INSURANCE DEVELOPMENT FORUM - IDF

Closing the gap

Illustration by **Tiago Galo**

At the June 2015 Summit in Schloss Elmau, Germany, G7 leaders pledged to increase the number of people in the developing world who are insured against the negative impact of climate change. Known as the G7 InsuResilience target, they set a goal 'to insure 400 million more developing nations' citizens against the effects of climate change and related natural catastrophes by 2020'.

To achieve this, the G7 committed to intensify its efforts to help vulnerable countries manage climate change-related disaster risk and build their resilience. Protocols such as the Sendai Framework for Disaster Risk Reduction 2015 – 2030, Sustainable Development Goals 2030 and the UN Conference of the Parties (COP21) Paris Climate Agreement are already in place and form part of the Post 2015 Agenda – a UN-led process to identify global and national development priorities.

The G7 leaders concede however, they need to learn from and extend already existing risk insurance facilities such as the African Risk Capacity, the Caribbean Catastrophe Risk Insurance Facility and other initiatives to develop insurance solutions and markets in vulnerable regions.

Their desire to optimise insurance industry collaboration and their ethos of 'think together, act together' prompted a number of global insurance and reinsurance experts, including XL Group executive deputy chairman, Stephen Catlin, to form the Insurance Development Forum (IDF).

Stephen Catlin, IDF Chairman & XL Group Deputy Chairman

About the Forum

The IDF is a partnership between United Nations' (UN) leaders, the World Bank Group and the insurance industry (which takes the lead role). It was developed with the support of the UN-backed Political Champions Group for Disaster Resilience, first announced at the UN COP21 Summit in December 2015 and officially launched at a high-level UN meeting in April 2016.

Members comprise the chief executive officers/chairs and presidents of 14 global insurance firms. Inter-Governmental Organisations are represented by The Financial Stability Board, the UN Developmental Program and Word Bank Group. Global insurance industry supporters include the International Insurance Society (IIS), The Geneva Association, The International Co--operative and Mutual Insurance Federation and the Association of Bermuda Insurers and Reinsurers.

The driver behind IDF is a High Level Steering Committee comprising industry, UN agency and World Bank leaders who establish priorities and mobilise resources. Chair is Stephen Catlin (also incoming chair of the IIS), co-chairs are Helen Clark, administrator, UN Development Program (UNDP) and Joaquim Levy, managing director and chief finance officer of World Bank Group. Alongside insurance industry representatives, members include Mark Carney, governor of the Bank of England and chair of the Financial Stability Board, Dr Robert Glasser, special representative of the Secretary General for Disaster Risk Reduction and head of the UN Office of Disaster Risk Reduction (UNISDR), David Nabarro, special adviser of the Secretary General on the 2030 Agenda for Sustainable Development and UN member and Stephen O'Brien, under secretary general and emergency relief co-ordinator and head of the Office for the Co-ordination of Humanitarian Affairs (OCHA).

Closing the protection gap

According to a study published by the Global Facility for Disaster Reduction and Recovery, the cost of natural disasters has risen tenfold since the mid 1980s. Global insurers estimate the average economy losses from disasters in the last decade were around $190billion annually while average insured losses totalled $60bn.

Swiss Re reports 70% of economic losses from natural hazards remain uninsured and in middle/low income countries, this often exceeds 90%. The company also reports life and non-life insurance penetration – a measure of premiums as a proportion of GDP – in South Africa in 2014 was 13%, Kenya 3% and Nigeria 0.3%. Insurance Europe 2015 reports life/non-life insurance penetration in Europe was 7.46%. Research undertaken by Lloyd's shows a 1% increase in insurance penetration can reduce the disaster recovery burden on the taxpayer by 22%, illustrating why countries with insurance cover recover faster from disasters.

It is no surprise therefore to find the overriding priority for the IDF is to close the burgeoning protection gap that exists between high and low income nations and to use insurance/risk management to build greater resilience and protection for vulnerable people, communities, businesses and public institutions against climate, disaster, wider risk and economic shocks.

