Climate risk insurance for the underserved and vulnerable: What is the role of insurance supervisors to foster its responsible development?

A2ii – IAIS Consultation Call

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The discussants

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OBSTACLES Faced BY THE INDUSTRY TO INNOVATE ON CLIMATE RISK INSURANCE

**Policy Level**
- CRI is not recognised as a key component to achieve public policy goals
- There is no coordination amongst policymakers to promote CRI
- There is a lack of understanding of the business case of CRI and a lack of incentives to make products sustainable and scalable

**Regulation**
- Not allowance of:
  - index insurance
  - alternative distribution channels
  - electronic signature, payments and contracts
  - Restrictions to reinsurance transactions
  - A wide range of taxes
  - CRI is not mandatory
  - Slow acceptance to technology innovations

**Supervision**
- Supervisors are unaware of the role that they can play in order to promote resilience against climate risks and natural disasters
- Supervisors are reactive and not proactive, they impose barriers to product approval
- Supervisors are not open to innovation
- Supervisors do not have the technical skills to understand the complexities of new approaches
- Capacity building to supervisors is expensive and time consuming

**Demand**
- The vulnerable populations are not aware of CRI
- Lack of understanding of the risks that the vulnerable populations confront
- Sometimes consumer centric approaches for product design are not adopted
- Lack of incentives for CRI takeup
- Lack of support of governments to raise awareness on CRI

**Supply**
- Limited support to the industry during process design
- Lack of data and access to data
- Lack of local capacity for product design that is matched by complications for reinsurers to provide capacity building
- Limited room for innovative business models
- Technology could be expensive and not allowed
- Lack of incentives

*Source: A2ii, The role of insurance supervisors in climate risk insurance, 2019*
1. What supervisors can do to encourage the development of responsible CRI markets?
INSURANCE IS ONE PIECE OF THE DRR PUZZLE...

Risk Identification
Understanding risk, hazard mapping, risk modelling, priority settings, social perception, etc.

Risk Prevention
Prevention, mitigation, creation of culture of preparation, etc.

Risk Transfer and Retention
Insurance, disaster risk financing, reserve mechanisms, budget planning, etc.

Risk Preparedness
Early warning systems, alerts, response planning, training, response systems management, contingency plans, etc.

Post-disaster Response and Recovery
Institutional planning, recovery, planning reconstruction policies, rehabilitation plans, humanitarian actions, post-disaster financing, etc.

...AND PART OF A LAYERED APPROACH TO MANAGING RISKS

Layer 1
High frequency
Low losses

Layer 2
Low frequency
Medium losses

Layer 3
Very low frequency
Very high losses

Risk mitigation
Risk mitigation + Risk transfer
Risk mitigation + Risk transfer + Risk coping

Source: A2ii, The role of insurance supervisors in climate risk insurance, 2019
2. What supervisors could do so the insurance industry can share their risk management expertise to build resilience?
3. What supervisors could do to support policymakers to ensure that insurance is seen as a piece of the puzzle of disaster risk management?
The wishlist
Thank you.

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