Disclosures and insurance in scaling adaptation finance

"Role of Finance Ministries in Catalyzing Private Finance for Adaptation", *Webinar for the Coalition of Finance Ministers for Climate Action*

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1. Catalysing private finance for adaptation

Climate mitigation projects have received more private finance than adaptation plans, as transition risk and the related investments are considered easier to price by investors than physical risk.

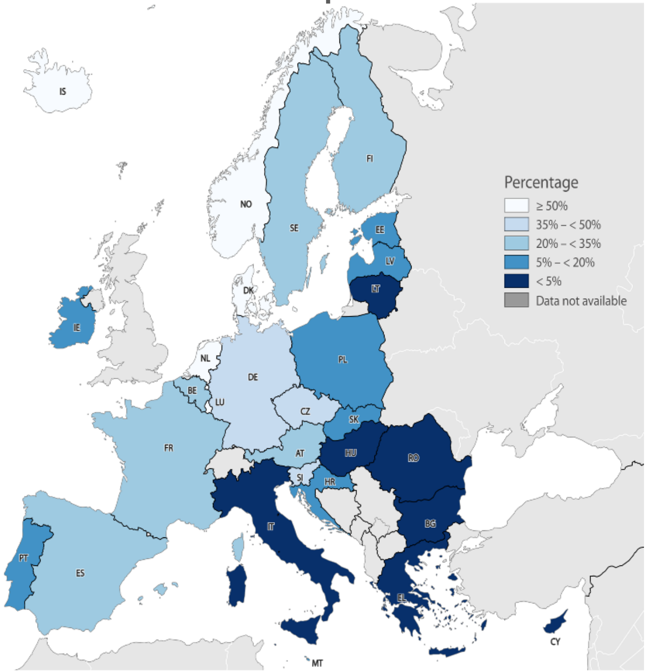
What is needed to catalyse private finance for adaptation?

- Data of physical risk and insurance coverage to limit information asymmetries and knowledge gaps
- Disclosure of adaptation strategies to reduce uncertainty and complexity
- Short- and medium-term targets to provide a clear investment horizon
- Innovative financial instruments (as with green and sustainable bonds) to broaden the investor base
- Blended finance (co-financing solutions) and PPPs to share and transfer part of the risks
- Risk management strategy (link to insurance)

2. Protection gap and climate change

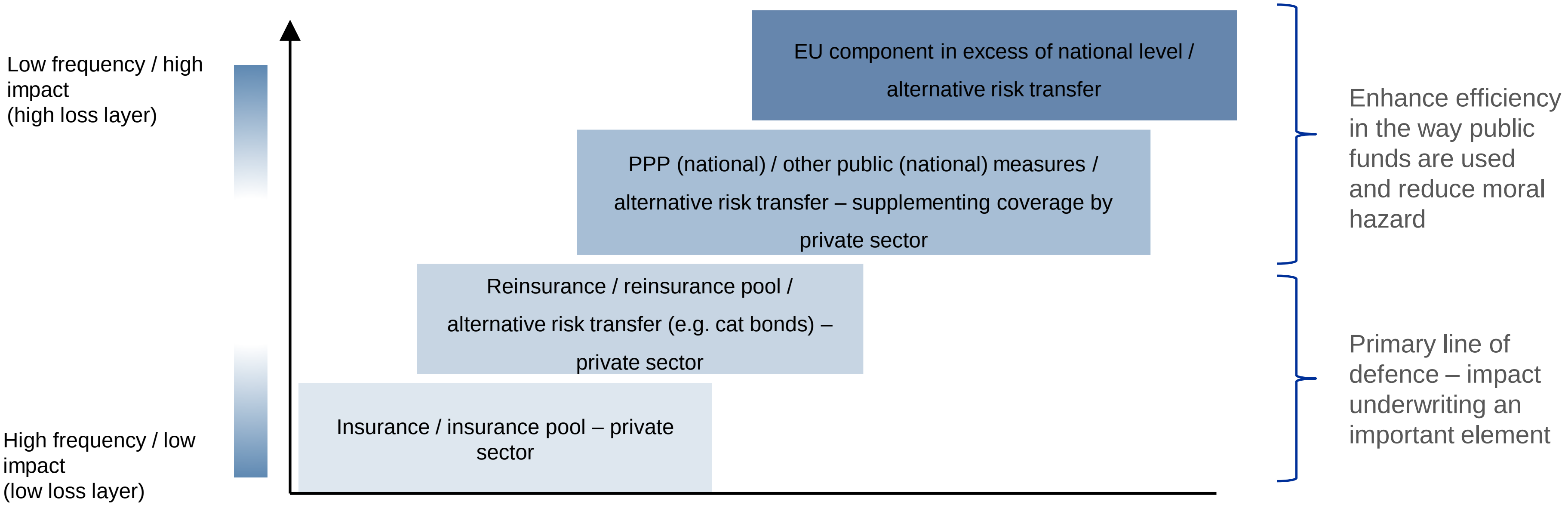
- Only 1/4 of climate-related catastrophe losses are insured in Europe.
- This insurance protection gap could widen as a result of climate change.
- More frequent and intense events may lead to higher insurance premiums.
- Higher losses due to climate change put pressure on the macroeconomy and financial stability.

