction

Principles of Sustainable Insurance

Principles of Sustainable Insurance

United Nations Environment Programme, 2012

Purpose:

The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions for increasing environmental, social and governance (ESG) challenges.

Governance: The PSI Initiative is administered by and set within the overall governance framework of UNEP FI, a global initiative involving UNEP and financial institutions (e.g. insurance companies, investment firms, banks).

Principles: Embed ESG issues in decision making relevant to insurance business, to raise awareness of ESG issues, manage risk and develop solutions, work together with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues, accountability and transparency on progress on implementation of the principles.

Key features

- Provides guidelines for the insurance industry to manage ESG challenges and achieve sustainable insurance.
- Focus on responsibility of the insurance industry
- Collaborative initiative between insurance industry and UN

Method:

- Builds on research initiatives by UNEP FI
- Extensive process of in-depth deliberations with multiple stakeholders from different countries to produce draft Principles

Level: Global

Focus: Insurance Industry

Detail: Medium

Application: Over 200 organizations worldwide have adopted the four Principles for Sustainable Insurance, including insurers representing more than 25% of world premium volume and USD 14 trillion in assets under management. The principles are part of the insurance industry criteria of the Dow Jones Sustainability Indices and FTSE4Good.

Advantages:

- Relatively fast Highly adaptable
- Global reach and engages the private insurance industry and institutions

Limitations:

- Principles are voluntary
- Level of technicalities of the principles

Limited involvement of the regional and local governments

Accountability in the Context of Disaster Risk Governance (UNDRR)	Accountability in the Context of Disaster Risk Governance (UNDRR) United Nations Office for Disaster Risk Reduction, 2019 **Purpose**: Providing practical guidance on how to implement the Sendai Framework, and to ensure worldwide access to expertise, communities of practice, as well as professional networks. Focuses on accountability in the context of disaster risk governance **Principles**: Answerability, Enforcement, Responsiveness	**Key features:** • Describe the role of the state in disaster risk governance. • Detailed discussion on accountability in the context of DR governance **Method:** Qualitative analysis of theories and country experience	**Level:** Global/National Governments **Focus:** Accountability in disaster risk governance **Details:** Moderate **Application:** N/A	**Advantages:** • Allows comparative country assessments of their accountability in DR governance. • Guidelines on implementing the principles of accountability • Contributes to the SFDDR **Limitations:** Need further M&E of the framework at the country level

Table 3: Principles, key features and characteristics of principles related to climate and disaster finance: Organizational/research level

	Principles	Key features & methods	Characteristics	Advantages & Limitations
SMART Principles for Premium and Capital Support for CRI	<u>SMART Principles for Premium and Capital Support for CRI</u> Munich Climate Insurance Initiative (MCII), 2021 **Purpose**: Initiate and build the core principles of Premium and capital support for climate and disaster risk insurance financing **Principles:** (1) Sustainability (2) Market Building (3) affordability, accessibility and availability (4) Resilience building (5) transparency and accountability	**Key features:** • Frame the debate and provide the core principles of PCS support to low-income vulnerable countries. • Provides an initial operational framework to monitor and evaluate PCS support. **Method**: • Based on consultation with V20 member countries and experts on disaster and risk insurance financing. • Builds on theoretical and evidence-based research in the field of climate and disaster insurance finance.	**Level:** Global **Focus:** Premium and Capital support for disaster risk insurance in low income and vulnerable countries **Detail:** Low **Application:** Used as initial technical input to the V20 secretariat and the InsuResilience to further deliberate on the debate.	**Advantages:** • Provides principles based on research and literature review. • Based on technical inputs from the V20 secretariat. **Limitations:** • Need further research based on data. • Principles can be updated further based on wider consultation among

The 7 Habits of Highly Effective Disaster Risk Finance

The 7 Habits of Highly Effective Disaster Risk Finance

Centre for Disaster Protection (CDP), 2020

Purpose: Informing on the most important habits if DRF is to have an impact on people's lives

Principles: Poverty focused DRF, timely provision of DRF, Effective DRF involves constant M&E and learning, people's participation in disaster risk financing, Effective DRF gives people guarantee (create power for the people at risk), effective DRF measures are cost-effective, strategic thinking and build broader resilience

Key features:

Based on the idea that DRF should be effective across four elements: how money comes in, how money gets out to those who need it, whether the approach fits the context, and whether there are suitable supporting processes.

Method:

Based on review of evidence on effective DRF

Level: Global

Focus: Effective Disaster Risk Financing

Detail: Medium

Application: N/A

Advantages:

- Provides a flexible framework for the review of DRF projects.
- Can be applied to the design process of DRF and for further review.
- Includes objective questions for assessing DRF evaluation.

Limitations:

Need for further data and evidence on its application

Climate Resilience and Pro-Poor Principles for Infrastructure Investments

Climate Resilience and Pro-Poor Principles for Infrastructure Investments

AIIB – Germanwatch and others, 2020

Purpose: To provide pro-poor principles for infrastructure investments

Principles:

(1) Do no harm
(2) climate proofing
(3) enhance systemic climate resilience
(4) measurable value for the poor and the vulnerable
(5) transformation
(6) enabling policy framework
(7) accessibility
(8) affordability
(9) participation
(10) transparency

Key feature:

- Focus on pro-poor principles for infrastructure investment.
- Climate resilience as the major focus of analysis

Method: N/A

Level: Regional/Industry

Focus: Infrastructure and pro-poor climate resilience

Detail: Moderate

Application: N/A

Advantages:

It has global reach on applications of these principles.

Limitations:

Need further data and evidence on the application of the principles.

Climate Resilience Principles for Investments

Climate Resilience Principles for Investments

Climate Bonds Initiative and WRI, 2019

Purpose: Climate resilience principles as a framework to assess climate resilience investments and guide the integration of criteria for climate resilience and adaptation into the Climate Bond Standard & Certification Scheme. Developed to certify green bonds

Principles:

(1) Boundaries and interdependencies for assessing climate risks and resilience impacts are clearly defined
(2) Physical climate risk assessment undertaken
(3) Risk reduction measures undertaken
(4) Climate resilience benefit assessment undertaken

Key features:

These principles would require certified climate bond issuers to prove that they understand the climate risk at a systemic scale and scope (going beyond the narrow scope of the risk for the investment itself), that they minimize the risk-by-risk reduction and risk management measures, that they deliver systemic resilience benefits, and that they apply a monitoring and evaluation approach that would allow to flexibly adjust adaptive measures
Increased focus on adaptation and resilience aspects of climate bonds.

Method:
Developed by expert group with inputs from various stakeholders.

Level: Global

Focus: Climate Bonds

Detail: Moderate

Application: The Climate Bonds Standard & Certification Scheme for green bonds was established in 2015 to provide guidance to issuers and provide assurance to investors on green bond credentials in a voluntary market.

These Principles and sector-specific Criteria will support the mainstreaming of climate resilience considerations across all green bonds as well as improve transparency in the market for green bonds that aim to enhance resilience

Advantages:

- Aligned with other related initiatives such as the TCDF
- Provides widely applicable standards for certification of assets and projects.
- Can incentivize bond issuers to mainstream climate resilience into climate investments.

Limitations:

Need to build more data and evidence on practical applications of these principles.

(5) Mitigation trade-offs
(6) Monitoring and evaluation

Integrating Gender Dimensions into Climate Risk Management

InsuResilience Global Partnership, 2019

Purpose: To provide overview and recommendations on gender responsive climate risk insurance.

