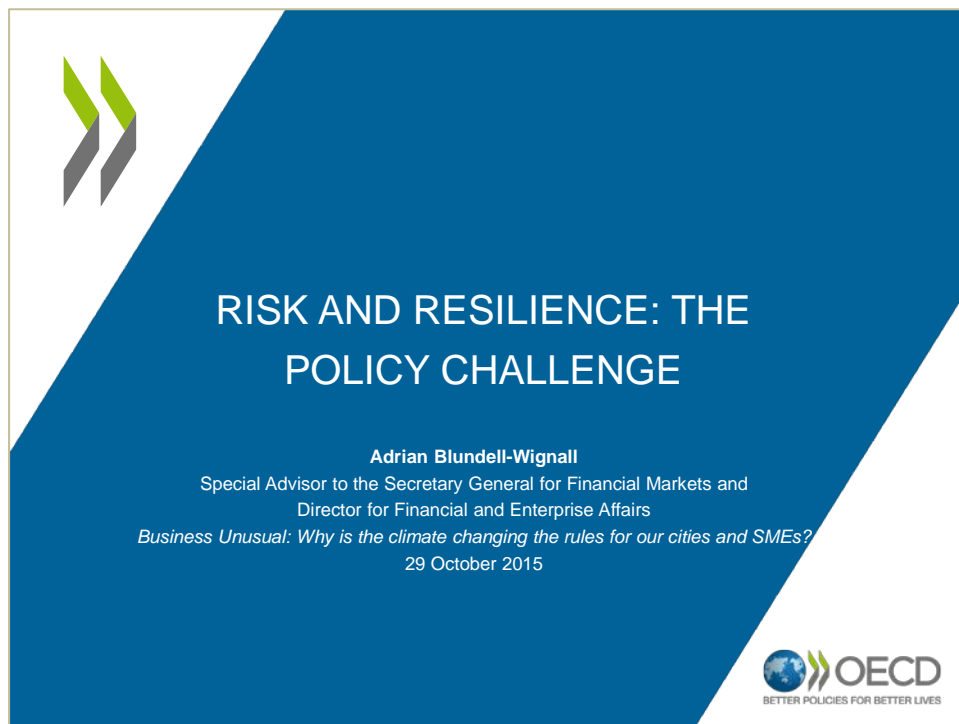


AXA-UNEP-PSI Conference on Climate Resilience

Remarks by Adrian Blundell Wignall, Special Advisor to the Secretary General for Financial Markets and Director for Financial and Enterprise Affairs, OECD

29 October 2015, Paris



Ladies and Gentlemen,

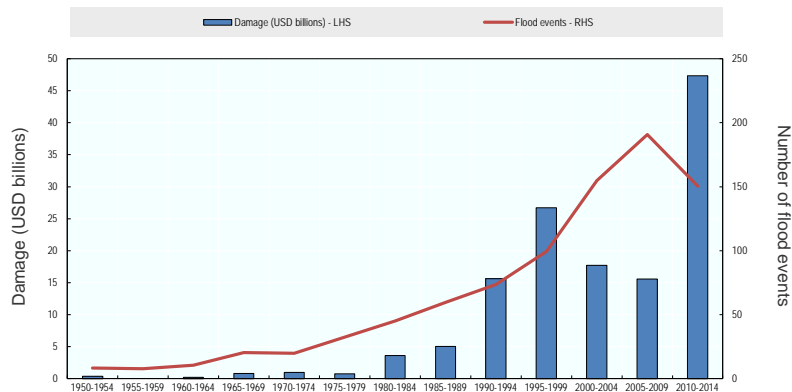
With only 31 days until COP 21 starts just 11 kilometres from here, this conference offers an important opportunity to discuss some of the issues faced by two key stakeholders in the climate change negotiations – cities and SMEs.

In that context, I'd like to provide some thoughts on the importance of building resilience to climate change risks at the level of cities and SMEs. Resilient cities and SMEs are critical to reducing the economic disruption from climate-related disaster events. Given the important contributions to analysing these issues that have been made by many of you – I expect I will have a receptive audience.



Flood events and losses are increasing..

Figure 1: Annual average flood events and losses



Source: OECD calculations, based on: D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain – Brussels – Belgium

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As we all know, climate change is expected to impact the frequency and intensity of extreme events in a number of ways – particularly by increasing the risk of flooding and the intensity of cyclones and other storms in many parts of the world. When combined with the continued accumulation of assets in disaster-prone areas - such as along coasts and in flood plains - this will mean growing disaster losses and economic disruptions.

Disasters have important economic implications. An average major natural disaster, according to research undertaken by the Bank for International Settlements, has a cumulative negative impact on GDP of 2.6%. That is equivalent to more than 18 months of growth wiped out based on average real growth levels in the OECD since 2000. The truly extreme events are even more significant – causing economic damages equivalent to more than 20% of GDP in the case of the earthquakes in New Zealand and Chile and approaching 25% in the aftermath of the devastating earthquake in Nepal earlier this year.

