

Access to Insurance Initiative (A2ii)

Inclusive insurance - bridging the protection gap against climate risk in the Caribbean

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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.



Agenda

1| The Challenges

2| Climate risk insurance: a piece of the puzzle

3| The protection gap

4| Courses of action for the stakeholders

5| Conclusion

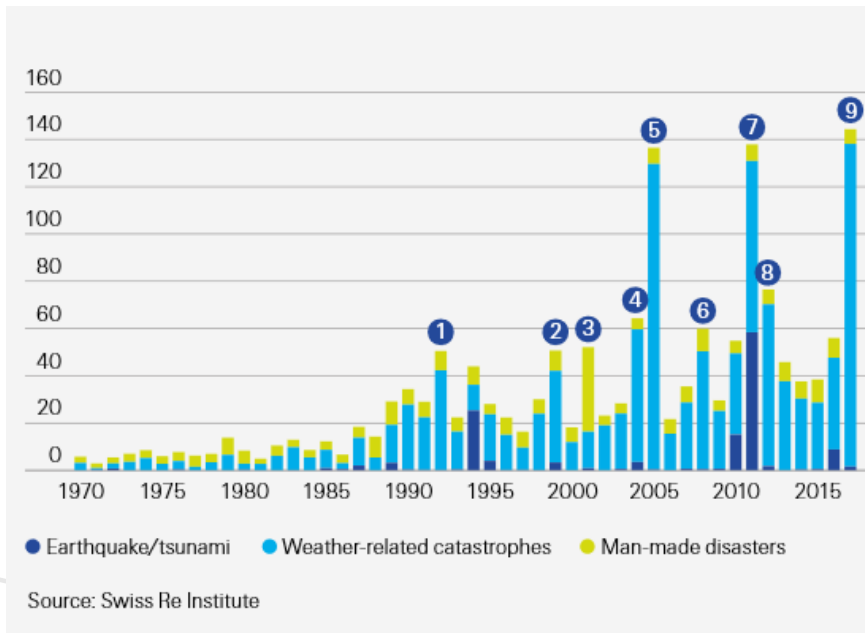
More frequent and severe disasters

In the last decade to 2014, 89% of storm-related fatalities were in lower-income countries

Climate change could push an additional 100 million people into extreme poverty (*World Bank*)

The economic impacts of climate change could reduce global GDP by 3.3% by 2020 (*OECD*)

5.4 billion people earning USD 2 - USD 10 per day have managed to escape poverty, but they remain vulnerable to shocks!



Impact of Cyclone Idai in Mozambique March 2019



ADRIEN BARBIER/AFP/GETTY IMAGES

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

Impact on economies

Total economic losses from natural catastrophes and man-made disasters in 2018: USD 165 billion

Insurance covered USD 85 billion of those losses

4th highest 1 year aggregate industry pay-out ever

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2| **Climate risk insurance: a piece of the puzzle**