Principles: 'do no harm' i.e. do not exacerbate existing gender inequalities. Ideally, they diminish inequalities and promote gender equality in line with Sustainable Development Goal 5 – to achieve gender equality and empower all women and girls

Key features:

- Provides overview on integrating gender considerations into CRI.
- Considers various scales i.e micro, macro and meso and times scales.

Method:

Qualitative analysis of evidence from different CRI schemes and country experiences

Level: Global/National Governments

Focus: gender in disaster risk governance

Details: Moderate

Application: N/A

Advantages:

- Focuses on the very crucial aspect of Gender in CRI
- Provides recommendations based on existing lessons learned from CRI sector
- Identifies gender issues or actions under "the do not do harm" principle, but also incorporates approaches to overcome historical gender biases

Limitations:
Need further information on how to implement these recommendations

Guiding Principles and Appraisal Framework for GRiF Grant Support (GRIF)

Guiding Principles and Appraisal Framework for GRiF Grant Support (GRIF)

Global Risk Financing Facility (GRiF), 2019

Purpose: Principles and appraisal framework for the use of grant financing under the Global Risk Financing Facility (GRiF) MDTF. To maximize the impact of disaster risk financing and insurance solutions on the financial resilience of developing countries against climate and disaster shocks and crises, and the benefits to vulnerable people from earlier action and faster recovery.

Principles: (1) Grant financing should be differentiated according to countries' ability to pay. Priority should be given to the poorest and most vulnerable countries

Key features:

Principle for consideration by development partners when agreeing to a workplan for the GRiF to determine which countries and regions should be prioritized for grant financing.

Method:

Prepared as part of the ongoing discussions among development partners, including DFID and BMZ, on how to use grants, especially under the GRiF, to maximize the impact of disaster risk financing and insurance solutions on the financial resilience of developing countries

Level: National/project/product level

Focus: Use of Grant financing for CRI

Detail: High

Application: N/A

Advantages:

- Addresses the question of use of grant financing for disaster risk insurance
- Focus on objective criteria for grant financing of CRI
- Useful for CRI project and product appraisal

Limitations:

- Less flexible (Bounded by conditionalities for financing)
- Less focus on how to address the lack of capacity of projects to address and implement the criteria.

(2) clear path for grant financing sustainability and exit strategy
(3) Strong country ownership
(4) comprehensive financial protection including use of risk layering approaches
(5) Improvements in preparedness and resilience
(6) Capability, plans and systems
(7) Accountability and clear decision-making processes
(8) benefit for vulnerable people
(9) high quality open data models
(10) value for money
(11) clear communication and understanding of the product to the client
(12) quality and reliability of the product
(13) non-preferential process

Equity Principles for Organizing Insurance

Equity Principles for Organizing Insurance

J Linnerooth Bayer et al., 2019

Purpose:

Discuss three principles of fundamental importance for organizing insurance arrangements, each principle building on a different view of equity. These principles address the question of "who pays the premium"?

Principles: Mutuality (risk-based premium), Solidarity (partly accordingly to the ability to pay the premium i.e. cross subsidy), Accountability (ethical and legal obligation for compensation to those affected)

Key features:

- Organizes principles based on the question of Who pays the premium?
- Relevant in the context of loss and damage to climate change.
- Based on the concept of equity.

Method:

Based on theories of equity.

Level: Global Actors/Governments/Multilateral Organizations

Focus: Premium for disaster risk insurance

Detail: Moderate

Application: N/A

Principles of solidarity and accountability are strongly voiced in the Framework Convention on Climate Change (UNFCCC), which states that parties should act to protect the climate system "on the basis of equality and in accordance with their common but differentiated responsibilities and respective capabilities".

Principles of solidarity have been applied in the case of many Micro Insurance schemes i.e. R4, NAIS.

Advantages:

- Builds on evidence on insurance arrangements for disaster risks.
- Links to principles of global negotiations processes such as those of UNFCCC

Limitations:

Principles are based on already existing insurance arrangements making them rather a tool to analyze existing schemes

Core Principles for Disaster Risk Finance

Core Principles for Disaster Risk Finance

World Bank, 2018

Purpose:

To provide governments with a framework with principles to evaluate and improve their financial resilience.

Stocktake the latest thinking on disaster risk financing and insurance.

Principles: timeliness of funding, disbursement of funds. Disaster risk layering, data and analytics. Framework involves: risk assessment for financial protection, arrange financial solutions, deliver funds to beneficiaries, reduce underlying risks

Key features:

- Principles complement the operational framework
- Provides operational framework for policy response
- Guidance on applying the tool
- Explanation of operational framework and links to principles.

Methods:

Based on inputs from an expert working group.

Level: National

Focus: Disaster risk finance at national level

Detail: High

Application: Capacity building of government officials and development practitioners in the field of disaster risk finance

Advantages:

- Substantial details on the principles and operational framework.
- Based on evidence and data from national governments
- Combines principles with operational framework.

Limitations:

Further information needed on lessons learned from applying these frameworks at national level

Pro-Poor Principles for Climate Risk Insurance

Pro-Poor Principles for Climate Risk Insurance

Munich Climate Insurance Initiative (MCII), 2016

Purpose: Guiding the design process of new insurance schemes that benefit the poor and vulnerable and also help with the identification of insurance schemes to be supported by international initiatives, such as the G7 InsuResilience.

Principles: comprehensive need-based solutions, client value, affordability, accessibility, participation, accountability and transparency, sustainability, enabling environment

Key related features:

- Effectively target the poor
- Focus on insurance demand and uptake
- Address both demand side and supply side variables such affordability and availability and sustainability of CRI
- Focus on enabling environment

Method:

- Based on Qualitative assessments and lessons learned from selected CRI schemes.
- Builds on in-depth research of case studies

Level: National and/or sub-national

Focus: Climate Risk Insurance

Detail: High

Application: At project planning and evaluation level.

Advantages:

- Relevant at project planning level.
- Comprehensive and based on lessons from real world examples.
- Useful for donors and policy makers.
- Based on research

Limitations:

Need further evidence on applicability of these principles in practice at national and sub-national level.

Pro-Poor principles (PPP) for climate risk insurance

Pro-Poor principles (PPP) for climate risk insurance

Results UK, 2016

Purpose: Comprehensive set of pro-poor principles to ensure that climate risk insurance works for the poor and reaches the poor directly.

Principles: Accessible, High Impact, Enabling, Transparent, accountable and participatory

Key related features:

- Effectively target the poor
- Funding for premium support
- Ensure insurance build resilience
- Incentivize risk reduction through insurance
- Finance for loss and damage

Method:

Qualitative recommendations (no further information available)

Level: Donors/governments

Focus: Climate Risk Insurance

Detail: Low

Application: N/A

Advantages:

- Principles are globally relevant
- Supports capacity building and responsive action

Limitations:

- No available examples of practical use
- Limited applicability locally without external technical and financial support.

Key Principles for public intervention in catastrophic risk insurance market

Key Principles for public intervention in catastrophic risk insurance market

World Bank - GFDRR, 2009

Purpose: To promote catastrophe risk financing as an integral part of a country's (public interventions) economic policy and an important component of a proactive and strategic framework for disaster risk management.

Principles: Promote catastrophe risk financing in the dialogue on disaster risk management, enhance competitive catastrophe risk markets, use risk-based price signals to encourage catastrophe risk management, limit public subsidy programs to minimize distortions of market price signals, Develop customized catastrophe insurance solutions.