These impacts are most severe when disasters strike major urban centres. The damages from earthquakes in New Zealand and Nepal that I just mentioned were particularly significant because the area impacted included major urban centres (Christchurch and Katmandu). Similarly, the largest ever economic losses from hurricane events in the U.S. were from storms that affected the densely-populated urban areas of New Orleans and New York City.

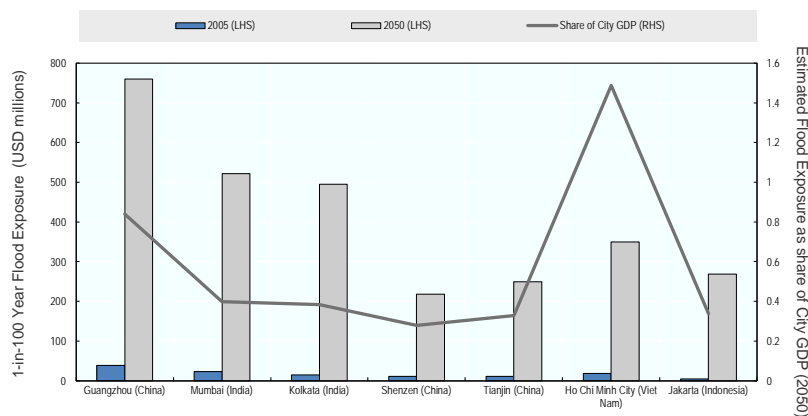
The concentration of assets in urban centres means, of course, that disaster losses are likely to be more significant. However, disasters that strike cities also have significant indirect costs as a result of the disruption to business in what are the key engines of

economic growth in many countries. For example, an OECD study of the potential implications of a large-scale flood in the Paris region (similar to the one that occurred in 1910) estimated indirect costs of EUR 19 billion due to disruptions in power supply and public transport affecting the ability of employees to get to work and businesses to operate. In such a scenario, indirect costs approached 65% of the estimated direct damages of EUR 29.4 billion – with impacts on growth of the French economy lasting up to five years thereafter.



...and create significant exposure in many Asian mega-cities

Figure 2: 1-in-100 Year Flood Exposure of Asian Mega-Cities



Source: OECD calculations, based on: Schanz and Wang (2015), *Insuring Flood Risk in Asia's High-Growth Markets*, The Geneva Association and Hallegatte et al. (2013), "Future flood losses in major coastal cities", *Nature Climate Change*.

In many regions of the world, particularly in emerging and developing markets, the level of risk to cities is set to increase exponentially. For example, in Asia, the combination of continued urbanisation, asset accumulation related to economic development, and a changing climate will lead to significant increases in flood exposures – in the range of 20x-30x current levels of exposure by 2050 in the Asian mega-cities most exposed to floods. In some of these megacities (Guangzhou (China), Ho Chi Minh City (Viet Nam), a 1-in-100 year flood loss could create damages equivalent to 80% or more of city GDP.

And if a 1-in-100 year event seems like an acceptable level of risk, I would note that there have been at least 3 events in the last 5 years with return periods of above 100 years (Thai and Queensland (Australia) floods, and the flooding from Hurricane Sandy) – while the Eastern United States faced a 1-in-1000 year heavy precipitation event only a few weeks ago.

Fortunately, in most countries, cities have authority over many of the things that can help build resilience against disasters, including land-use planning and the disaster resilience of critical public infrastructure investments. Although OECD countries and their

metropolitan areas in particular have made large strides in boosting their resilience, past events have demonstrated some key vulnerabilities that need to be addressed:

- the failure of protective infrastructures to hold up against the level of protection they were initially conceived to provide has highlighted vulnerabilities in their maintenance.
- Regulatory enforcement, especially when it comes to hazard zoning and land use decisions and building code enforcement, has not been as effective as it could be. As was highlighted in the report, cities already face space constraints which create significant competing pressures on urban planners to allow development in high-risk areas – especially in the high-growth cities of Asia and Africa.
- The private sector, including critical infrastructure providers, has shown a number of key vulnerabilities, notably in their risk awareness and contingency planning.

A whole-of-society approach to achieving resilience requires public and private actors to come together to invest in risk reduction measures. The OECD Recommendation on the Governance of Critical Risks provides some guidance on this.

Effective financial management of these risks is also critical for cities – especially in an environment of fiscal restraint. The financial management of disaster risks needs to be considered on a holistic basis, based on an evaluation of the potential losses and the most cost-effective ways to mitigate the impact of disasters. Since disasters can have a considerable impact on public budgets, particularly in developing countries, governments need an accurate understanding of what it is they could be confronted with and how they can best prepare for this financially - whether through investments in prevention, preparedness, financial protection or recovery and reconstruction. This is why the OECD is supporting UNISDR's Making Cities Resilient Initiative and leading the work on developing guidance and indicators for strengthening cities' financial resilience to disaster risks – building on the guidance provided in the OECD Recommendation on Good Practices for Mitigating and Financing Catastrophic Risks.

Like cities, the resilience of SMEs is also critical for minimising the economic disruptions from disasters. In most countries, SMEs make an important contribution to economic output and employment. For example, in the U.S., small businesses employ about half of the private sector workforce.