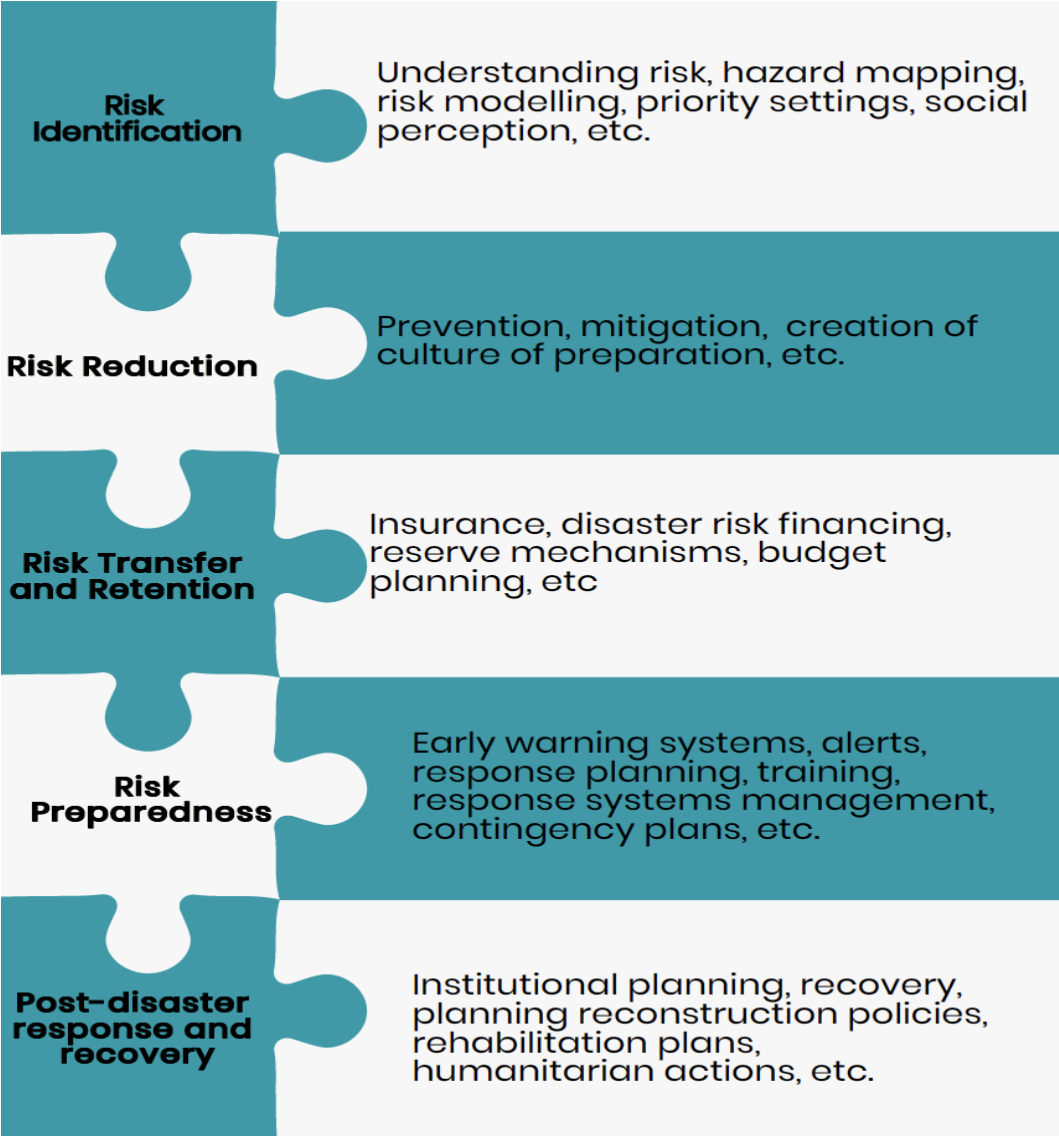
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Building resilience

Building resilience through disaster risk management



Insurance is just one piece of the puzzle...