In the past, efforts to improve global resilience and address the protection gap have been undertaken by a handful of private/public stakeholders and while insurers have called upon governments to 'step up global efforts to build resilience against natural disasters', the formation of the IDF ensures greater co-ordination and collaboration between those with the expertise and experience necessary to address this complex issue on a wider scale.

The formation of the IDF also responded to calls from the former UN secretary general Bank Ki Moon for insurers and reinsurers to do more to help counter the threat posed by climate catastrophes.

Stephen Catlin IDF Chairman with Ségolène Royal, French Minister of Ecology, Ban Ki-moon, former Secretary-General United Nations and Yong Kim, President World Bank @The Climate Action conference in Washington, May 2016.

Greater experience

At the Sendai Risk Reduction conference delegates were reminded that insurers and reinsurers have more collective information and more overall experience in identifying, assessing and managing risks than any other organisation in the world, including most governments. Given the huge protection chasm between the 'haves' and have nots', it is clear why the IDF is so necessary.

Stephen Catlin affirmed this point in an impassioned speech to delegates at November's Development Finance Forum in Frankfurt, Germany: "The insurance industry's core expertise of underwriting and managing risk positions us strongly to help build the resilience capabilities that are needed today, and we are encouraged by the central role that risk management plays in the UN Sustainable Development Goals and other global frameworks."

In an interview with the Financial Times in June 2016, Stephen observed: "For years the insurance industry has been very poor at describing the value proposition of insurance, but now the UN and other agencies are starting to understand what we can do for them."

Areas of focus

The global resilience challenge
Economic and humanitarian risks associated with catastrophic weather and climate-related hazards are increasing, representing a major challenge to global resilience, particularly in middle/low--income countries. This challenge was highlighted by the recent adoption of global agreements (Sendai Framework for Disaster Risk Reduction 2015-2030, Sustainable Development Goals 2030 and the COP21 Paris Agreement) which form the UN Agenda 2030.

The protection gap
Close the protection gap, build global resilience and protect economies.

The role of insurance
Growing evidence indicates that countries with greater penetration of insurance coverage have faster economic recoveries from disasters and rebuild with greater resilience to future disasters. A key goal of the UN Agenda 2030 is to take a risk-based approach to manage the risks of extreme events and climate. Within this framework, insurance is explicitly recognised as a key vehicle to enable the risk sharing and transfer solutions required for greater global resilience.

The need for greater coordination and collaboration
Given the scale, scope and complexity of the resilience and protection gap challenge, a coordinated and collaborative approach bringing together the insurance industry and relevant stakeholders is recognised as critical to meeting the goals of the UN Agenda 2030.

Priorities and targets

The IDF will initially focus on building greater resilience to climate and natural hazards risks in line with the G7 InsuResilience target of extending climate risk insurance coverage to an additional 400 million people across vulnerable countries by 2020. To achieve this target the IDF will coordinate and implement insurance related risk management capabilities across the following two priority working initiatives:

Technical Assistance Facility (TAF)
The TAF will develop a platform that helps governments assess and understand their risks and develop and deploy effective integrated insurance solutions tailored to their unique challenges. The TAF will serve as a central mechanism to integrate all relevant IDF activities with the aim of helping governments extend insurance coverage to 300 million of the world's most vulnerable people.

Microinsurance
The Microinsurance initiative will work together with private, mutual, governmental and civil society partners to extend relevant 'on-the-ground' insurance solutions to an additional 100 million vulnerable people.

While the IDF will initially contribute to the achievement of the G7 InsuResilience target, its scope is expected to expand in time to include additional insurance--related priorities across the wider UN Agenda 2030.

IDF structure

The IDF's governance structure has been designed to ensure efficiency in communication, coordination and collaboration among all stakeholders. The IDF is driven by a Steering Committee and supported by an Implementation Group.

Steering Committee **-** industry leaders, UN agency leaders, international institutions and others – their focus is to establish priorities and mobilise resources.

