



CLIMATE CHANGE, AN UNINSURABLE RISK - WHAT ROLE SHOULD FINANCE PLAY?

Professor Avinash Persaud,

Emeritus Professor, Gresham College, Chair, CARICOM Commission on the Economy

Webinar

Wednesday, 02 June 2021, 15:00 BST

A Word From Today's Chairman



Professor Michael Mainelli

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Today's Agenda



- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – Professor Avinash Persaud
- 15:25 – 15:45 Question & Answer

Today's Speaker



Professor Avinash Persaud

Emeritus Professor, Gresham College

Chairman, CARICOM Commission on the Economy



Climate Change, An Uninsurable Risk - What Role Should Finance Play?

Professor Avinash Persaud

Introduction



- Climate change is a lived reality in some parts of the world
- Most of the world's insurers and re-insurers live in the rest of the world...

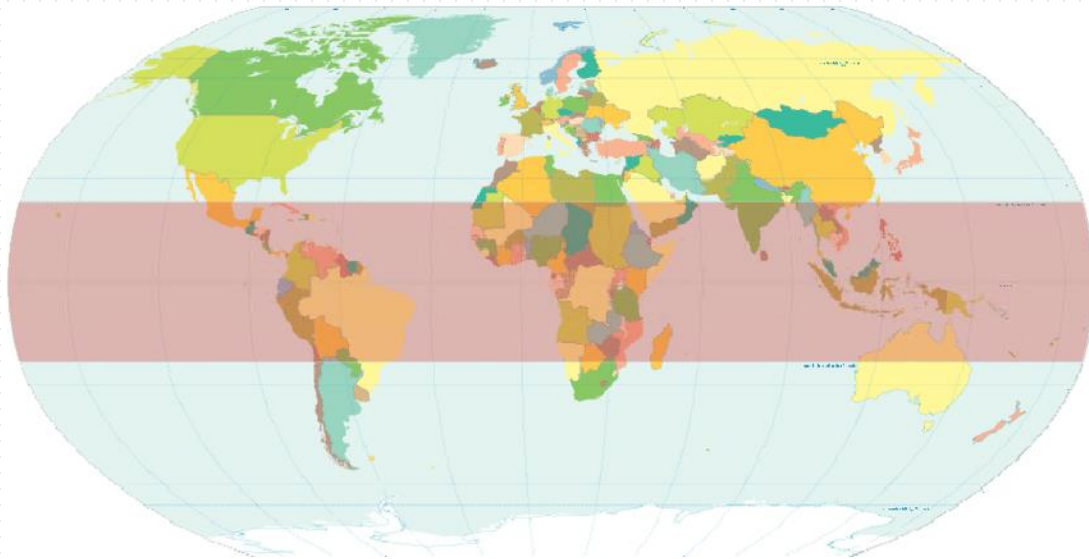


- Thriving vineyards in the UK



- Hurricanes in the Caribbean

The Front Line On The War Of Climate Change



- The aftermath of Hurricane Maria, Dominica 2017

Why Uninsurable?



- An insurable risk is one where the risk can be pooled and spread.
- Ideally, that is a risk that is random, fairly rare, not rising in frequency and impact, and uncorrelated, like the Asian Tsunami
- On the front-line, climate change loss and damage is large, rising in impact and frequency and rising in correlation. And it is an increasingly known risk.
- How do you provide meaningful insurance and tolerable premiums for an event that wipes out 45% of GDP in one year, 96% four years later and 226% two years after that?
- Consider trying to get medical insurance for a pre-existing condition that costs 200% of your income to recover from each time you get it, and you are getting it with increasing and known frequency.
- The known bit is important, as it will lead to adverse selection and an unwillingness of any pool of risks to allow in climate change risk as you fall into the expanding front line.
- The solution, is to build resilience and to turn the 226% cost into a 2.6% cost. That may be insurable at tolerable premiums across time.

Experience on the front line of climate change has shown that:

- a) A well-built road and bridge can survive a category five hurricane or cyclone,
- b) Resilient bridges may not mean heavier or bendy bridges, but collapsible ones that are taken down and put back up – there is scope for new thinking on resilience,
- c) Resilience is not just about buildings but about resilient individuals and families, resilient livelihoods, resilient systems of health and education.
- d) Existing assets on the front line are under-insured

But. Building resilience is expensive. It costs more than the public sector has to offer.

Can Private Finance Help?



- Plenty of pension and insurance money is pledged to mitigating and adapting to climate change, but they can't find the additive projects.
- It's a systemic thing, not an idiosyncratic thing: a resilient bridge to nowhere is not useful
- Create a new '*Growth and Resilience*' asset class through the help of a pilot project with the International Finance Corporation of the World Bank.
- Are there returns to be made?
- Opportunity for long-term investors to be a founding partner in this initiative, helping to shape it into something they find most useful.

Who Could Be Interested?



- Attract both social impact investors and those looking for good returns.
- Attract public sector backing through guarantees and subsidies for investments rated as being highly resilient, both individually and systemically.



Creating Liquidity Through Barbados Natural Disaster Clauses



- Use finance to help create the liquidity needed in a climate event.
- Barbadian Natural Disaster Clauses save 7% of GDP in a natural disaster and could have saved developing countries \$1trn if in place in all of our debt contracts.
- How can we refine these clauses:
 - securing the boundary of a natural disaster,
 - making the clauses NPV neutral and
 - strippable.

The Role Of Finance

Building
Resilience

Creating
Liquidity





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Forthcoming Events

- Thu, 03 Jun (16:00-16:45) Crypto Asset Regulation – An International Survey & Key Developments
- Fri, 04 Jun (11:00-11:45) Brexit: Ending The City's Dominance Of European Finance?
- Mon, 07 Jun (11:00-11:45) How To Create A Knowledge City – Evidence From London's Flat White Economy
- Tue, 08 Jun (15:00-15:45) The European Merger & Acquisition Landscape – Surprising Shots In The Arm From Covid-19

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