Key features:

- Based on data, evidence and examples.
- Focuses on the role of public interventions in disaster insurance market
- Focus on role of donors

Method:

Inputs from experts based on data analysis and research

Level: National, with sub-national components

Focus: Promoting catastrophic risk financing in low- and medium-income countries

Detail: Medium

Application: N/A

Advantages:

- Builds on economic theories of risks, market interventions and insurance.
- Combines principles with theories, data and evidence

Limitations:

- Need further information on its practical application.
- Need to update considering the recent developments in the insurance market

4. Compilation of the Principles Related to Climate Risk Management Nncluding Risk Finance and Insurance

Pro-Poor Principles for Climate Risk Insurance, InsuResilience 2019

InsuResilience Secretariat (Ed.). (2019). *Pro-Poor Principles of the InsuResilience Global Partnership*. https://www.insuresilience.org/wp-content/uploads/2019/06/insuresilience_propoor_190529-2.pdf

1. Impact: Create positive and lasting change for poor and vulnerable people

    - Increase resilience: Increase resilience of people, businesses, and governments, and enable equitable economic development through financial protection strategies and solutions.
    - Tailor to contexts: Build solutions that effectively address the risk exposure and vulnerabilities at the individual, local and regional levels, taking into consideration differentiated gender realities.
    - Transform institutional framework: Strengthen operational, institutional and legal frameworks – including the aspect of improved consumer protection – and increase the expertise on financial protection solutions.
    - Monitor, evaluate, and learn from activities and results: Develop tools and frameworks that allow results and impact to be measurable, traceable as well as to support ongoing activities.

2. Quality: Implement adequate and high-quality climate and disaster risk finance and insurance solutions that address the needs of poor and vulnerable people.

    - Embrace ongoing learning: Provide the best solutions, considering ongoing learning with a broader risk management context.
    - Apply best techniques and practice: Use best available, fit for purpose techniques, for example in risk modeling, analytics, and data, with a view to enhancing affordability and preserving risk-based pricing.
    - Ensure needs centered processes: Develop customized evidence-based solutions – building on impartial advice following from needs assessments – to ensure value for money.
    - Be inclusive and gender-responsive: Support inclusive and gender-responsive solutions, taking into consideration affordability.

- Manage basis risk: Promote the development of approaches that minimize all forms of basis risk, including standardized assessment methodologies and disclosure, and concrete measures to manage its impacts.

3. Complementarity: Develop a mix of synergistic climate and disaster risk finance and insurance solutions building from existing institutional frameworks.

- Follow evidence-based decision making: Precede the design and implementation of disaster risk finance strategies and solutions by sound institutional and risk assessments.
- Manage risks comprehensively: Develop risk finance solutions within a comprehensive risk management strategy to jointly address different risk layers, foster adaptation efforts and harness co-benefits, leading to more resilient societies while avoiding maladaptation over the long term.
- Promote endogenous approach: Make use of institutions embedded within national policy frameworks and / or driven by ultimate target groups to implement risk finance and insurance solutions.
- Coordinate across institutions: Realize mechanisms and capacities that facilitate stakeholder collaboration and coordination for comprehensive risk management.
- Leverage resources: Public Private Partnerships should guarantee that pooled resources generate synergies leading to the implementation of innovative and impactful risk finance and insurance approaches.
- Integrate gender frameworks: Mainstream gender consistently throughout climate and disaster risk management policy, project and product cycles

4. Equity Climate and disaster risk finance and insurance solutions should provide inclusive and targeted support to promote equitable growth.

- Leave no one behind: The poor and vulnerable should not carry the burden of increased climate risks, and given their already strained resources, their access to climate risk protection needs to be favored.
- Realize Human Rights: Climate and disaster risk finance and insurance solutions will contribute to ensuring poor and vulnerable people attain and maintain their Human Rights in the aftermath of disasters, or consequent to slow onset events caused by climate change
- Provide inclusive and targeted support: Resources should be allocated on the basis of transparent targeting mechanisms ensuring that support deliberately reaches the poor and vulnerable, including consolidating adaptive social protection4.
- Be gender inclusive: Climate and disaster risk finance and insurance solutions need to be designed taking into consideration the specific vulnerabilities of women, and their access should be facilitated through targeting, support and delivery mechanisms.

- Enhance accessibility: Work to ensure accessibility for poor and vulnerable who may need predictable and long-term financial support, especially through considering adaptive social protection programs, also in the form of Public-Private Partnerships, as a delivery vehicle.

5. Ownership Ensure demand-driven approaches through environments that are conducive to stakeholder action, with a focus on the agency of end users.

- Support demand driven solutions: Build solution design and implementation processes on sound needs-based assessments and inspire the participation of all stakeholders.
- Link to existing structures: Embed solutions that respond to existing governance structures and market conditions, share responsibilities across stakeholders and promote collaboration.
- Build capacity and empower: Strengthen the capacities of stakeholders, and empower specifically the end users, to jointly design, decide and implement solutions.
- Be transparent and accountable: Ensure the transparency of solutions to build risk awareness and participatory risk management as well as transparent conduct in terms of funding and delivery of resources, and establish processes and mechanisms for meaningful engagement.

SMART Principles for Premium and Capital Support for CRI, InsuResilience 2021

Töpper, J., & Stadtmüller, D. (2021). *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability*. https://www.insuresilience.org/wp-content/uploads/2021/10/Policy_Note_SMART-Principles-on-Premium-and-Capital-Support-1.pdf

S: Sustainable Impact for The Most Vulnerable

To enable tangible, lasting change in the lives of those most vulnerable to disasters, premium and capital support should be used to fund risk transfer mechanisms coupled with effective, development-oriented delivery systems. Smart premium and capital support entails a clear dedication to reach the poor and vulnerable, including through supporting real impact in line with the InsuResilience Pro-Poor Principles.

M: Value for Money

To maximize poor and vulnerable countries' and people's resilience for each dollar of premium or capital support, premium and capital support initiatives should support needs-based CDRFI products that add value, and entail a clear assessment framework that makes improvements in resilience verifiable and comparable. Smart premium and capital support proactively and effectively crowds-in private capital rather than undermining private sector potentials, recognizing the key role that effective private insurance markets can play in resilience-building of developing economies.

A: Accessibility

To realize the resilience benefits CDRFI instruments promise, premium and capital support should make risk transfer instruments *accessible* at a price that is affordable to those who stand to benefit from them, including poor countries and individuals. Smart premium and capital support is needs-based, (climate) risk-adjusted, and aligned with appropriate measures for enabling access, while empowering beneficiaries and promoting client ownership of the solutions employed.

R: Resilience-building incentives

To build financial, physical and social resilience, only risks that are too costly to further reduce should be absorbed by risk financing instruments, and only risks stemming from low-frequency and high-severity events should be transferred via insurance. Reducing premiums through premium and capital support should not alter this but keep incentives to reduce risks in place. Smart premium and capital

support does not disguise the true risk cost, but allows price signals to guide risk behavior. To avoid maladaptation and moral hazard, premium and capital support should be performance-oriented, avoid rent-seeking behavior and undue private market rents.

T: Transparency and Consistency

To empower recipients and maximize synergies, premium and capital support should be provided and employed in a manner that promotes transparency and accountability towards recipients and at-risk communities as well as consistency and coordination among support offers and providers. Smart premium and capital support is used to finance money-out systems that transparently serve a development purpose. Reliability of support is needed for premium and capital support to unfold its impact, and public monitoring and evaluation (M&E) should be part of all premium and capital support initiatives.

