

The impact of climate change on the BRICS economies:

- The political, legal and regulatory framework for insurance in emerging markets
- Risk governance and the role of public and private actors

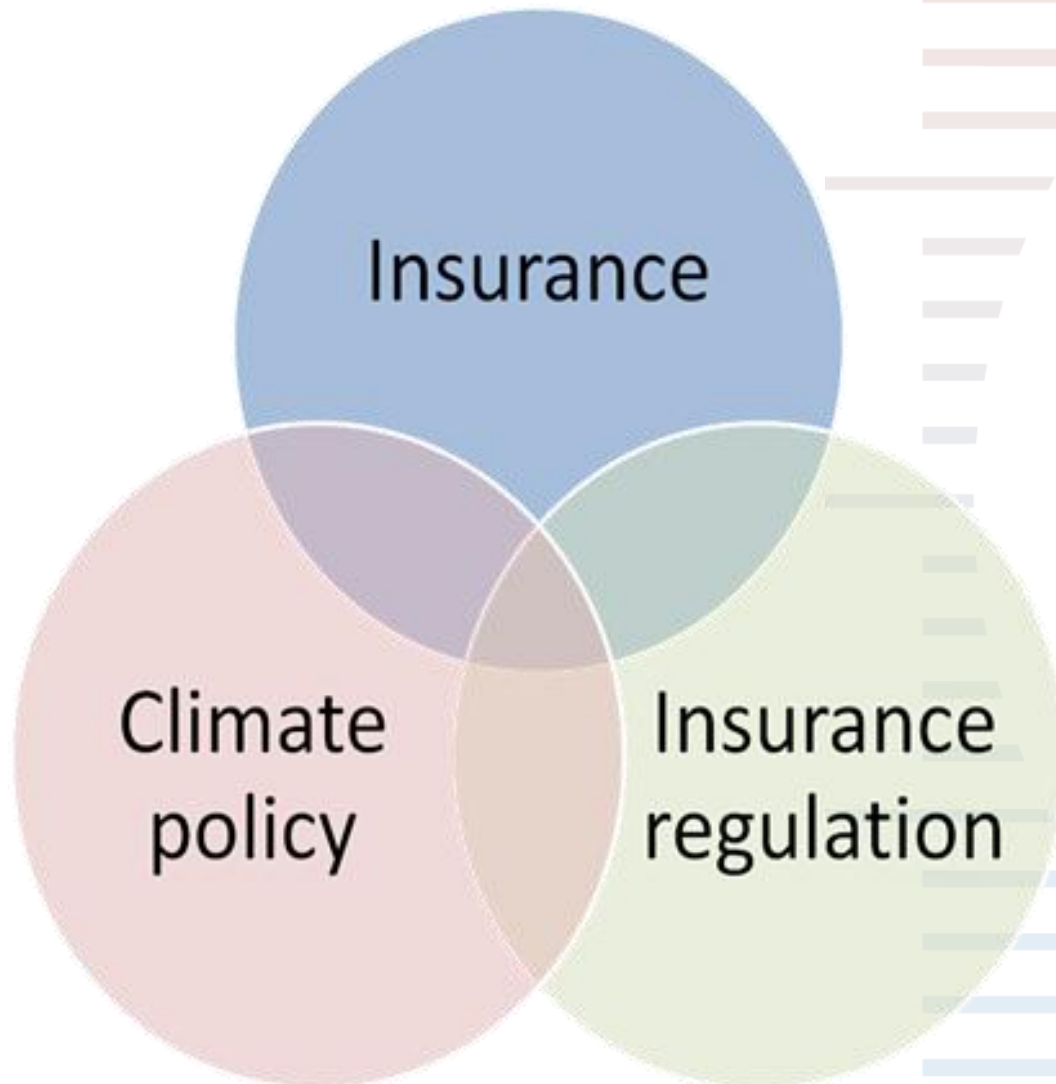
Dr Swenja Surminski, London School of Economics

Autumn Symposium, 21st November 2012, London

Five pathways of climate change influence on insurance demand

- Economic growth
- Public policy and regulatory environment
- Risk levels and willingness to pay
- Supply factors
- New products

'The Interplay'



Topics

1 Comparing political, regulatory and legal drivers of insurance development across countries

2 Monitoring climate policy in emerging markets and the application to business planning

3 Political and regulatory drives for insurance and climate change – the example of risk governance in China

4 Risk governance, climate change and the role of public and private actors - the example of agriculture insurance in India



1 Comparing political, regulatory and legal drivers of insurance development

	Component Measure	Reference
1	National political and institutional stability and quality	Brainard (2008); Hussels et al.(2005); USAID (2006)
2	Observance of insurance regulatory principles	Brainard (2008); Swiss Re (2004); USAID (2006)
3	Level of financial market development	Brainard (2008); Feyen et al. (2011); Browne et al. (2000); Ward and Zurbruegg (2002); Esho et al. (2004); USAID (2006)
4	Conduciveness of the regulatory environment for business	Brainard (2008); Swiss Re (2004); USAID (2006)
5	Protection of property rights, judicial efficiency and transparency	Brainard (2008); Hussels et al.(2005); Feyen et al. (2011); Beck and Webb (2003); Browne et al. (2000); Ward and Zurbruegg (2002); Esho et al. (2004); USAID (2006)



Topics

1 Comparing political, regulatory and legal drivers of insurance development across countries

2 Monitoring climate policy in emerging markets and the application to business planning

3 Political and regulatory drives for insurance and climate change – the example of risk governance in China

4 Risk governance, climate change and the role of public and private actors - the example of agriculture insurance in India



2 Monitoring climate policy in emerging markets and the application to business planning I

- ❑ The European Bank for Reconstruction and Development's (EBRD) Climate Laws, Institutions and Measures Index, or CLIMI (2011)
- ❑ Germanwatch's Climate Change Performance Index (using the climate policy component of the overall index), (2012, uses 2011 data)
- ❑ The EBRD's Index of Sustainable Energy (again taking the climate policy component of the overall index), (2010)
- ❑ Künkel, Jacob and Busch's Climate Policy Index (2006).