However, SMEs face particular challenges in the face of climate risks. In general, small businesses have more limited capacity to withstand extended disruptions – whether it be disruptions to critical infrastructure services such as water or power or disruptions affecting critical customers.

Hurricane Sandy reportedly led to 70 000 bankruptcies among SMEs in New York, mostly as a result of prolonged disruptions to electricity supplies. Five months after Sandy hit New York, about 20 percent of affected businesses remained closed. The U.S. Insurance Institute for Business & Home Safety estimates that 25 percent of small businesses never reopen after a hurricane, flood, wildfire or other catastrophic event. It

is of crucial importance therefore to raise awareness of risks among exposed SME's, to inform about the self-protection measures they can invest in and to support SME's in their efforts to develop climate resilience plans.

For SMEs, understanding and building resilience against climate risks is no longer just a risk management strategy – it is increasingly becoming a requirement for doing business. Just a few weeks ago, the Chair of the Financial Stability Board – the group of G20 financial sector regulators and supervisors – recommended the establishment of a Climate Disclosure Task Force to look at options for improving disclosures of risks to asset values arising from climate events. The OECD's work on climate change disclosure standards has found that requirements for disclosures on supply chain resilience are usually included.

The objective of the FSB initiative will be to ensure that financial institutions and markets have the information necessary to make informed decisions about climate risks when allocating their capital. This will be critical for ensuring that climate risks – whether it be the physical risks related to extreme events or the risks to asset values that could materialise as a result of the regulatory changes to support the transition to a low-carbon economy – do not lead to a disorderly disruption in financial markets. This was the topic of a roundtable held just last week during the OECD's Committee on Financial Markets aimed at sharing experience on this issue among regulators and the industry.

I would also like to say a few words about the key role of insurance in building climate resilience – a role recently recognised by G7 Leaders in their commitment to increase access to insurance coverage against the negative impacts of climate damage.

As highlighted in AXA's report, the insurance sector's expertise in assessing risks and the impact of mitigating measures can be used as the basis for sound advice to cities and SMEs on the risks that they face and the measures they can take to protect themselves.

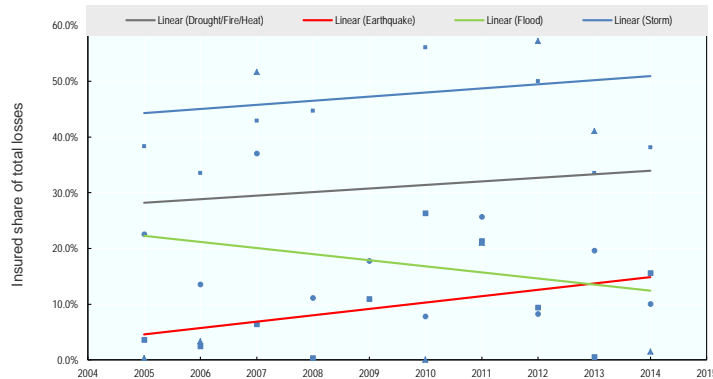
Insurance and capital markets also make an important contribution to reducing the economic disruption of extreme events by absorbing some of the losses (including in international markets) and providing relatively quick access to funding for recovery and reconstruction. The Canterbury earthquake sequence provides a good illustration of this - even though direct losses were more than 20% of GDP, economic disruption was minimal as most losses were covered by the Earthquake Commission and private insurers and reinsured in international markets.

In the context of climate change, policymakers have a critical role to play in ensuring that insurance sector policy supports the capacity of insurance and capital markets to absorb increasing disaster losses and address the market failure that occurs where actuarially-based insurance premiums are beyond the willingness-to-pay of large parts of the population in many countries.



Flood risk underinsurance may be increasing

Figure 3: Trend in insured share of disaster losses by type of disaster



Source: OECD calculations based on insured losses and total damages reported for meteorological disasters (floods, storms, hail, cold/frost and droughts/fires/heat waves) in Swiss Re sigma annual reports on natural and man-made catastrophes (2005-2014).

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There is a lot to do in order to leverage this contribution and address market failures. For flood risks in particular, there is some evidence of a declining insurance coverage for major events. The challenge is particularly significant in developing countries where insurance markets are less developed and the resources available for adaptation are more limited.

That is why work such as this report by AXA and the UNEP Finance Initiative is so important. The OECD hopes to continue to contribute to this effort. In December, during COP 21, we will hold a special session of the Insurance and Private Pensions Committee to bring together key stakeholders from the public and private sectors to discuss the potential contribution of the insurance sector to climate change mitigation and adaptation. In May 2016, we will be presenting a report and organising a major conference on the financial management of flood risks - a particularly challenging risk to manage in both developed and developing countries alike - and the peril most likely to be heavily impacted by a changing climate.

Building the resilience of SMEs and cities, particularly in developing countries, should remain a priority for the public and private sectors going forward. I hope that discussions such as the one organised today will support the development of policy options by governments - and practical solutions by insurance companies - to help these two critical stakeholders build resilience to climate risks.

Thank you.