Principles of Sendai Framework for Disaster Risk Reduction, UN 2015

UNDRR (Ed.). (2015). Sendai Framework at a Glance.
https://www.preventionweb.net/sendai-framework/sendai-framework-at-a-glance

- Primary responsibility of States to prevent and reduce disaster risk, including through cooperation
- Shared responsibility between central Government and national authorities, sectors and stakeholders as appropriate to national circumstances
- Protection of persons and their assets while promoting and protecting all human rights including the right to development
- Engagement from all of society
- Full engagement of all State institutions of an executive and legislative nature at national and local levels
- Empowerment of local authorities and communities through resources, incentives and decision-making responsibilities as appropriate
- Decision-making to be inclusive and risk-informed while using a multi-hazard approach
- Coherence of disaster risk reduction and sustainable development policies, plans, practices and mechanisms, across different sectors
- Accounting of local and specific characteristics of disaster risks when determining measures to reduce risk
- Addressing underlying risk factors cost-effectively through investment versus relying primarily on post disaster response and recovery
- Build Back Better» for preventing the creation of, and reducing existing, disaster risk
- The quality of global partnership and international cooperation to be effective, meaningful and strong
- Support from developed countries and partners to developing countries to be tailored according to needs and priorities as identified by them.

Principles of Sustainable Insurance, UNEP 2012

UNEP Finance Initiative (Ed.). (2012). *PSI Principles for Sustainable Insurance*. https://www.unepfi.org/psi/wp-content/uploads/2012/06/PSI-document.pdf

Principle 1: Embed in decision-making environmental, social and governance issues relevant to our insurance business. *Possible actions:*

Company strategy

- Establish a company strategy at the Board and executive management levels to identify, assess, manage and monitor ESG issues in business operations
- Dialogue with company owners on the relevance of ESG issues to company strategy
- Integrate ESG issues into recruitment, training and employee engagement programmes

Risk management and underwriting

- Establish processes to identify and assess ESG issues inherent in the portfolio and be aware of potential ESG-related consequences of the company's transactions
- Integrate ESG issues into risk management, underwriting and capital adequacy decision-making processes, including research, models, analytics, tools and metrics

Product and service development

- Develop products and services which reduce risk, have a positive impact on ESG issues and encourage better risk management
- Develop or support literacy programs on risk, insurance and ESG issues

Claims management

- Respond to clients quickly, fairly, sensitively and transparently at all times and make sure claims processes are clearly explained and understood
- Integrate ESG issues into repairs, replacements and other claims services

Sales and marketing

- Educate sales and marketing staff on ESG issues relevant to products and services and integrate key messages responsibly into strategies and campaigns
- Make sure product and service coverage, benefits and costs are relevant and clearly explained and understood

Investment management

- Integrate ESG issues into investment decision-making and ownership p practices (e.g. by implementing the Principles for Responsible Investment.

Principle 2: Work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions. *Possible actions:*

Clients and suppliers

- Dialogue with clients and suppliers on the benefits of managing ESG issues and the company's expectations and requirements on ESG issues
- Provide clients and suppliers with information and tools that may help them manage ESG issues
- Integrate ESG issues into tender and selection processes for suppliers
- Encourage clients and suppliers to disclose ESG issues and to use relevant disclosure or reporting frameworks

Insurers, reinsurers and intermediaries

- Promote the adoption of the Principles
- Support the inclusion of ESG issues in professional education and ethical standards in the insurance industry.

Principle 3: Work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues. *Possible actions:*

Governments, regulators and other policymakers

- Support prudential policy, regulatory and legal frameworks that enable risk reduction, innovation and better management of ESG issues
- Dialogue with governments and regulators to develop integrated risk management approaches and risk transfer solutions

Other key stakeholders

- Dialogue with intergovernmental and non-governmental organizations to support sustainable development by providing risk management and risk transfer expertise
- Dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies
- Dialogue with academia and the scientific community to foster research and educational programs on ESG issues in the context of the insurance business
- Dialogue with media to promote public awareness of ESG issues and good risk management

Principle 4: Demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles. *Possible actions:*

- Assess, measure and monitor the company's progress in managing ESG issues and proactively and regularly disclose this information publicly
- Participate in relevant disclosure or reporting frameworks
- Dialogue with clients, regulators, rating agencies and other stakeholders to gain mutual understanding on the value of disclosure through the Principles

Accountability in the Context of Disaster Risk Governance, UNDRR 2019

Amaratunga, D., Haigh, R., & Hettige, S. (Eds.). (2019). *Accountability in the context of disaster risk governance*. UNDRR. https://reliefweb.int/sites/reliefweb.int/files/resources/Accountability%20in%20the%20context%20of%20disaster%20risk%20governance.pdf

As an important pillar of good governance, there are several key elements that come together in the notion of accountability:

- Answerability - the need for justification of actions
- Enforcement - the sanctions that could be imposed if the actions or justification for the actions are found to be unsatisfactory
- Responsiveness - the ability of those held accountable to respond to the demands made

Power relations between the state, civil society and market actors determine the ability to demand and deliver accountability. Governments and their national civil defense, protection or emergency management systems should accompany the efforts to empower citizens to ensure accountability and responsiveness. These accountability mechanisms can include formal top-down, vertical processes, such as effective legislation and justice. They can also include horizontal and bottom-up, social accountability strategies, such as participatory budgeting, social audit, public expenditure tracking, social mobilization and citizen monitoring (Amaratunga et al., 2016; Kohli, 2012; World Bank, 2014).

Effective accountability approaches in DRR should be built around two key elements: (1) capacity among citizens and civil society organizations to monitor the commitment of government and service providers, and (2) an effective information and communication system which acts as a feedback mechanism between the government, service providers and citizens (United Nations, 2008). To make accountability structurally possible, the institutional designs should consist of clear lines of authority, accountability and rational delegation of roles. It must also involve the generation of better-quality information and performance benchmarking that is aligned with performance

SMART Principles for Premium and Capital Support for CRI, Munich Climate Insurance Initiative (MCII) 2021

Seifert, V., Panda, A., Kreft, S., & Ahmed, S. (2021). Premium and Capital Support for Climate and Disaster Risk Insurance: Core Principles and Operational Indicators.
https://climate-insurance.org/wp-content/uploads/2020/04/SMART-principles-for-premium-support-_26July-Pre-Publication_final.pdf

Principle 1: Sustainability

Understanding the time duration in the use of PCS is essential. While it is important that pilots and projects on CDRI be experimented on the ground with the help of PCS, it is also essential that these initiatives reach scale and become sustainable after a certain period. Every PCS intervention should have clear entry and exit criteria based on the needs and context of the recipient (e.g. individual or households, MSMEs, governments).

Principle 2: Market Building PCS

should incentivize new disaster insurance markets by supporting the use of ex-ante risk transfer instruments, by increasing the capacity of the recipient to subscribe to disaster insurance and by bringing new population segments, who were uninsured before and thereby increase financial resilience. At the national level for example, PCS can contribute to offsetting the share of government contingent liability by working with private insurance market players

Principle 3: Affordability, Availability and Accessibility

For one, the PCS instruments available for the specific range of risk transfer products existing in a particular market should reflect the country's disaster risk landscape and social and economic context. Further, to allow for increased insurance uptake, PCS should aim to expand the range of available products suitable for households, specifically from lower income segments, MSMEs and sovereigns, and be accessible and affordable for the targeted consumer. PCS is likely to be more effective than other interventions in reducing the cost of insurance. However, premium or capital support are not perfect substitutes for each other. For example, while technical assistance provided to sovereign risk pools can be necessary and effective to start a risk pool, it is not a substitute for premium support. Thus, although PCS interventions should be used to ensure that they help achieve the target of affordability of CDRI products, it is important to evaluate the needs on a case by-case basis.