Implementation Group **-** reports to the Steering Committee - responsible for recommending responses, overseeing the IDF Working Groups and driving delivery of agreed targets and objectives. Chaired by Rowan Douglas, Willis Towers Watson and co-chaired by Quentin Coolen, UNDP and Samuel Munzele Maimbo, World Bank Group.

Working groups

Since April 2016, over 200 experts and practitioners from industry, governments, international institutions, NGOs and academia have been engaging across different priority areas. These priorities are assessed and driven forward by seven dedicated working groups whose evolving membership is drawn from private and public institutions.

- Technical Assistance Facility (TAF).
  Objective is to establish a (TAF) for (sub-sovereign) risk transfer supported by the insurance industry, donor governments, the World Bank and the UN. This will help low-and middle-income governments as well as humanitarian actors (i) to better understand their natural catastrophe risks and (ii) to scale-up the use of risk financing instruments. Chaired by Ivo Menzinger of Swiss Re.
- Risk Modelling & Mapping.
  Objective is to reinforce global understanding and quantification of disaster risk, particularly in developing countries, in order to support and enable decision-making on mitigation, adaption and transfer. Co-chaired by Ian Branagan of Renaissance Re and Dr Alana Simpson of the World Bank's Global Facility for Disaster Risk Reduction.
- Insurance Regulation & Resilience Policies.
  Objective is to explore the role of insurance regulation and public policy in promoting sustainable development and enhancing economic and social resilience to large-scale disasters. Chaired by Bill Marcoux of DLA Piper.
- Insurance & Humanitarian System (IHS).
  Objective is to provide policy support and broker technical assistance to help humanitarian actors establish and scale-up appropriate insurance tools to complement current financing mechanisms, improving predictability, reducing costs, and increasing the impact of humanitarian programmes. Chaired by Kenn Crossley of the World Food Programme and co-chaired by Sophie Evans of Willis Towers Watson.

Heavy flooding in Tawung, Lopburii province, Thailand.

Sipaghat bazar, Kavreplanchok, Nepal after an earthquake.

- Microinsurance.
  Objective is to coordinate and collaborate on microinsurance projects and to maximize the impact and efficiency, both in technical assistance and funding, of resilience building programmes which are operating in communities vulnerable to climate change. Co-chaired by Shaun Tarbuck, CEO of the International Cooperative and Mutual Insurance Federation, and Dr Joan Lamm Tennant, CEO of Blue Marble Ventures.
- Indicators and Development Metrics for Resilience and Insurance.
  Objective is to support development and implementation of official resilience and insurance indicators into the proposed international monitoring frameworks of the Sendai Framework, Sustainable Development Goals (SDGs) and Paris Climate Agreement. Chaired by Marc Gordon of the United Nations Office for Disaster Risk Reduction.
- Insurance Communications.
  Objective is to support coordinated, targeted, impactful and measurable communications to the IDF's key external stakeholders and support efficient internal communication among the IDF's Working Groups, Management Committee and Secretariat members. Chaired by Fid Norton of XL Catlin.

Social responsibility

A core driver of the IDF is social responsibility with members keen to share their knowledge and expertise in order to safeguard the well-being of those most vulnerable when disaster strikes.

This collaborative ethos - a move away from the silo mentality and competitiveness commonly found in some elements of the financial services sector – is already recognised as crucial to building resilience. The World Bank in its 2016 Report 'Unbreakable – building the resilience of the poor in the face of natural disasters' discusses how insurance plays a key role and that 'for large shock, insurance products can provide protection at a lower costs than savings or borrowing.'

It says 'Over the medium term, a firm with business interruption has a significantly higher likelihood (by 15%) of enhanced productivity and improved performance after a disaster' and reiterates 'private insurance is part of the solution package... demonstrating its effectiveness as a mechanism for the financial protection of individuals, businesses and government assets'.

The Report highlights how risk pooling schemes can be used to transfer excess risk, confirming 'The value of access to this global pool of risk capital was demonstrated after the 2010 Chile earthquake where an estimated 95% of the $18billion in insured losses was passed out of the domestic market onto international reinsurers, protecting domestic carriers'.

