Access to Insurance Initiative

*Increasing Resilience Against Climate and Disaster Risks: the Role of the Supervisor*

Teresa Pelanda I 15 April 2020
2nd Inclusive Green Finance (IGF) Working Group Meeting
As implementation partner of the IAIS, we strengthen the capacity and understanding of supervisors to facilitate the promotion of inclusive and responsible insurance, thereby reducing vulnerability.
1 | The Challenges

2 | Climate risk insurance: a piece of the puzzle

3 | Regulating for resilience
Physical risks of climate change

Climate change affects the frequency and severity of natural catastrophes. Increasing temperatures and sea level rise pose great risks.
The Coronavirus is a Preview of Our Climate-Change Future

...In the future, we may have to reckon also with diseases we believed we already defeated, since in addition to bringing about pandemics of the future, global warming will revive plagues of the past....


'Tip of the iceberg': is our destruction of nature responsible for Covid-19?
As habitat and biodiversity loss increase globally, the coronavirus outbreak may be just the beginning of mass pandemics

Impact on low-income population

Beyond immediate loss of life and wealth, effects can persist over time.

Recent research reveals that disasters can affect victims for decades.

➢ Economists, development experts, and world leaders have long warned that climate change is likely to hurt poor countries more than rich ones.

Source: ADB, ASIAN DEVELOPMENT OUTLOOK, STRENGTHENING DISASTER RESILIENCE, April 2019
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Building resilience through disaster risk management

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

2. **Risk Reduction**
   - Prevention, mitigation, creation of culture of preparation, etc.

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

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

5. **Post-disaster response and recovery**
   - Institutional planning, recovery, planning reconstruction policies, rehabilitation plans, humanitarian actions, etc.

*Insurance is just one piece of the puzzle...*
Building resilience through financial inclusion

Before a Shock

Investment in the face of risk
Insurance can lead to more productive investments, and initial evidence on the impact of other financial tools on investment behavior is promising.

Risk reduction
Lowering barriers to credit and introducing goal-based savings may reduce exposure to shocks by encouraging the adoption of risk-mitigating technology.

Risk preparedness
Liquid accounts, savings groups, and behavioral nudges may enable households to build precautionary savings that lead to consumption smoothing after a shock.

Responding to shocks
Lowering the costs of informal risk-sharing and social protection through digitization can help households affordably access funds when shocks occur.

After a Shock

Insurance

Savings

Credit

Remittances

Savings

Digital payments

Source: IPA, Building resilience through financial inclusion, 2019
Definitions of CRI

**Climate Risk Insurance (CRI)**
Climate risk insurance is a vital instrument within a comprehensive climate risk management system, spanning a continuum of prevention, risk reduction, risk retention and risk transfer such as insurance schemes.

Source: [https://www.giz.de/de/downloads/giz-2016-en-climate_risk.pdf](https://www.giz.de/de/downloads/giz-2016-en-climate_risk.pdf)

**Natural Disasters Coverage**
Insurance for major natural catastrophes such as earthquake, volcano eruptions, wild fires, tsunamis, floods, etc.
Climate risk insurance at various levels

**Macro-level solutions**
- CCRIF-CA
- ARC
- PCRAFI

**Meso-level solutions**
- ARC-Replica
- Global Parametrics and Vision Fund

**Micro-level solutions**
- R4 of the WFP: Ethiopia, Senegal, Malawi and Zambia
- ACRE: Kenya, Rwanda and Tanzania (more than 1 million farmers covered in 2017)
- MCII: The Caribbean
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Natural catastrophe protection gap in 2019
Only in North America and Australia half of the losses were insured

Source: Munich Re, NatCatSERVICE, 2019
### Causes of insurance protection gaps

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<td><strong>Adverse selection/moral hazard</strong></td>
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<td><strong>Institutions</strong></td>
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<td><strong>Limits to insurability</strong></td>
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**Demand side**

**Supply side**

Regulatory barriers to climate risk insurance

Did you face any regulatory barriers when designing solutions to promote resilience of the unserved population against climate/nat cat events?

77% Yes
23% No

Source: Mentimeter Survey among 47 industry representatives, conducted by A2ii.
Stimulating the market for CRI

- Stimulate supply by enabling risk carriers within the domestic insurance market
- Give room to test innovations
- Address demand constraints related with awareness, trust, appeal, culture, affordability
Championing CRI

- Catalyse action to strengthen resilience against climate risks

- Act as a bridge and communication catalyst between policymakers, the insurance industry and consumers
THE ROLE OF INSURANCE SUPERVISORS IN CLIMATE RISK INSURANCE
MAKING THE VULNERABLE MORE RESILIENT TO NATURAL DISASTERS
Conclusion

• Understanding the risk is crucial
• Insurance has an important role and is a necessary participant in the dialogue to enhance resilience
• Risk mitigation and disaster resilience is collective action by all stakeholders
• Work to improve access to insurance to bridge the gap
• Integrate insurance into broader policy frameworks for disaster risk management
Further reading

- Presentations & Videos from Consultative Forums in 2020:
  - Bangladesh
  - South Africa
  - Panama

- A2ii – IAIS Consultation Call Reports:
  - Climate risk insurance for the underserved and vulnerable: What is the role of insurance supervisors to foster its responsible development? Jan 2020
  - Climate Change Risks to the Insurance Sector Nov 2018
Thank you.

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