Principle 4: Resilience Building

By providing financial protection at different scales through closing the insurance protection gap in low and lower middle-income countries, PCS can help build resilience to climate change equitably. In doing so, PCS should aim to contribute to comprehensive disaster risk management practices and thus be realized as part of a comprehensive financial protection strategy that mobilizes different instruments. In this context, any criteria driven approach aimed at building resilience should account for changing climatic risks and vulnerabilities in addition to other socio-economic indicators. It is important that PCS interventions have flexibility to adjust sufficiently to the changing current and future climate risks by integrating climate risks considerations into decision making. Further, in this context, PCS should also not undermine efficient outcomes within the insurance industry.

Principle 5: Transparency and Accountability

PCS should aim to share relevant, adequate, and comprehensive information on a timely basis which provides a clear view of the performance of the PCS outcomes and build evidence to learn in the medium and long term. Transparent and accountable PCS is expected to enhance the understanding and management of the risks to which the insurers and beneficiaries are exposed. This is necessary to help sound and effective decision-making that can lead to improved conditions for value recognition and uptake of CDRI.

The 7 Habits of Highly Effective Disaster Risk Finance, Centre for Disaster Protection 2020

Hill, R., & Scott, Z. (2020). 7 habits of highly effective DRF. Centre for Disaster Protection. https://www.disasterprotection.org/blogs/7-habits-of-highly-effective-drf

Habit #1: Effective DRF focuses on poverty

Disasters disproportionately affect the poorest people, so it makes sense that DRF should be focused on the risks that are of greatest importance to poor households, or those that are just one disaster away from being in poverty, and that the financial support reaches them in a way that best meets their needs. An example might be insurance payouts financing cash transfers through a social protection program that targets poor households, or specifically rebuilding the roads or services that poor people most rely on.

Habit #2: Effective DRF is timely

DRF should provide support when it is needed. This may be before a crisis, to reduce impacts. It is important to ensure that finance will be triggered at an appropriate time for the actions that it is supposed to fund. For example, there is no point in finance being triggered by severe crop failure, if the action being financed is the distribution of drought-resistant seeds that will take months to come to harvest. At the Centre we often see a mismatch between triggers and proposed actions, which can easily undermine the development impact of DRF.

Habit #3: Effective DRF improves constantly

DRF is a new area and initiatives should aim to constantly track their performance and find ways to improve. This can happen through technical scrutiny at key points as well as by embedding a monitoring and evaluation (M&E) system. M&E can provide an important accountability function and facilitate learning, but this is greatest when information on performance is publicly shared. Unfortunately, most DRF evaluations are still not widely available, limiting global learning in this area. With more data and information on what works in the public domain, we can make sure that it is not just individual DRF projects that are constantly improving, but that this is also true on a global level.

Habit #4: Effective DRF creates power for people facing risk

The best DRF puts power in the hands of at-risk people and communities, giving them a choice over how they manage their risks. This is just as true for sovereign risk financing instruments as it is for humanitarian interventions or individual insurance policies. Examples of empowering DRF include: prioritizing the use of country-owned safety nets or domestic financial markets that work well; meaningful participation in government DRF programs during design, implementation, monitoring and evaluation; and building the financial capacity of NGOs to respond to disasters. It also includes more choice over financial risk management products at the individual level, and consumer rights protection that protects the rights of buyers. How to engage at-risk communities in DRF initiatives is often overlooked

Habit #5: Effective DRF provides a trusted guarantee

If it is unclear whether people will receive support when there is a crisis, they alter their behavior in ways that have long-term economic and wellbeing impacts, for example, reducing food intake or selling assets. Even if the crisis doesn't occur, without confidence in support arriving when needed, households will lack the peace of mind needed to make the right investments, such as in their children's schooling or in agricultural investments at the start of the season. This quiet cost of uninsured risk that occurs every year, whether a disaster occurs or not, has a substantial impact on a household's ability to move out of poverty. Great DRF gives households confidence that they will be covered should a crisis develop. It provides certainty of support, even while people continue to face much uncertainty about the future. Confidence can be built through a strengthening of 'the social contract' (with the government communicating and proving over time that it will be there with safety net support when households need it, for example), or through the provision of understandable and credible financial contracts with clear payout terms.

Habit #6: Effective DRF offers good value

There are lots of different instruments and approaches that could be used for DRF and it makes sense to use financial products that provide the most cost-effective protection, considering costs for maintenance and development. Sometimes people get excited by using scientific or financial innovations when a much simpler, more cost-effective solution may exist. The cost of reducing risk may be less than the cost of managing risk— for example, flood insurance versus the additional costs of building embankments—if this is the case then financing should be directed to risk reduction.

Habit #7: Effective DRF aligns with the bigger picture

DRF shouldn't happen in a vacuum. It needs to work in relation to other risks, including long-term changing risks from climate change, and it should build on existing approaches in a country with an eye on building broader resilience. An example would be a DRF initiative that aligns with the government's DRF strategy and disaster risk management policy, utilizes systems that already exist in a country (maybe early warning or social protection systems) and builds in ways of reducing risk rather than just responding to it (perhaps by improving planning and preparedness). See our new guidance note, 'Aligning with the bigger picture: thinking strategically in disaster risk financing', for practical suggestions and resources for taking a strategic approach in DRF.

Climate Resilience and Pro-Poor Principles for Infrastructure Investment, Germanwatch and others 2020

Centre for Participatory Research and Development, Climate & Development Advice, Germanwatch, Greenovation Hub, Indian Network for Ethics and Climate Change, & Laya. (2020). *Climate Resilience and Pro-Poor Principles for Infrastructure Investments: Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement*. https://germanwatch.org/sites/default/files/framework_report_-_criteria_to_align_aiib_with_pa_climate_resilience_goal_2020-09-16.pdf

1. Do no harm — AIIB infrastructure investments should not undermine the climate resilience of people and ecosystems, especially not of the poor and climate-vulnerable people and be in line with all efforts to limit global warming to 1.5 °C.

2. Climate proofing — AIIB infrastructure investments should be protected effectively during their entire lifespan against value loss caused by adverse climate change impacts.

3. Enhance systemic climate resilience — AIIB infrastructure investments should be optimized such that they protect human systems and ecosystems against climate change impacts. These climate resilience criteria should be always applied with a particular focus on the rights and needs of poor and climate-vulnerable people, ensuring that AIIB infrastructure investments expressly contribute to the climate resilience of those who are most in need of it. We propose the following seven Pro-Poor Principles to guide this process:

4. Measurable value for the poor and vulnerable — AIIB infrastructure investments should provide measurable client-value for poor and vulnerable populations in terms of their resilience.

5. Transformation — AIIB infrastructure investments should facilitate the structural transformation to climate-resilient, sustainable development pathways, including poor and climate-vulnerable people.

6. Enabling policy frameworks — AIIB should engage with country clients to support or incentivize the development of enabling policy frameworks to promote climate resilience that takes due note of the rights and particular needs of poor and climate-vulnerable people.

7. Accessibility — AIIB infrastructure investments should ensure access to infrastructure benefits for poor and vulnerable populations.

8. Affordability — AIIB infrastructure investments should ensure affordability of infrastructure services for poor and vulnerable populations.

9. Participation — AIIB infrastructure investments should ensure due participation of poor and vulnerable populations in all phases of the project cycle.

10. Transparency — AIIB infrastructure investments should ensure transparency in all phases of the project cycle, including due consideration of affected poor and vulnerable populations through prior information.

Climate Resilient Principles for Investment, Climate Bonds Initiative 2019

Climate Bonds Initiative, World Resources Institute, & Climate Resilience Consulting (Eds.). (2019). *Climate Resilience Principles: A framework for assessing climate resilience investments. https://www.climatebonds.net/files/page/files/climate-resilience-principles-climate-bonds-initiative-20190917-.pdf*

Principles 1: Boundaries and interdependencies for assessing climate risks and resilience impacts are clearly defined

Issuers must define the boundaries of the climate resilient investment and associated assets and activities, as well as the internal and external interdependencies between the broader system affected by those assets and activities. These boundaries and interdependencies are important for scoping risk and benefits assessments, and ensuring the asset or activity being invested in is fit-for-purpose and does no harm to the system of which it is part, per the further principles defined below.

