Insurance to manage climate risk

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Italy is one of the most vulnerable areas of Europe when it comes to the expected impacts of climate change. In Italy (as, indeed, in Europe as a whole) climate change is likely to amplify regional differences in terms of the quality and availability of natural resources. Significant impacts are expected on economic sectors that depend on weather conditions (such as agriculture, fishing or tourism), as well as on human health.

A recent report by the environmental group Legambiente reveals that seven million people in Italy live in areas exposed to risks of landslide or flood. The survey examined 1,444 Italian municipalities containing areas of "high hydro-geological risk". It revealed that 77 per cent contained houses built on areas at risk, 29 per cent had whole districts in high-risk areas, while another 51 per cent contained industrial plants.

However, these results are at odds with the very low awareness – among citizens, small and medium-sized enterprises (SMEs) and public bodies – of the risks linked to extreme weather events such as floods, landslides or heat waves, and of the tools that exist to assess and manage those risks. A worryingly high rate of Italian SMEs go bankrupt after having to suspend their operations for more than a week after suffering damage from extreme weather events. In Italy, the low rate of insured companies and households for this type of damage means extreme weather events have high social impacts as well as economic and environmental consequences. Disaster recovery costs are borne by the state, and are therefore a burden for citizens.

These challenges call for a rethink of the roles of both public administration and insurers, to create instead an innovative public–private scheme to prevent, manage and transfer the risks linked to the effects of climate change in a sustainable, long-term way. This has been repeatedly underlined at both international and EU levels in recent years.

These are some of the considerations that led Unipol Group to launch the DERRIS (Disaster Risk Reduction Insurance) project, which has been co-funded by the European Commission under the Financial Instrument for the Environment (LIFE). The DERRIS project is trialling an innovative model of multi-stakeholder collaboration involving public administrations, insurance companies, academic institutions and SMEs. The ultimate goal is to build an innovative public–private insurance scheme that triggers virtuous behaviours regarding protection, prevention and adaptation to the effects of climate change, and increases local resilience. This would, in turn, reduce the costs of extreme weather events that are covered by public spending.

Huge opportunity

DERRIS will activate two main levers. First, the project will enhance knowledge and skills transfer from the insurance company to SMEs and public bodies, through self-assessment tools that will enable businesses to assess and reduce their risks related to climate change and to handle emergencies. Second, DERRIS will work to define an innovative financial instrument, involving both public and private players, to fund climate change adaptation actions and to promote urban resilience. This is all the more challenging considering that climate change adaptation interventions do not have direct and easily measurable economic returns.

These are the challenges that Unipol Group and the partners of the DERRIS project will tackle in the coming three years. The issues that are at stake are striking: to provide efficient tools of risk assessment and management, and innovative financial schemes, with the aim of increasing local urban resilience to climate change. The opportunity is huge: building a model of an innovative public–private insurance scheme that can be replicated on a bigger scale, thus multiplying its impacts at a local level. ■

For further information, see: www.derris.eu

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With the contribution of the LIFE financial instrument of the European Community