2 Monitoring climate policy in emerging markets and the application to business planning II

Correlation coefficients between policy indexes

	EBRD - CLIMI (2011)	EBRD - ISE (Climate Policy) (2010)	Germanwatch - Climate Change Performance Index (Policy scores) (2012)	Künkel et al - Climate Policy Index (2006)
EBRD - CLIMI (2011)	1.00	0.85	0.19	0.64
EBRD - ISE (Climate Policy) (2010)	0.85	1.00	0.32	0.69
Germanwatch - Climate Change Performance Index (Policy scores) (2012)	0.19	0.32	1.00	0.37
Künkel et al - Climate Policy Index (2006)	0.64	0.69	0.37	1.00



2 Monitoring climate policy in emerging markets and the application to business planning III

- ❑ There is evidence of business use of climate policy indices.
- ❑ The indices display varied information content.
- ❑ There appears to be a trend towards 'build-your-own indices' within the business community.
- ❑ The evolution of policy indices suggest a move away from output measures towards input metrics.



Topics

1 Comparing political, regulatory and legal drivers of insurance development across countries

2 Monitoring climate policy in emerging markets and the application to business planning

3 Political and regulatory drives for insurance and climate change – the example of risk governance in China

4 Risk governance, climate change and the role of public and private actors - the example of agriculture insurance in India



3 The example of risk governance in China

Nat Cat insurance Agriculture	Nat Cat insurance Property
<ul style="list-style-type: none">• Available since 1982	<ul style="list-style-type: none">• Very limited availability
<ul style="list-style-type: none">• High political support, incl. premium subsidies, technical support, 'last resort' backing, financial aid for new provincial insurers, no premium tax	<ul style="list-style-type: none">• Mixed political support – proposals are discussed, but no implementation
<ul style="list-style-type: none">• Initially operated by public insurer, now growing private involvement.	<ul style="list-style-type: none">• Range of proposals for public/private mix
<ul style="list-style-type: none">• Regulated by Agricultural Law, not under Insurance Law	<ul style="list-style-type: none">• Proposed under Insurance Law;
<ul style="list-style-type: none">• Endorsed as tool for climate change adaptation by government	<ul style="list-style-type: none">• Key driver is earthquake risk, climate change seen as aggregator



3 The example of risk governance in China II

- ❑ Clear difference in utilization of insurance to manage agricultural and property risks.
- ❑ Public policy and insurance regulation are the key governance drivers for nat cat insurance in China.
- ❑ Climate change is already impacting insurance in the form of policy commitments by the Government in their national adaptation strategy.
- ❑ A trend towards greater private sector engagement exists, but the challenges of affordability and availability will require public role.
- ❑ What about the effectiveness of insurance and the link to overall risk management?



Topics

1 Comparing political, regulatory and legal drivers of insurance development across countries

2 Monitoring climate policy in emerging markets and the application to business planning

3 Political and regulatory drives for insurance and climate change – the example of risk governance in China

4 Risk governance, climate change and the role of public and private actors - the example of agriculture insurance in India



4 Risk governance, climate change and the role of public and private actors - India I

Research question:

How have the roles of the public and private sector changed over time in risk governance and what can be learned from this for climate change adaptation?

Our approach:

We are using insights from natural hazard governance and insurance, and adopting analytical frameworks from the broader governance literature.



4 Risk governance, climate change and the role of public and private actors - India II

Increasing autonomy of private actors			Increasing autonomy of public actors		
Private self-governance	Private self-governance in the shadow of hierarchy (or opportunity)	Delegation to private actors.	Co-governance of public and private actors	Consultation and co-option of private actors	Public governance
No public involvement.	Private actors fearing punitive legislation act to self-regulate. Could also apply in case of anticipating new business opportunities.	Delegation of specific functions such as outsourcing of public services. Involves varying levels of autonomy.	Joint decision-making over an issue.	Using expertise of private sector.	No private involvement.
Pepsico NGO-schemes	BASIX/WB/ICICI Lombard pilot	mNAIS WBCIS (private actors underwrite risk, but operate within rules of the scheme set by government)			Experimental schemes CCIS NAIS

4 Risk governance, climate change and the role of public and private actors - India III

2007 – Pepsico Frito Lay offer weather risk advice and index insurance as part of their contract farming (potatoes suppliers) in India



4 Risk governance, climate change and the role of public and private actors - India IV

Findings

- There is an opening of risk governance and adaptation to private actors but this is occurring within a particular model of engagement between public and private actors that has restricted the role private players can play.
- In the context of climate change, **how** the public-private relationships are constructed is key to how adaptation can be leveraged from such an arrangement.



Thank you for your attention.

For further information:

s.surminski@lse.ac.uk