Principle 2: Physical climate risk assessment undertaken

Issuers must perform an assessment of the physical climate hazards to which the subject asset or activity will be exposed and vulnerable over its operating life. Issuers should use both top-down risk assessment methods using a broad range of climate models and observed data. RCP 4.5 and 8.5 emissions scenarios should guide these top-down assessments. Bottom-up risk assessment methods that look at inherent system vulnerabilities in local context should also be used.

Principle 3: Risk reduction measures undertaken

Issuers must demonstrate that the risks identified have been mitigated to a level such that the subject asset or activity is 'fit for purpose' in the face of coming climate change over its operational life, and does no significant harm to the resilience of the system of which it is a part. It is recognized that there will be uncertainty about future climate change impacts, which influences what it means to be 'fit for purpose'. Therefore, flexible solutions that are robust in a variety of scenarios are encouraged.

Principle 4: Climate resilience benefit assessment undertaken

Issuers are to assess the climate resilience benefits of system-focussed assets and activities and demonstrate that they are 'fit for purpose' in the sense that they significantly contribute to enhancing climate resilience at a systemic level, again with flexibility to consider the inherent uncertainty around future climate change impacts.

Principle 5: Mitigation trade-offs

Climate mitigation requirements may be lowered for climate resilience focused assets or activities whose resilience benefits considerably outweigh associated emissions or serve to avoid GHG emissions in the event of a disaster. In these instances, a trade-off analysis is required. Discussion is ongoing as to a rule set to determine under what circumstances such a trade-off might be permitted and the nature of the trade-off analysis in the circumstance. In every case, the asset or activity must not lock in fossil fuels or undermine any international or national commitments.

Principle 6: Ongoing monitoring and evaluation

Issuers are required to undertake ongoing monitoring of climate risks and benefits to determine whether the subject assets and activities continue to be fit for purpose and maintain any climate resilience benefits as climate risks evolve. In its reporting to the Climate Bonds Initiative, the issuer must annually verify this ongoing monitoring and evaluation of the climate resilience performance.

Integrating Gender Considerations into Different Models of Climate Risk Insurance (CRI), InsuResilience 2019

Miles, K. S., & Wiedmaier-Pfister, M. (2019). *Integrating Gender Considerations into Different Models of Climate Risk Insurance (CRI)*.
https://www.insuresilience.org/wp-content/uploads/2019/12/IntegratingGenderConsiderations.pdf

Main Entry Points for Gender-Responsive Approaches

Macro-level CRI: In macro-level CRI, a governmental entity is the policyholder.

- Application of gender policies and criteria in investment decision making and financing agreements for regional and national macro-level CRI schemes.
- Creation of institutional gender policy and practices for regional risk pools.
- Integration of gender-responsive disaster risk management (DRM) and sex-disaggregated data collection into Disaster Risk Reduction Plans to inform CRI payout priorities.
- Collection of sex-disaggregated data and documentation of the use and gender impacts of payouts in M&E of schemes.

Meso-level CRI: Meso-level CRI schemes are a form of indirect insurance that facilitates the business continuity of its institutional policyholders and form part of an integrated DRM approach.

- Application of donor gender policies and criteria in investment decision making and financing agreements of meso-level CRI schemes.
- Targeting institutional policyholders that aggregate female clients, members or employees.
- Financial capability training for staff, clients, employees, community-based financial organizations (CBFOs) and civil society organizations that are gender-responsive in their content delivery mechanism and promote gender diverse participation.
- Product design accounting for gender differences in access, usage and agency of bundled products.
- Monitoring and evaluating of sex-disaggregated data on indirect beneficiaries and the gender-differential impact of payouts on indirect beneficiaries by institutional policyholder types.

Micro-level CRI: People or micro, small and medium enterprises (MSMEs) are covered in micro-level CRI schemes, which are generally offered by the private sector or a commercial government insurance company.

- Application of gender policies in financing agreements and programming for micro-level CRI schemes through designing in gender-specific activities.
- Targeting women as clients including through a focus on sectors and value chains with high-levels of women's participation or as an extension to existing women's financial inclusion initiatives Partnerships with CRI distributors that aggregate large numbers of women.
- Promotion of gender diverse leadership and workforce among CRI providers and intermediaries to support governance, and distribution and servicing of women clients.
- Identification of gender diverse risks and CRI needs to inform and implement innovative gender-responsive product design.
- Collection and use of sex-disaggregated client data and M&E of the gender differential impact of CRI payouts on direct beneficiaries.

Guiding Principles and Appraisal Framework for GRiF Grant Support (GRIF), Global Risk Financing Facility (GRiF) 2019

Global Risk Financing Facility (Ed.). (20196). *Guiding Principles and Appraisal Framework for GRiF Grant Support*. https://www.globalriskfinancing.org/publication/guiding-principles-and-appraisal-framework-grif-grant-support

- IDA countries will be prioritized against IBRD countries, all other things being equal. Higher risk countries will be prioritized.
- Sustainability and exit strategy: The country is willing and able to allocate sufficient resources toward financial protection.
- Country ownership and readiness: The country has a disaster risk financing strategy or other explicit policy document in place demonstrating readiness and political support to work on DRF.
- Comprehensive financial protection: The project demonstrates how it is part of a comprehensive disaster risk financing and insurance strategy.
- Participatory process.: The project demonstrates how it will consult with civil society organizations and the private sector for its design and implementation.
- Improvements in preparedness and resilience: The project demonstrates how the GRiF grants will enable improved preparedness and resilience, either directly (in the project) or indirectly (through incentives).
- Capability, plans, and systems: The project demonstrates that pre-agreed plans and/or distribution systems are in place or being developed to channel the funding to the targeted beneficiaries.
- Accountability and clear decision-making processes: The project demonstrates clear accountability rules and decision-making processes either in place or under development as part of the project.
- Target Beneficiaries: The project describes the target beneficiaries and steps taken to support targeting of funds.
- High quality, open data and models: The project demonstrates how data and risk modeling will be subject to external review and made publicly available.
- Value for money and suitability of the product: The project demonstrates the added value of the proposed product in the country's disaster risk financing and insurance strategy (qualitatively and quantitatively).
- Communication of the product: The project demonstrates clear understanding of the product by the client or actions taken to ensure the client understands the product and it is fully transparent to the client
- Quality and reliability of the product: The project demonstrates how the quality and reliability of the product will be monitored.
- Competitive procurement process and non-preferential treatment: The project demonstrates how the placement of the financial product will follow a competitive and transparent process.

Equity Principles for Organizing Insurance, J. Linneroth Bayer et al. 2019

Linnerooth-Bayer, J., Surminski, S., Bouwer, L. M., Noy, I., & Mechler, R. (2019). Insurance as a Response to Loss and Damage? In R. Mechler, L. M. Bouwer, T. Schinko, S. Surminski, & J. Linnerooth-Bayer (Eds.), *Climate Risk Management, Policy and Governance, 2510-1390. Loss and Damage from Climate Change: Concepts, Methods and Policy Options / edited by Reinhard Mechler, Laurens M. Bouwer, Thomas Schinko, Swenja Surminski, JoAnne Linnerooth-Bayer* (pp. 483–512). Springer.