The IDF will expand access to risk pooling mechanisms for members of the most vulnerable countries, allowing them to share the burden of catastrophic risks such as earthquakes and flooding.

Good practice

The Report cites examples of good public private/partnerships, quoting the Turkish Catastrophe Insurance Pool and the Mongolian Livestock Insurance Pool. In both cases the domestic insurance market provides the mechanism through which governments are able to reach households and businesses with insurance products to expand their financial resilience to disasters. Both partnerships have substantially increased insurance penetration at a local level.

Index-based cover is another good example. Underwriting variables such as rainfall deficit and wind speed etc and agreeing a minimum threshold to trigger a pre-defined payment, ensures greater control over losses (as they do not need to be measured), encourages individuals to take preventative measures (not dependent on losses or risk mitigation) and simplifies the payment decision. The Government of India launched a pilot of the weather-based crop scheme in 2007, insuring over 10 million for a range of crops.

It is clear the potential for resilience building is huge and not just with disaster risk insurance; health insurance-helping those who are injured or disabled – can prevent families spiralling into debt. But the social responsibilities do not end here; they extend into helping educate people in risk management, enabling them to make informed decisions.

The World Bank Report explains: 'When insurance providers price the risk correctly, the price itself indicates the risk level which helps people and firms make better-informed decisions about risk taking and risk mitigation investments. For example, a potential buyer may buy not a home because of high insurance costs against floods, even if the flood risk information is not easily available. Insurance can create a powerful incentive for people to manage their risk better and reduce losses'.

The World Bank Report shows just what can be achieved when key stakeholders commit to proactive partnerships – they support the wellbeing and recovery of vulnerable nations. The world is watching to see whether this unique public/private sector partnership can deliver results that will use insurance industry risk management skills to build resilience that benefits economies and families. However judging from some of the IDF's partners feedback, hopes are high.

Making a difference

Helen Clark, IDF co-chair and administrator of the UNDP comments: "For many developing countries with scarce resources, rebuilding is often beyond their means. Typically, a disaster is followed by appeals to bilateral, regional, and international partners for aid relief and financial support. This support, however, often falls well short of what is required. Systemic lack of funds and recurrent inefficiency of recovery initiatives on the ground impede progress. Insurance can be an efficient, fast-disbursing mechanism to build back better in vulnerable countries and communities hit by disasters, but also to reduce risks and the costs of risks in the long term. I agreed to co-chair the Insurance Development Forum because I believe it can make a real difference in addressing these challenges."

Sharing prosperity

Joaquim Levy, IDF co-chair and World Bank Group chief financial officer states: "Many emerging markets and developing countries lack sufficiently developed insurance markets, which stifles growth and has a negative impact not only on business but on general welfare, notably among the poorest. The lack of insurance instruments or broader risk-pooling or risk-mitigation mechanisms is also evident in the public sector, affecting government's ability to respond to natural disasters and other large-scale events. The World Bank Group is engaged in more than 40 countries in the design of financial protection strategies, including reforms on public financial management and financial instruments and also in the development of risk-mitigation strategies. But more needs to be done, and we cannot do this alone. We stand with the Insurance Development Forum and its partners to facilitate our activities and use risk management instruments in helping eradicate poverty and raise shared prosperity."

Redoubling efforts

Rowan Douglas, chair of the Implementation Committee opines: "We all recognize a unique moment and opportunity to make a huge step forward in the protection of lives, livelihoods and communities – realizing the benefits of insurance across public, private and mutual and cooperative sectors. We will redouble our efforts between now and our next major milestone and the World Bank-IMF Spring Meetings in Washington DC next April."

The last word has to be from Stephen Catlin: "My grandchildren expect me to make responsible decisions that affect their future and this applies globally. Insurers' risk management skills help us assess natural disaster risk and this can be exported to allow governments at all levels to reduce future losses by designing resilience into infrastructure projects and increasing their use of insurance as a pre-disaster resource. I am confident that this strong public-private partnership can make a significant impact in increasing global resilience to better protect citizens' properties and assets." •