



Insurance & risk transfer solutions

New mechanisms feature in BIOFIN Finance Catalogue

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The new Global Biodiversity Framework addresses risks brought upon by harmful practices from both dependencies and impacts on biodiversity but unforeseen risks from disasters and the pernicious effects of climate change have the potential to halt the gains in conservation and restoration objectives. Risk management should be incorporated in the design of finance solutions as it may upend finance flow projections. More than 100 finance mechanisms have been identified and included in the BIOFIN Finance Catalogue which can be used in the initial screening of potential finance solutions. It has now been enhanced with the addition of finance mechanisms that address risks and are embedded under the “cost avoidance” finance outcome.

One of the recent publications, [*Insuring Nature's Survival: The Role of Insurance in Meeting the Financial Need to Preserve Biodiversity*](#), has outlined how insurance can promote investment in biodiversity through means such as asset protection; liability reduction; and facilitation of capital inflow from the financial markets. Smart insurance solutions can help channelize capital towards nature-positive investments. However, adequate risk reduction measures and data to sufficiently price related risks, high claim incidents can threaten viability of insurance products, increase exclusions, or simply make the biodiversity risks as uninsurable risks.

Here are some of the insurance and risk-related finance mechanisms featured in the catalogue.



Disaster risk insurance and climate risk insurance are schemes that cover losses due to extreme weather events and disasters (such as earthquakes, floods, etc.). In the short-term it can reduce the effect of disasters by providing immediate financial resources for restoration of losses and, in the longer term, can contribute to minimizing the risks by investing in disaster risk reduction. This type of insurance can be used to protect not only the natural capital elements but also to increase resilience of communities who depend on it. Examples may include insurance for **forests, coral reefs, etc.** Forests insurance can protect against the risks of fire, malicious damage, and injury by financially offsetting the restoration and replantation costs. The same can be said for coral reef insurance, whereby a report by UNDP's Insurance & Risk Finance Facility, [*Insuring natural capital*](#), explains how insurance can provide immediate post-disaster funding for restoration activities, which also helps safeguard investments being made in biodiversity conservation efforts. This way

the communities and businesses dependent on nature can also benefit from insurance protection.



A separate class of insurance schemes address human-induced business risks that cover against environmental liabilities (i.e. the financial risk associated with environmental pollution and contamination) in exchange for a premium. **Environmental risk insurance and natural resource insurance for extractives** also provide contingent resources for immediate remedial action in the event of an environmental disaster. Natural resources extraction often brings environmental damage and disruption of fragile ecosystems. This type of insurance can help by paying for balancing the immediate needs for environmental restoration after any disastrous event with longer-term considerations. Having insurance for such risks also helps in enforcing compliance with international environmental standards because insurance companies require as a contractual condition, that the insured adheres to specified prudent behavior and procedures to be eligible for any potential insurance claim.

Some insurance companies also offer discounts on premiums if the policyholders adopt green measures that contribute to mitigating the risks and produce biodiversity benefits. These green measures can effectively realign company investment to more sustainable practices. Companies operating in fishing, forestry and other economic sectors with risk of high impact on natural assets can integrate such practices

and avail of **green measures to reduce insurance premiums.**



Human-wildlife conflict (HWC) insurance are schemes that compensate affected communities for damages to property (such as crops, livestock, etc.) due to wildlife incursions. Such insurance will pay if a wild animal destroys property, subject to certain conditions (like making sure that their farms are well-enclosed, and animals are well herded and away from protected areas, for example). HWC compensation schemes have existed in various forms over last several decades, ranging from government-funded compensation schemes to private sector-led insurance based schemes. Another form could be the performance-based compensation scheme where the local communities are compensated based on the achievement of sustained number of threatened species.



Crop insurance is a type of protection that covers agricultural producers against unexpected loss of crop yields or profits from produce sales at market. It can be broadly divided into two categories: crop-yield and crop-revenue. Crop-yield insurance protects the expected revenue due to unexpected yields, which is the volume of loss of the crop's harvest due to external events like fire, drought, flooding, etc. Crop-revenue insurance covers expected revenue against the loss.

Property insurance is a broad term for insurance policies that provide either property protection coverage or liability coverage for property owners. It provides payout in case there is a loss in connection with the property due to the covered risks, such as flood, earthquake, etc. If there is a claim, the property insurance policy will either pay the policyholder for the actual value of the damage or the replacement cost to compensate for the loss.



Much of the segment of the population exposed to climate risks and disasters are also those who rely heavily on biodiversity resources for their livelihood. **Microinsurance** schemes can consider this challenge which is the type of insurance protection for low-income people against specific perils in exchange for regular premium payment proportionate to the

likelihood and cost of the risks involved. It is much like normal insurance except for the clearly prescribed target market: low-income people, which typically consists of persons ignored by mainstream commercial and social insurance schemes.

An **insurance pool** is a mechanism where a group of insurers or reinsurers come together to share particular types of risks, often that are substandard in nature or uninsurable otherwise. The premiums, losses, and expenses are shared in pre-agreed ratios. The insurance pools can be local (domestic) or regional (cross-country). Some examples are ARC, CCRIF, PCRIC, and SEADRIF. The pools play an important role in building local and regional insurance underwriting capacity as well as collecting and disseminating information on hazards and risk exposure locally or in their respective regions.

Lastly, where insurance is seen to be against the socio-cultural and religious beliefs, **Takaful** provides an alternative which is a type of Islamic insurance wherein members contribute money into a pool system to guarantee each other against loss or damage. Takaful is based on Shariah or Islamic religious law, which explains how individuals are responsible to cooperate and protect one another. Takaful policies cover a wide range of risks, such as health, life, and general insurance needs.

Design of insurance and other risk financing mechanisms are context specific and those described here can be iterated and blended to suit the local context.