Three equity principles for organizing insurance

Mutuality

Mutuality is at the core of the insurance concept, according to which the insured participate in a disaster pool according to their risk class (and pay a risk-based premium). The pool then pays those insured in accordance with the scale of their losses. Mutuality is the primary principle underlying private, market-based insurance; clients enter the pool usually voluntarily, and pay according to the best estimate of the risk they bring with them. While insured agents receive payments from the pool depending on their losses, in the long run (and on average) they pay their own reimbursement, and more, since the premium is based on expected loss plus the additional insurance loads. According to this principle, there are no transfer payments within the pool or from outside the pool (Wilkie 1997).

Solidarity

Solidarity is a profoundly different concept in that losses are paid according to need, and contributions to the pool are not made fully in accordance with the risks that the applicants bring with them, but perhaps partly according to ability to pay, or just equally. Solidarity can result from cross subsidies among those in the pool. It can also take the form of payments by those not in the pool, for example, aid agencies can subsidize micro-insurance schemes. Importantly, solidarity is based on the concept of voluntary transfers for humanitarian or other grounds; there is no underlying notion of liability. The concept of solidarity thus corresponds to the concept of distributive justice discussed in Wallimann-Helmer et al. (2018).

Accountability

Accountability as a concept differentiates itself from the solidarity principle in one important aspect; here, it is motivated by a perceived ethical or legal obligation for compensating those experiencing climate-attributed losses and damages. Accountability links an actor's actions with outcomes, either causally or legally (Honoré 2010) where the allocation of responsibility is based on causation and (often but not always) fault or negligence. Being accountable not only means being responsible for climate attributed impacts and risks but also ultimately being answerable for them.

Core Principles and Framework for Disaster Risk Finance, World Bank 2018

World Bank Group (Ed.). (2018). *Disaster Risk Finance: Disaster Risk Finance: A Primer A Primer: Core Principles and Operational Framework*.
https://www.financialprotectionforum.org/publication/disaster-risk-finance-a-primercore-principles-and-operational-framework

Core Principle 1 Timeliness of funding: Speed matters but not all resources are needed at once.

Understanding the timing of needs is essential. In the aftermath of a major disaster, the government will not require the money needed for the entire reconstruction program all at once. While immediate liquidity is crucial to support relief and early recovery operations, the government has more time to mobilize the larger resources for the reconstruction program. This variation in the timing of needs has clear implications for the design of cost-effective financial management of disasters.

Core Principle 2: Disbursement of funds: How money reaches beneficiaries is as important as where it comes from.

Governments require dedicated mechanisms and expertise to effectively allocate, disburse, and monitor recovery and reconstruction funds. Strong collaboration between the ministry of finance and the public entity tasked with spending post-disaster funds—such as local governments or agencies that maintain public infrastructure—is crucial. In addition, the disbursement system must balance policy makers' concern for fast disbursement with the transparency and accountability required by the public and donors.

Core Principle 3 Disaster risk layering: No single financial instrument can address all risk.

International experience has shown that governments ideally combine different instruments to protect against events of different frequency and severity. This approach, known as risk layering, is part of a comprehensive financial protection strategy that mobilizes different instruments, either before or after a disaster strikes, to address the evolving need for funds. Risk layering ensures that cheaper sources of money are used first and that the most expensive instruments are used only in exceptional circumstances. For example, insurance can provide cover against extreme events, but is not appropriate to protect against low-intensity events that recur regularly. To retain this lowest layer of risk, the government could consider setting up a dedicated contingency fund.

Core Principle 4 Data and analytics: To make sound financial decisions, governments need the right information.

Financial analysis of risk data and quantitative evidence empowers governments to take risk-informed decisions regarding their financial protection against disasters. Sound decision making requires actuarial analysis and tools to help governments understand and evaluate alternative financial instruments and strategies; user-friendly interfaces to bridge the gap between policy makers and underlying technical models; and quantitative analysis to leverage financial markets and private sector solutions.

Pro-Poor Principles for Climate Risk Insurance, MCII 2016

Schäfer, L., & Waters, E. (2016). *Climate Risk Insurance for the poor and vulnerable: How to effectively implement the pro-poor focus of InsuResilience: An analysis of good practise, literature and expert interviews.* MCII. https://collections.unu.edu/eserv/UNU:5956/MCII_CRI_for_the_Poor_and_Vulnerable_meta.pdf

Comprehensive, Needs-based Solutions

Solutions to protect the poor and vulnerable from extreme weather events must be tailored to local needs and conditions. It is imperative to embed insurance in comprehensive risk management strategies that improve resilience. Implement risk, needs and context assessments to identify the real needs of vulnerable communities with regard to climate risk management and where insurance can fill gaps in existing strategies. Closely link insurance products with ex-ante climate risk management strategies that place priority on preventing and reducing losses and damages. Foster nationally and locally driven and owned schemes that are tailor-made to the national/ local context and linked to traditional risk management approaches.

Client Value

Providing reliable coverage that is valuable to the insured is crucial for the take-up of insurance products. Ensure that coverage is reliable and that critical risks are not under-insured. Bundle the insurance product, where appropriate, with additional services that are valuable to the client Actively reduce basis risk, which remains a key challenge when parametric insurance based on indices is applied

Affordability

Measures to increase the affordability for poor and vulnerable people are paramount to the success of an insurance scheme and also important to satisfy equity concerns. Establish solidarity and human-rights-oriented insurance schemes that respond to concerns of equity by applying measures to increase affordability of insurance for poor and vulnerable people. Strive to indirectly reduce premiums by investing in risk reduction measures and an enabling environment (see Principle 7). This will create long-term co-benefits for the building of a comprehensive disaster risk management framework. Provide smart premium support that is reliable, flexible and long term, which distorts incentives as little as possible and makes the client aware of the true risk costs.

Accessibility

Efficient and cost-effective delivery channels that are aligned with the local context are key for reaching scale. Build on natural aggregators, such as associations, cooperatives, mutuals, federated self-help groups, and savings and credit groups, which have established successful delivery mechanisms and align the insurance scheme with the local context. Invest in tech-leveraged secure client identification and targeting and payment systems to reduce fraud and improve the timeliness of payouts. Utilize

social protection programmes, where appropriate, to implement large-scale development of insurance for the poor and vulnerable.

Participation, Transparency & Accountability

- Successful insurance schemes are based on the inclusive, meaningful and accountable involvement of (potential) beneficiaries and other relevant local level stakeholders in the design, implementation and review of insurance products, creating trust and providing a basis for local ownership and political buy-in.
- Actively support and build partnerships, networks and communication channels that allow for inclusive and meaningful involvement of the poor and vulnerable. Organizations and structures that have deep roots within the local context are favorable partners.
- Ensure that the design and implementation processes are transparent and accountable.
- Establish an effective monitoring and evaluation framework that measures outputs, outcomes and impacts to ensure that the insurance schemes actually reach and benefit poor and vulnerable people.

Sustainability

Safeguarding economic, social and ecological sustainability is crucial for the long-term success of insurance schemes. Provide a long-term perspective on project planning and financing as setting up insurance schemes is a multi-year effort. Incentivize risk reduction and prevention through the design of the insurance scheme, including risk-based premiums. Ensure that insurance schemes do not incentivize practices that are not environmentally sustainable. Ensure the participation and inclusion of women in climate risk insurance policy and programming.

Enabling Environment

It is vital to actively build an enabling environment that accommodates and fosters pro-poor insurance solutions. Support capacity-building to improve financial and insurance literacy and risk awareness of the insured, local insurers, distribution channels and governments. Strengthen regulatory and legal frameworks that govern the market, support the effective functioning of the scheme and allow growth by actively working with national governments and regulatory agencies. Promote strong, long-term partnerships, in particular public–private partnerships, which foster a clear allocation of roles. Invest in freely accessible data and technology as well as hazard/weather monitoring infrastructure, which are essential for effective and efficient design and implementation as well as for ensuring the uptake, distribution and payout of insurance products.

