Climate Risk Management and Insurance in the Tourism Sector

Munich Climate Insurance Initiative
Climate Risk Insurance...

...is a tool to spread risk over people and time.

...is most suitable for high-impact, low frequency events.
When?

Risk Layering

Layer 1
High frequency, low Severity;
Risk prevention & reduction

Layer 2
Low frequency, medium severity;
Risk prevention & reduction + Risk transfer to insurance/reinsurance markets

Layer 3
Very low frequency, high severity;
Risk prevention & reduction + retention+
Other forms of risk transfer (such as combination of national/regional insurance pools, public financing, etc.)

MCII and GIZ, own design, elaborated from World Bank (2011)
Different approaches:

- **Indemnity-based** insurance: linked to the actual losses incurred by the insured
- **Index-based** insurance: payout if a physical loss parameter (e.g. wind speed) is reached
Insurance solutions should be embedded into a comprehensive risk management.

Source: MCII/GIZ 2016
Potential Benefits of Insurance

After the event:

• Insurance increases financial liquidity
• Insurance helps to keep business interruptions as small as possible
• Insurance payouts can boost the economy
Potential Benefits of Insurance

Before the event:

• Insurers can help to identify risks
• Insurance increases risk awareness
• Insurance facilitates financial planning
• Insurance can promote risk reduction behaviour
Insurance solutions have **limitations** such as affordability, cost-efficiency and coverage.

The tourism sector is highly connected with other sectors, therefore **stakeholder engagement** is important.
Thank You!

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