

# RISK MANAGEMENT

February 1996

## RISK REPORTER

### GLOBAL BANK SEEKS TO SWAP ENVIRONMENTAL RISKS

**O**rganizations concerned about the financial consequences of their environmental exposures may find some relief from a new source. Professor Graciela Chichilnisky of Columbia University has proposed a global market that trades in pollution rights at a recent World Bank conference. She said that establishing an International Bank for Environmental Settlements (IBES) could provide an economic framework for protecting environmental assets and

help address pollution liability problems.

"Assigning a market value to emissions, similar to U.S. emission rights already traded at the Chicago Board of Trade, could be instrumental in controlling environmentally harmful gases on an international level," Prof. Chichilnisky says.

The IBES would help reduce greenhouse gases by putting a cap on the amount of emissions generated within each country



and ensuring the integrity of emission permits worldwide. The international aspect of emissions trading

is an important characteristic because emissions can be diffused uniformly across the world, Prof. Chichilnisky says.

Additionally, this proposal may help companies struggling with staggering costs from environmental claims and also assist insurers and reinsurers searching for additional capacity by creating a new vehicle for shifting risks from insurance purchasers to the investment community.

Part of Prof. Chichilnisky's proposal calls for the IBES to serve as a financial manager for a global financial instrument she calls a "catastrophe bundle" that combines characteristics of futures and mutual funds. "This hybrid instrument can complement the reinsurance policies being written today by allowing reinsurance companies to take on demand for business without facing impossible risks," she says.

The IBES proposal hopes to roll back global emissions of greenhouse gases to 1990 levels by the year 2000. But first, like other regulatory proposals before the World Bank and the International Monetary Fund, it must go through an approval process.

The next step is to present the IBES proposal at the next United Nations Climate Convention, Prof. Chichilnisky says.