



Towards early action

Linking early warning systems with risk finance and insurance

BACKGROUND

Early warning systems can inform (sub)national governments about imminent climate shocks and trigger anticipatory action, as part of broader preparedness strategies. Building on reliable, differentiated weather data and trend forecasts, multi-hazard early warning systems constitute an important element of climate adaptation strategies. Risk finance and insurance mechanisms provide governments and humanitarian actors with pre-arranged, readily available sources of funding to support disaster response and humanitarian aid and to protect public finances from climate risks. Integrating early warning systems with risk financing instruments can effectively enhance disaster preparedness and support the paradigm shift towards a preventive risk management approach and improved anticipatory action on climate shocks.

EARLY WARNING AS PART OF THE INSUREILIENCE GLOBAL PARTNERSHIP

A key objective of the InsuResilience Global Partnership is to promote the use of climate and disaster risk finance and insurance (CDRFI) as part of comprehensive climate risk management and to foster and deliver shared benefits of risk financing mechanisms and other components of risk management. The overall goal is to strengthen resilience by enabling faster, more reliable and more cost-effective responses to disasters.

The InsuResilience Global Partnership aims to promote risk finance and insurance aligned with the prevention, preparedness, response and recovery plans of a given country. Early warning is

one element of preparedness and can inform anticipatory action, thus shifting disaster relief efforts from the ex-post to the ex-ante stage, and is therefore an important contribution to the Partnership's objectives.

EXPLORING SYNERGIES BETWEEN EARLY WARNING SYSTEMS AND RISK FINANCE

Feeding reliable and regionally differentiated weather data and drought trend forecasts into multi-hazard early warning systems can help governments anticipate extreme events and mitigate impacts before disasters occur. Coupling these information systems with risk finance mechanisms can help capture various synergies:

- **Early warning can only translate into early action if financing is in place.** Using these systems to develop forecast-based indexes can help to shift payouts under insurance and risk finance solutions to the ex-ante stage.
- **Risk finance and insurance can raise risk awareness** by putting a price tag on climate hazards and thereby informing risk reduction and preparedness efforts. Likewise, enhancing risk knowledge and awareness through early warning can support decision-makers in designing risk finance and insurance arrangements in a more needs-based way.
- **Improving early warning capacities in vulnerable countries could help to improve the availability and granularity of data** on which risk finance and insurance instruments can build.

→ Insurance and risk financing can serve poor and vulnerable people most effectively if connected to delivery systems, e.g. contingency plans or social protection systems, which need to be linked to early warning systems and existing response capacities. Linking these systems to early warning **could enable targeted early response even before the effects of extreme weather events unfold**, e.g. by storm-proofing houses or stocking up emergency supplies.

BENEFITS AND LIMITATIONS

Building on the synergies laid out above, linking risk finance and insurance to early warning systems can deliver the following **benefits**:

- Shifting disaster relief efforts from the ex-post to the ex-ante stage, thus **stopping climate shocks from becoming full-fledged disasters**.
- **Ensuring that anticipatory action is backed with the necessary level of funding**, mitigating impacts on public finances and reducing reliance on humanitarian aid.
- **Being able to prepare and not only respond** can reduce the overall financial burden of disasters, including the costs of risk financing and insurance.

Early warning-based risk financing is a novel and innovative approach. So **limitations** still exist, including:

- **Institutional capacity**. Linking risk financing to early warning systems is an interdisciplinary approach across various institutional silos. It can be very challenging for in-country institutions to ensure coherence between national prevention, preparedness, response and recovery plans.
- **Reliability**. Payouts under risk financing instruments need to accurately reflect losses, in this case the required funds for effective anticipatory action. The forecast accuracy of early warning systems is paramount to avoid non-payout scenarios.

→ **Sources of funding**. Risk financing for anticipatory action requires that either national contingency funds, credit instruments or market-based risk transfer solutions are informed by early warning systems. A high level of transparency and data quality is needed to engage the relevant actors and attract risk capital.

EXAMPLE: THE AFRICAN RISK CAPACITY

The African Risk Capacity (ARC) provides index insurance against droughts to African Union member states. It has developed Africa RiskView, a software underpinning a parametric model that translates satellite-based rainfall information into near real-time impacts of drought on agricultural production and grazing.

Africa RiskView alerts participating governments to irregular and insufficient rainfall and the likely number of people affected. If pre-agreed parameters are met, an insurance payout is triggered long before the end of a farming season and before the effects of drought are felt. Such early warning allows governments to take anticipatory measures to address likely future impacts.

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