



Association Internationale de Droit des Assurances
International Insurance Law Association
Associazione Internazionale di Diritto delle Assicurazioni
Internationale Vereinigung Versicherungsrecht
Asociacion Internacional de Derecho de Seguros

**13th AIDA CLIMATE CHANGE WORKING PARTY MEETING
09:00HRS TO 11:00HRS - TUESDAY 4 OCTOBER 2016**

**AT THE CULTURAL CENTER OF THE PONTIFIC CATHOLIC
UNIVERSITY OF PERU AVENUE CAMINO REAL 507
DISTRICT OF SAN ISIDRO, LIMA 27, PERU**

Principal Theme:

Cambio Climático - Riesgos agrícolas y el Rol de los seguros paramétricos
(Climate Change – Agricultural Risks and the role of Parametric Insurance)

MINUTES OF MEETING

1. Introduction and welcome by Gloria Faria (Brazil) on behalf of AIDA CCWP/CILA.

- 1.1. Gloria Faria welcomed all gathered for the meeting from AIDA Peru (who were also thanked for staging the event), from different CILA National sections and one or two from further afield.
- 1.2. The principal theme of the meeting was Agricultural Risks and the role of parametric insurance, but there would be opportunity to discuss a few other things and to exchange news and views during the two hours allotted.

2. First presentation: Climate Questions in Brazil (including perceptions of Climate Change and the role of insurance to reduce physical loss and exposure including the aggravation of catastrophe losses and provision for agricultural losses) – Gloria Faria of CNSeg (Brazil)

2.1 There were three areas to be covered by this first presentation: i) First, to review the results of a survey conducted about perceptions of Climate Change in Brazil on the part of the common citizen; ii) to consider some facts about the aggravation of risk and catastrophes; and iii) the role of insurance in minimising the effects of Climate Change.

2.2 For the survey the sample was small (only 52 people) from both sexes spread across age ranges, the large majority university-educated. The presentational slides record the results of the survey upon each of the specific questions asked. Some striking features were how little some of the youngest group concerned

themselves about Climate Change or likely adverse impact in their lifetime. Among older citizens there were more concerns about impact upon health, availability of water/energy supplies etc.

2.3 In terms of impact to be suffered by Brazil in contrast to other parts of the world there was confidence (or optimism) among some that Brazil would be less severely/quickly impacted than many other countries owing to its wealth of diverse natural resources.

2.4 It was interesting to compare these perceptions with some established facts about the impact of Climate Change in Brazil. 2015 saw the registration of some of the warmest temperatures in Rio since these were first regularly recorded in 1915. Water scarcity was of fundamental concern to many of those in authority in the region. The SE region of Brazil had faced a water scarcity crisis over the last three years. It has been predicted that the water crisis may be comparable with the financial crises of the past in terms of the devastation which might be caused to the well-being of Brazilians and the country's economy.

2.5 Between 1991 and 2010 over 12% of the country's natural disasters had occurred in just one state of Brazil: Santa Catarina. The Southern State was most susceptible to floods and the aftermath among other natural disasters. In the north-east of the country desertification was the issue brought on by the loss of over 49bn litres of water in 2015.

2.6 Finally, as for side-effects of Climate Change on insurance, the effects on agricultural, health, motor and property insurance were all worthy of note. Heavy rains and high winds had led to major floods in Brazil causing widespread physical and financial losses which were damaging to the Brazilian economy. The search was on for effective Government and insurance market solutions.

2.7 Swiss Re Corporate Solutions was among the first to offer a kind of parametric-based product aimed at those economic sectors directly affected by adverse climatic occurrences including renewable energy companies especially important to the agro-industrial sector.

2.8 Parametric insurance is specifically designed to minimise losses and resulting adverse financial consequences by reference to a natural disaster index. Among its features are: option to vary product according to its purpose; not dependent upon an identified "event"; like a financial arrangement, but simpler; and amount/periods of cover negotiable with client.

2.9 With health insurance the challenge is how to cope with the emergence of new illnesses and increased contamination and how to prevent and economically manage the consequences of ill-effects. A rise in breathing, skin and heart diseases and conditions are all feared.

