



Climate Change Risk Management and Regulation of Insurance

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Background

This research is a part of the Working Package on Trade and Climate Change within the Swiss National Centers of Competence in Research (NCCR Trade Regulation).

Introduction

Climate change brings about a new set of major economic risks. The ability of a business to manage these risks is of key interest and insurance plays an important role.

The project addresses one of the instruments of climate change adaptation and need for the international climate change related risk-sharing on the global level (within the WTO regulation).

Implications of WTO Rules

- Insurance and insurance-related services are subject of international trade regulation. They constitute financial services according to WTO rules and governed by GATS and its Annex on financial services.
- The GATS affirms that commitments to liberalize trade in financial services do not negate the right of governments to enact and maintain prudential measures designed to ensure the stability and integrity of the financial system, or to protect investors, depositors and insurance policy holders.
- The EU is bound by WTO rules in designing and adapting the new legal framework on climate change adaptation.
- The world's leading insurance country is the United States, that is why the creation of the European-wide insurance scheme will not serve the purpose of global risk-sharing.

Private Sector Dimension

- Risk transfer from the governments to the private sector: by paying a fixed insurance premiums countries can cap the amount of their fiscal loss.
- This will invoke the new insurance industry structure, strengthening its role.
- How well the insurance is prepared for the challenge of climate change?
- Innovation solutions are needed.
- Competition issues should be taken into consideration.

Conclusion

- The regulation of insurance as a financial service in WTO could foster climate change adaptation.
- The European Union is developing a European strategy for adapting to climate change. Insurance can play an important role for creating such an adaptation fund.
- Climate change related extreme events are likely to be of regional, rather than of national character, hence there is a need for further regional integration and cooperation between insurers to be able to cope with the consequences.
- Liberalization of insurance services under WTO regulation of services can facilitate development of a coherent European insurance policy within the context of climate change.