

# **Carbon, complexity and insurance**

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## **Abstract**

The purpose of this paper is to look at the insurance needs of the carbon market. The carbon market is an artificial market created under the Kyoto Protocol to trade emissions reductions.

The aim of the carbon market is to reduce anthropogenic carbon emissions to mitigate against dangerous climate change. The first part of the paper gives a description of the market. Drawing on complexity economics, I then go on to argue that the markets are likely to be of limited success in achieving their aims.

The paper then describes how carefully designed insurance products, such as a delivery wrap or a carbon cat bond, could improve the effectiveness of the market by reducing investment risk and hence enhancing capital flows into carbon abatement projects.

## **Keywords**

Climate change, carbon trading, Clean Development Mechanism, insurance, complexity economics, emissions targets, basis risk

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