Pro Poor Principles: Essential Elements to Make Climate Risk Insurance Work for the Poor, Results UK 2016

Results UK (Ed.). (2016). *Ensuring Climate Risk Insurance Works for the Poor*. https://www.results.org.uk/sites/default/files/files/Ensuring%20Climate%20Risk%20Insurance%20Works%20for%20the%20Poor.pdf

Accessible (1)

- Effectively target and reach poor and vulnerable people
    - Micro insurance should be included, as the poorest are unlikely to be reached through social aggregators.
    - Utilize trusted, accessible distribution channels e.g.: mutual and cooperatives, NGOs, input suppliers, rural banks, and mobile networks.
- Sustained public funding for targeted premium support
    - Finance for loss and damage including from innovative sources of finance.
- Embed a gender framework into climate risk insurance policy and programming
    - Scheme design must include women, who make up the majority of the extreme poor and are often locked out of accessing financial services.

High Impact (2)

- Ensure the insurance mechanism builds resilience and reduces poverty, immediately and over time
    - Track prevalence and depth of poverty, food security, nutrition and security of livelihoods.
    - Monitor benefits provided and basis risk; incurred and rejected claims ratios; renewals, promptness and complaints.
    - Institute a basis risk fund to protect policyholders.
- Integrate insurance with essential livelihood activities
    - Bundle with complementary products and services, such as: credit; savings; quality inputs, such as seeds and fertilizer; extension services, training and advice; weather information and alerts; out grower contracts under which companies buy produce from farmers.
    - Develop packages to suit local users' needs and do not assume that bundling with credit is always suitable.
- Incentivize risk reduction and preparedness
    - Align insurers' interests with mitigation and risk reduction, and the co-benefits of risk analysis and data systems such as early warning systems and contingency planning.
    - Build resilience and adaptation activities in.

Enabling (3)

- Strengthen policy and regulatory frameworks for insurance
    - Protect consumers who are unfamiliar with financial services, in this new, and rapidly developing area.
- Foster financial education
    - Outreach, education and financial skills are necessary to allow clients to judge what products will benefit them and to be aware of risks.
- Build capacity through the system
    - In areas such as: collection and auditing of weather data; systematic contingency planning; climate risk modeling and premium pricing, marketing and distribution and claims processing.
- Invest in open data systems
    - Build expertise and infrastructure in weather stations, climate models, yield data, livestock mortality data, and remote sensing data.
    - Make data freely available to support disaster risk reduction and management, and enable risk-informed decisions by communities and governments.

Transparent, accountable and participatory (4)

- Promote inclusive and meaningful participation of affected communities
    - Critical for the design of insurance schemes, contingency planning, and tracking and accountability.
- Require rigorous transparency and accountability in partnerships with the private sector
    - Clearly allocate and define roles for public and private actors involved.
    - Ensure additionality by requiring transparency and public participation on commercial terms of investments by, for instance, requiring (re)insurers to publish their loss ratios for products that receive premium support.
- Check that insurance is the most appropriate option
    - Undertake cost-effectiveness and risk layering analyses to ensure the most appropriate option is chosen and that insurance is not preferred over other approaches, such as enhanced social protection, where they are more appropriate.
    - Insurance is not appropriate for very frequent events, slow onset events and social/cultural loss.

Key Principles for Public Intervention in Catastrophic Risk Insurance Market, World Bank - GFDRR 2009

Cummins, J. D., & Mahul, O. (2009). Catastrophe risk financing in developing countries: Principles for public intervention. World Bank.
https://openknowledge.worldbank.org/bitstream/handle/10986/6289/465250PUB0Risk101OFFICIAL0USE0ONLY1.pdf?sequence=1&isAllowed=y https://doi.org/10.1596/978-0-8213-7736-9

Principle 1. Promote catastrophe risk financing in the dialogue on disaster risk management with the middle- and low-income countries

Given the clear fiscal and developmental implications of natural disasters for middle- and low-income countries, disaster risk management should become part of the wider dialogue with countries regarding macroeconomic stability and growth. The discussion should focus on all aspects of the five-pillar Disaster Risk Management (DRM) framework: risk assessment; emergency preparedness; risk mitigation; institutional capacity building; and catastrophe risk financing. The underlying principle is that both the loss of life and the economic impact of disasters can be reduced by advance planning and cost-effective investment. The DRM framework offers countries an operational template for gradually and systematically upgrading their capabilities for dealing with catastrophes.

Principle 2. Enhance competitive catastrophe risk markets financial vulnerability to catastrophe risk can be reduced by transferring risks to competitive insurance and reinsurance markets.

Donors and IFIs should promote competitive insurance and reinsurance markets through the development of an enabling environment that will crowd in the private sector. A strong and modern regulatory and supervisory framework is needed to make certain that insurers have the financial resources to pay claims as they become due, that contracts are enforced, and that insurers treat consumers in an equitable manner in their financial dealings. Regulation should be based on a set of rules that foster financial sector stability and public protection, while ensuring market competitiveness and efficiency. Finally, public awareness campaigns should be undertaken to overcome the widespread lack of insurance culture in middle- and low-income countries and product development should be supported to assist insurers in devising products that better address consumer needs.

Principle 3. Use risk-based price signals to encourage catastrophe risk management

One of the important roles of competitive financial markets is the provision of price signals. In competitive markets, insurance premiums should be risk-based and differentiated, thus reflecting the

underlying risk exposure. These draw attention to the catastrophe risk exposure of individuals, firms or governments, and allow them to evaluate the benefits of a disaster risk management program by comparing the cost of risk reduction investments with the resulting reduction in potential losses.

Principle 4. Limit public subsidy programs to those that minimize distortions of risk-based insurance premiums

Market-enhancing insurance subsidies can be justified to finance public goods related to risk market infrastructure. Programs should focus on providing seed funding for development of essential services, such as data collection, risk modeling, product development, capacity building, and delivery channels. Subsidies also can be justified for the financing of the catastrophe risk layers when private financial capacity is expensive or unavailable. In this case, governments, with the support of donors, could act as a reinsurer or lender of last resort, so long as the government can manage its catastrophe risk exposure. Subsidized risk capital, such as the capitalization of catastrophe (re)insurance pools, can be justified when it contributes to enhancing competitive insurance markets and creating new business opportunities for the private financial markets.

Principle 5. Develop customized catastrophe insurance solutions Risk financing solutions typically need to be tailored to specific local conditions.

The role of donors in the financing of natural disasters should be to promote the development of country-specific solutions based on local characteristics, including country risk exposure, the country's ability to diversify risks spatially and across time (for instance, debt level, tax base), the degree of development of the domestic insurance market, the access to international (re)insurance and capital markets, and so on. Cost-effective catastrophe risk financing, at both the micro (household, farmers) and macro (government) levels, cannot be addressed with one single financial product. At the micro level, products for households (such as property catastrophe insurance) and for farmers (such as crop insurance) should be customized. Likewise, sovereign insurance can help governments deal with the liquidity gap that may arise in the aftermath of a disaster.

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About MCII

The Munich Climate Insurance Initiative was initiated as a charitable organisation by representatives of insurers, research institutes and NGOs in April 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the UN Framework Convention on Climate Change and the Kyoto Protocol. This initiative is hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS). As a leading think tank on climate change and insurance, MCII is focused on developing solutions for the risks posed by climate change for the poorest and most vulnerable people in developing countries.

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