Sovereign insurance to adapt to climate change in Africa

Increasing climate risk → It will not be enough to rely on response to extremes – requires proactive adaptation and risk reduction.

2005-2014:
- $1.4 trillion: Total damage
- 1.7 billion: Total people affected
- 0.7 million: Total people killed

- 68 droughts in last 10 years
- 86 cyclones in last 10 years
- 435 floods in last 10 years

AFRICAN RISK CAPACITY (ARC)
Drought Insurance
EARLY RESPONSE TO DROUGHT

- Trigger for payout identified based on country’s vulnerability score, drought model, and early warning indicators.
- Countries submit draft contingency plans, ARC validates them.
- Insurance contract defined and premium paid.
- Africa drought model triggers a payout.
- Rapid release of payout quicker than traditional emergency responses. Payout within 14 days of final plan being approved (no trigger penalty is levied).

ARC payouts to Mauritania after drought in 2015

- $6.3 million: Government used payout for food distribution to families in food insecure areas.
- 250,000 people: Total planned beneficiaries.
- 50,000 households: Provided with distribution cards.
- 11,000 MT of rice distributed.

MARKET

UPCOMING:
- 32 countries now signed up
- 7 countries covered in the Pool 2
- $43 million: Total premium for the 2 pools
- $310 million: Estimated in coverage for policies issued
- $26 billion: Payouts for 2014-2015

Source: EM-DAT: The International Disaster Database
NEW ARC INSURANCE PRODUCT: EXTREME CLIMATE FACILITY (XCF) SUPPORTING ADAPTATION AND RISK REDUCTION

EMERGENCY RESPONSE TO EVENTS IS NOT ENOUGH IN THE CONTEXT OF A CHANGING CLIMATE.

ADAPT AND PROTECT CRITICAL DEVELOPMENT GAINS, INVESTMENTS AND LIVELIHOODS.

Introduce Early Warning Systems to enable community-based adaptation.

Communicate weather forecasts and climate information so people can plan for changing conditions.

Rehabilitate degraded ecosystems to maximise availability of environmental services.

“Climate-proof” design of infrastructure (buildings, roads, irrigation schemes).

Encourage climate-smart agriculture.

EXTREME CLIMATE FACILITY (XCF) SUPPORTING ADAPTATION AND RISK REDUCTION

Countries receive XCF if they are enrolled in ARC Insurance.

Trigger for payout identified based on Extreme Climate Index.

Countries submit initial investment plans based on national adaptation priorities (as outlined in NAPs, NAPA, climate change policies/strategies).

Increase in intensity / frequency of extreme events tracked by the Extreme Climate Index.

Countries submit initial investment plans (XCF pays out is inevitable, ARC validates them against criteria of good practice in adaptation practice, and funding and project management standards).

Funds from donor/insurance markets flow down to government.

Funds used to implement priority adaptation priorities that reduce future risk. XCF event responsive.

ARC insurance premium reasonable in the long run

Technical assistance provided upon request.

XCF BENEFITS

Helps member countries manage their climate risk through support to adaptation.

Brings in new private sector finance sources – contributing to reduction in the adaptation finance gap.

Protects ARC’s value proposition and insuring the sustainability of current risk management systems.

CURRENT

2030

2050

$56-73 billion

$146-300 billion

$286-500 billion

$22.5 bn

$22.5 bn

$22.5 bn

XCF contributes to the adaptation finance gap by leveraging additional private sector funds.

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