2.10 Of particular note in the context of motor insurance in 2016 - by the Proyecto De Ley Nº 4549 - the National Congress decreed (by Art 1) that it was prohibited for motor insurers to exclude cover for losses resulting from the impact and effects of natural and climatic phenomena, taking effect 90 days after the announcement.

3. Second presentation: Current Climate Change challenges in South America (particularly the role of parametric insurance products for agricultural risks from a Peruvian perspective - **Miryam Aragon Espejo (Peru))**

Prior to the meeting a 51-page Report was prepared for the benefit of the meeting by the MERCOSUR Group, co-ordinated by Maria Kavanagh, Argentina, entitled, "Parametric Insurance Applied to the Agricultural Sector in the Mercosur Region", a copy of which is being posted on the website in both English and Spanish versions (and upon which Miryam Aragon Espejo drew for her presentation, concentrating upon the position from a Peruvian perspective).

3.1 Climate risk management is a major concern for Peru, reflecting the importance of its agricultural economy and the diverse risks posed to it: marketing, technological capital, widely varying climatic challenges depending on region, El Nino and La Nina. Public and private initiatives over the past 20 years

have aimed – unsuccessfully – to create an agricultural insurance market. Regulatory and institutional framework changes have been designed (especially between 2010 -3) to allow the Government better to support the private market initiatives in a more comprehensive way than proved possible by earlier private or Government-driven initiatives alone. It is recognised that for success many bodies and agencies beyond central Government and private insurers need to be actively aligned and supportive. These include: the Superintendency of Banking & Insurance and the national agencies responsible for disaster prevention and relief.

3.2 Parametric insurance provides much-needed coverage against a range of catastrophic loss of regional impact: drought, excessive moisture, frost, low temperatures, flood, hail, fire, high winds and/or temperatures, loss of harvest owing to infestation or disease or predator attack. Of particular benefit to the potato and corn crop of the 8 poorest regions of Peru where traditional insurance products in the past have proved unaffordable.

3.3 Target beneficiaries are micro and small subsistence farmers/rural communities for whom a sum insured limit is not designed to cover production costs, but a sum is paid when production of an area proves to be less than 40% of the historical average for the previous 5 years.

3.4 Parametric insurance offers the opportunity to mitigate and develop adaptation strategies to counter the combined effect of El Nino, Climate Change and other phenomena causing loss of crops, destruction of roads, among other incidents before any traditionally insured event occurs or is complete. A macro level it can involve public/private sectors, regional/local governments, financial institutions and producer associations amongst others. The take-up of such instruments or products by many remains limited and slow. There are technical deficiencies at various levels preventing more customised products yet being produced or made available. This will require longer-term training and investment. The topic remains lower on the public agenda than desirable. In consequence, the public sector is not prioritising risk transfer mechanisms. There remains limited knowledge or awareness of risk or insurance (or penetration of insurance sold nationally).

4. Closing remarks and thanks – Tim Hardy, AIDA CCWP Chair reported on events of (and activities affecting) the CCWP in 2016 and 2017 and expressed thanks to Gloria Faria and all at AIDA Peru for the presentations and staging of the meeting.

4.1 Among the events and activities of note he reported on the presentations delivered by Chris Rodd and himself at the New Zealand Insurance Law Association Annual Conference in Queenstown in September, which had attracted over 300 delegates. Details of this would be circulated to CCWP members and posted on the CCWP page of the AIDA website, as would all materials from the Lima meeting.

4.2 On the previous day in Lima the Presidential Council had ratified the changing of the name of the CCWP to the “AIDA Climate & Catastrophic Events Working Party” (the “CCEWP”). This was not to deflect our attention away from the importance of Climate Change but to reinforce the relevance and importance to AIDA that serious study equally be conducted of the management of climatic and catastrophic events of all kinds whether directly attributable to Climate Change or not, as the CCWP had from the outset already chosen to do on many occasions.

4.3 The dates for the two 2017 meetings of the CCEWP were already fixed and were to be noted:

- **3 May 2017** in Santa Cruz, Bolivia during the XV CILA Congress (2-5 May 2017)
- **18 October 2017** in Singapore during the Asia Pacific Insurance Conference (17-20 October 2017)

More information would be posted on the AIDA website pages shortly. Meantime information could be found on the CILA website and on the Asia Pacific Insurance Conference Website - <http://apacinsuranceconference.com>.

Meeting ended at 11:00am.