CATS CENTRE FOR THE ANALYSIS OF TIME SERIES

The role of insurance risk transfer in encouraging climate investment in developing countries:

Chapter in Vinales (ed) *Harnessing Foreign Investments for Environmental Protection*

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Any investment faces risk. Underwriting some of these in exchange for a premium payment can reduce investors' uncertainty and make some investments more attractive. This article explores if and how this insurance mechanism can be applied to harness investment in environmental protection in developing countries. The analysis identifies three potential roles for insurance risk transfer in the context of environmental protection: compensation for victims and funding of clean-up processes; incentivising risk reduction efforts; and fostering environmental investments by transferring some of the investment risks. This is further investigated for the case of climate change in developing countries, where the risks are often perceived to be particularly high. While the compensation element is still of limited relevance in the climate change context, pilot projects in developing countries show scope for a risk reduction role for insurance if correctly designed and implemented. For climate change investment there is evidence that risk transfer can boost private climate funding, but public-private partnerships may be needed to develop mechanisms to reduce or transfer climate policy risks.

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