Average share of insured economic losses caused by weather-related events in Europe



Source: EIOPA dashboard on insurance protection gap for natural catastrophes, European Environment Agency CATDAT

2. A ladder approach to natural catastrophe insurance



2. Public measures and public-private partnership (PPPs)

More comprehensive disaster risk management strategies in the public sector would make it easier to balance ex-ante and ex-post measures to manage fiscal costs from extreme weather events

- Precautionary measures: e.g. public spending on climate adaptation; building fiscal buffers
- Ex post: fiscal spending will remain an important part of catastrophe relief
- Objective: lower the share of catastrophe losses borne by the public sector, while incentivising and improving risk mitigation and adaptation

PPPs can improve ex-ante risk assessment, risk prevention and risk transfer to address limits of the private insurance market and provide a backstop to private (re-)insurance

Key principles PPPs

1. Skin in the game: sharing of costs and responsibility across public and private components
2. Central coordination across public and private parties
3. Efficient and effective prevention and adaptation measures
4. Partial insurance: only a portion of economic costs is insured

2. Multi-national public component

Under which conditions could a European public component be a desirable complement?

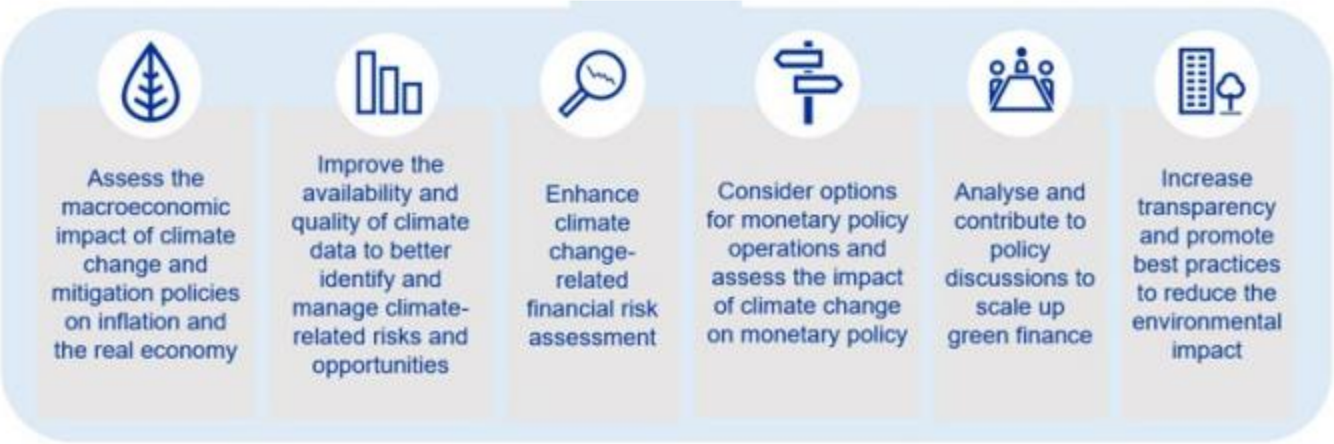
- For less frequent, large-scale, macroeconomically significant disasters that can strain national financing
- Risk pooling benefits at EU level, due to risk diversification and mild correlation of covered hazards across countries
- Complements other EU instruments for disaster relief: e.g. through greater financing power, insuring new risks, providing different support or on different terms

Key principles for a European public insurance scheme for climate-related natural disaster risk

- EU-wide membership
- Complement existing EU policies
- Cover all large-scale climate disasters
- Appropriate financing power
- Partly risk-based contributions
- Partly grant-based payout
- Incentivise adaptation & national insurance
- Effective governance

3. The role of Central Banks

ECB Climate agenda – priorities



The role of physical risk and adaptation finance

- Supervisory guidance on disclosure and management of climate-related and environmental risks
- Economy-wide stress test
- Incorporation climate-change considerations in the ECB policy framework