

Germany's G7 ambition: Working towards a Global Shield against Climate Risks

Berlin, 19 May 2022

The urgent needs of vulnerable countries and people in the face of increasing climate risks need to be addressed. Building on the InsuResilience Global Partnership, the G7 want to substantially strengthen the global climate and disaster risk finance and insurance (CDRFI) architecture, jointly working towards a global shield against climate risks. The aim of the global shield is to foster more systematic, coherent and sustained financial protection to help reduce the negative impacts of climate change on vulnerable countries and people.

The global CDRFI architecture comprises all financial instruments and corresponding institutional structures that can be used to manage and transfer climate and disaster-related risks and therefore increase pre-arranged financial arrangements and instruments relevant to avert, minimize and address losses and damages caused by those climate and non-climate related disasters. In recent years, substantial progress has been made on enhancing financial protection against climate-related disaster risks for poor and vulnerable people and countries. Through the joint efforts under the InsuResilience Global Partnership (IGP), which builds on the G7 InsuResilience Initiative (Elmau 2015), 150 million poor and vulnerable people benefited from CDRFI solutions in 2021 alone.

However, significant challenges remain when it comes to closing the protection gap. The latest IPCC report indicates that according to estimates about 3.3–3.6bn people may be vulnerable to the negative impacts of climate change. Climate risks are increasing in their frequency, severity and unpredictability, and, consequently, losses and damages from climate change are increasing as well. This threatens the achievement of the 2030 Agenda for Sustainable Development.

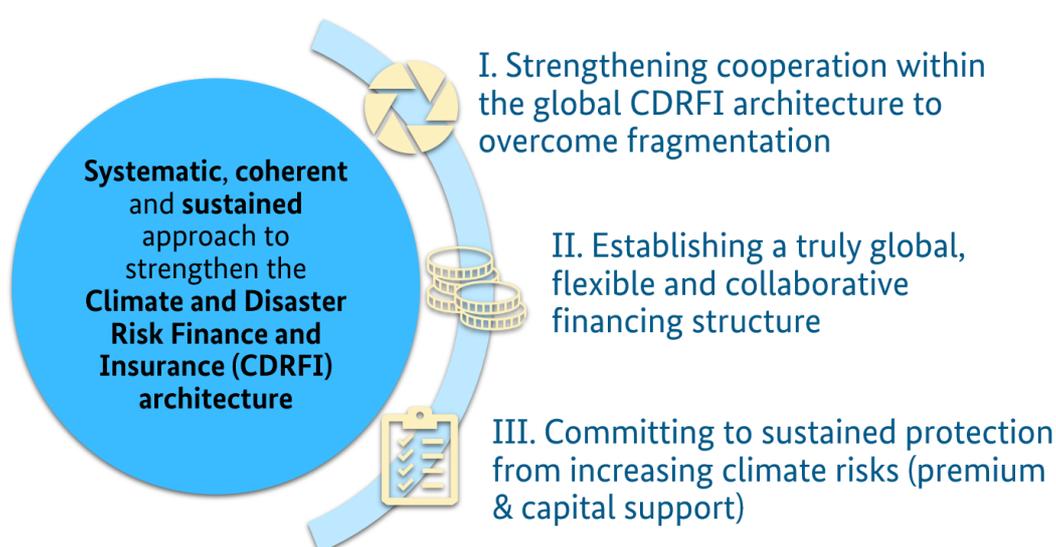
Despite significant successes over the past few years, there is still a lack of sustained, reliable resources to provide the necessary targeted financial and technical support and address the needs of vulnerable countries. Funding for disaster response and reconstruction is still mainly arranged ex-post, increasing the cost of disasters and their impacts on lives and livelihoods. Further significant challenges remain: solutions are mostly driven by the supply side, access to finance is often complicated and there is still strong fragmentation in the CDRFI space. This causes inefficiencies and unnecessary costs for beneficiaries and providers.

Therefore, the G7 want to further scale up action and support for the most vulnerable countries thereby actively contributing to the operationalisation of the Santiago Network as well as to the future discussions under the Glasgow Dialogue. During its G7 Presidency, and

building on the 2015 G7 InsuResilience Initiative, Germany, together with the G7, is **working towards a Global Shield against Climate Risks**.

Vision and specific objectives

Working towards a Global Shield against Climate Risks, should allow financial protection for poor and vulnerable people and countries to become more systematic, coherent and sustained. To this end, three building blocks are proposed, building upon existing instruments and partnerships:



I. Cooperation within the global CDRFI architecture should be strengthened by redesigning and extending the **InsuResilience Program Alliance**. As a central platform in the CDRFI community, the Alliance can play a key role in overcoming fragmentation and leveraging the full potential of CDRFI solutions for preparing against climate risks and for coping with the impact of climate related disasters. This cooperation structure will be at the center for coordination on the global level and will work closely with corresponding in-country coordination mechanisms to develop comprehensive CDRFI gap analysis and responses. Country ownership, strategies and needs shall be the heart and center of the platform that will go well beyond insurance and connect different instruments from early-warning, risk-informed, shock-responsive and adaptive social protection up to anticipatory humanitarian action. The structures at the global and national level will be fully inclusive for all CDRFI stakeholders building on the IGP governance structure. It needs to be closely linked with the enhanced financing structure and support its efficacy by systematically involving vulnerable countries, developing and promoting common principles and standards, and providing quality assurance. The Alliance also needs to establish a shared understanding of the general

dimension of the global protection gap as well as respective national gap analyses as a basis for prioritisation and high-impact action.

II. A **global, flexible and collaborative financing structure** should enable a more systematic global approach to closing the protection gap and channelling corresponding financial and technical support to vulnerable countries in a programmatic and coherent way. The financing structure should act as an intermediary between sustained and significant funding from a diverse set of contributors (including philanthropic sources and the private sector) and the services of a wide range of actors in the CDRFI ecosystem, including regional risk pools and humanitarian stakeholders. In order to really reduce fragmentation, the financing structure needs to be closely linked with the redesigned InsuResilience Program Alliance and be embedded in the existing institutional landscape. A significantly **scaled-up and reformed InsuResilience Solutions Fund (ISF)** along with the **reformed Global Risk Financing Facility (GRiF)** of the World Bank, both of them well-known financing facilities for the development and implementation of CDRFI under the IGP, will constitute a strengthened financing structure. Together they will offer an answer to the wide range of needs that must be met in order to deliver a more systematic, coherent and sustained CDRFI architecture. These two entities could pool development partner resources, support a coherent pipeline of projects across a broader range of potential implementing partners and facilitate integrated risk financing packages for specific countries.

III. **Scaling up premium and capital support** is necessary in order to address affordability barriers in vulnerable countries and promote **sustained protection in the face of increasing climate risks** as well as to drive innovation. The **SMART Principles for Premium and Capital Support**, developed in collaboration with leading experts under the IGP, give clear guidance on the sustainable, fair and effective allocation of such support. Using the strengthened financing structure to allocate premium financing across different implementing programmes based on these principles would enhance consistency and transparency on the different support formats available, and ultimately **help CDRFI solutions to reach necessary scale**.

Together, these three building blocks have the potential of making the global CDRFI architecture more effective and efficient, and can truly make a change by enabling poor and vulnerable people and countries to cope with climate-related shocks and adapt to climate change.