FINANCIAL PROTECTION AGAINST CLIMATE RELATED RISK: A ROLE FOR NATURE BASED SOLUTIONS

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Insurance as part of adaptation planning

- Survey of adaptation policies in 34 OECD member countries
  - Flood insurance most frequently cited economic instrument to deal with extreme events
  - Greater uncertainty about future climate poses challenge for pricing risk

- Significant differentiation of insurance provision between countries
  - Highly regulated sector
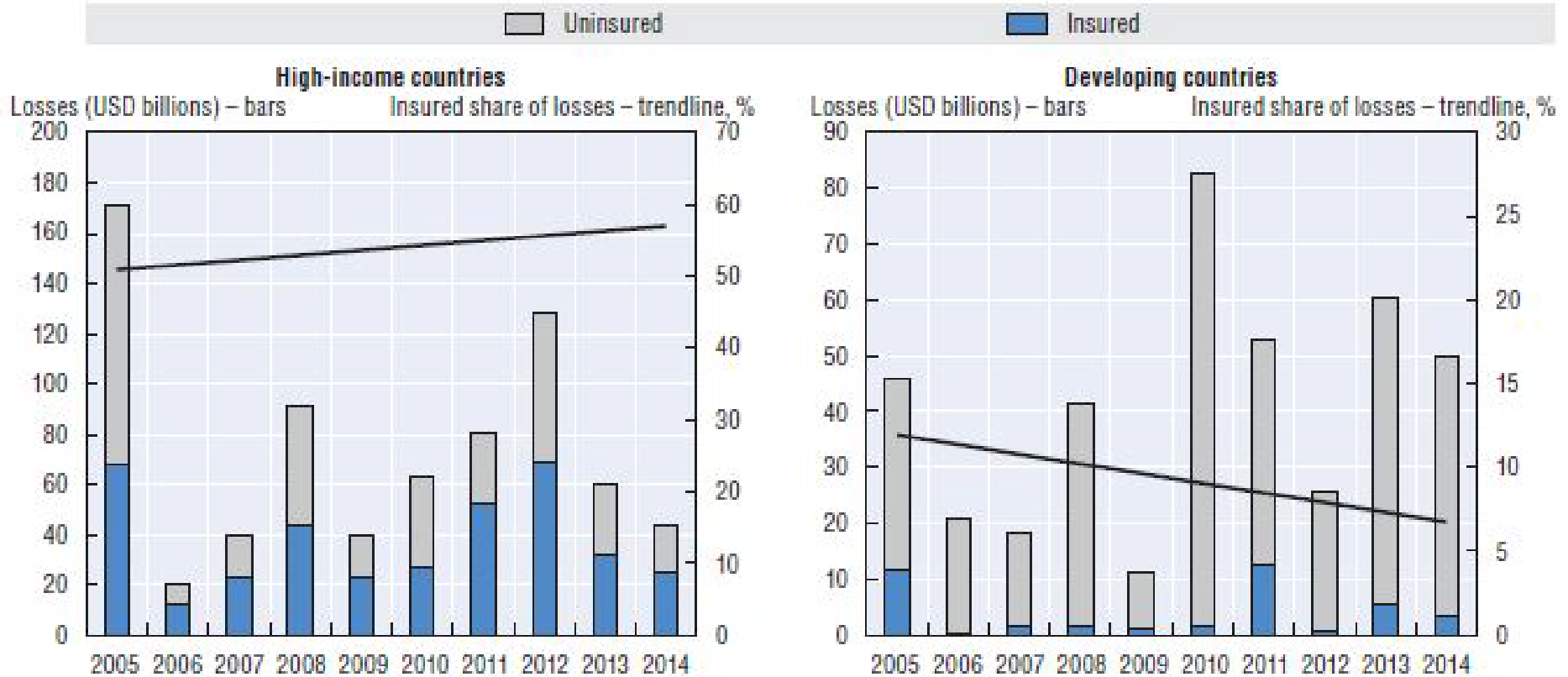 - Significant role for central or local governments

Financial protection instruments

- **Managing contingent liabilities**
  - Compensation payments, loss of tax revenues and repairing damage to public assets
  - Limited understanding of distributional impacts
  - Uncertainty about ex-post compensation

Insured and uninsured losses
## (USD billions)

Note: Losses related to disasters that affected both high-income and developing countries were allocated to the income group where most of the losses occurred.

Source: OECD (2016) *Financial instruments for managing disaster risks related to climate change.*

Potential for nature-based solutions

- Water infrastructure is typically capital-intensive, long-lived with high sunk costs.
  - Requires high initial investment, very long payback period

- Nature-based solutions can provide scalable, modular investments that can be adjusted as conditions change.
  - Avoid investment in potential « white elephants », which fail to deliver expected benefits
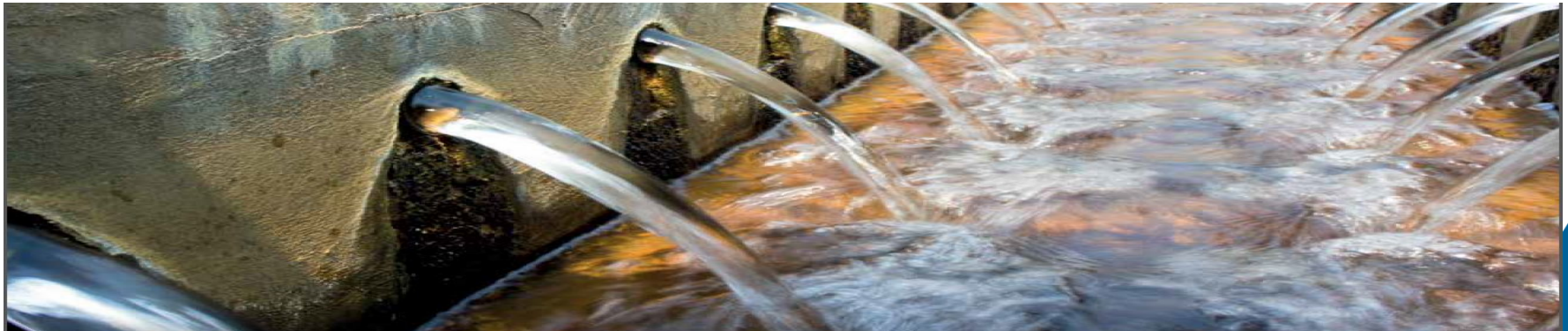
Challenges in tapping value of nature-based solutions

- Deliver a **mix of public and private benefits** to diverse range of beneficiaries

- Many benefits not easily monetised; **undermining potential revenue flows** (and risk-return balance for investors)

- How to convert benefits into revenue streams that can contribute to financing?

Thank you

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