Definitions

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

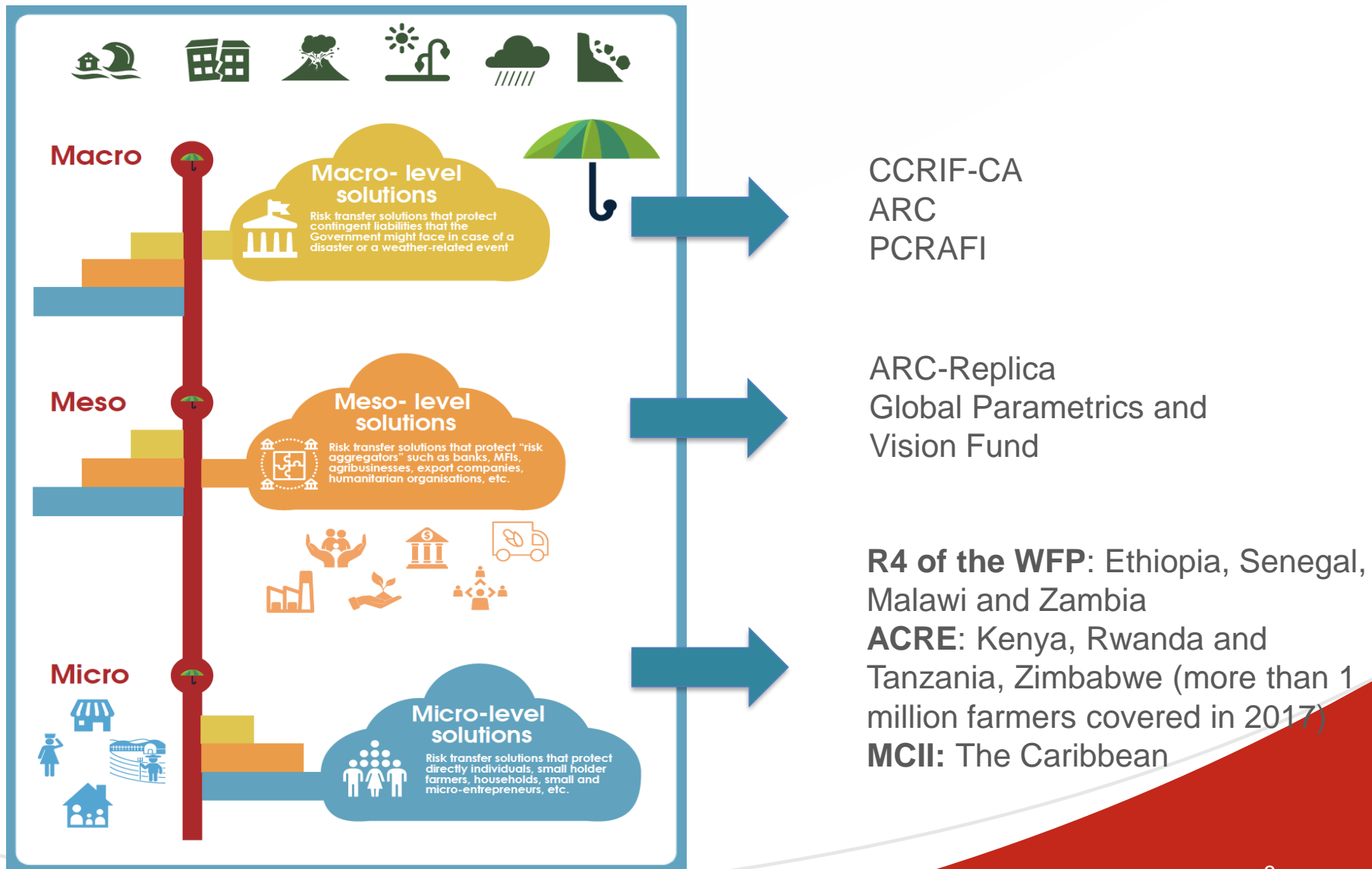
Natural Disasters Coverage

Insurance for major natural catastrophes such as earthquake, volcano eruptions, wild fires, tsunamis, floods, etc.

Inclusive Insurance

“All insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market.” (IAIS, 2015)

Climate risk insurance at various levels



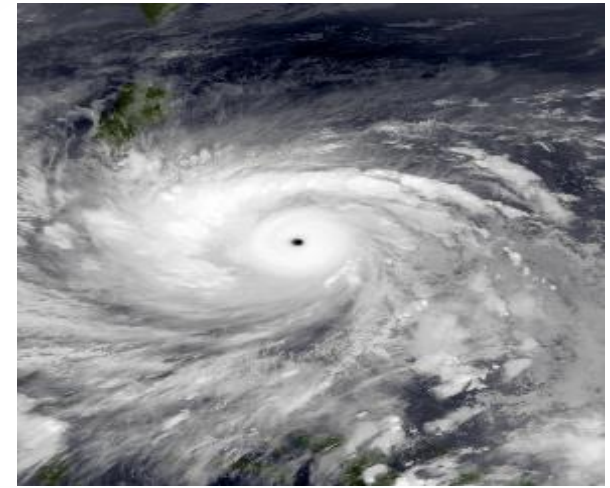
Typhoon Haiyan (2013) - Philippines

Category 5: Highest wind speeds ever seen on land (194 mph)

Impacted over 16 million people

6300 deaths

Displaced almost 4.1 million people



Typhoon Haiyan at peak intensity and approaching the Philippines on November 7, 2013.

Source: Aiding the disaster recovery process: the effectiveness of microinsurance service providers' response to Typhoon Haiyan, Microinsurance Network, Donna Swiderek and John Wipf (2015)

Typhoon Haiyan (2013) - Philippines

First time in a major disaster that the use of inclusive insurance covered low-income population for part of a catastrophic event.

Microinsurance claims: 126,363 reported claims totalling 12 million USD

98% were calamity claims

Average claim pay-out: 108 USD



Source: Aiding the disaster recovery process: the effectiveness of microinsurance service providers' response to Typhoon Haiyan, Microinsurance Network, Donna Swiderek and John Wipf , 2015

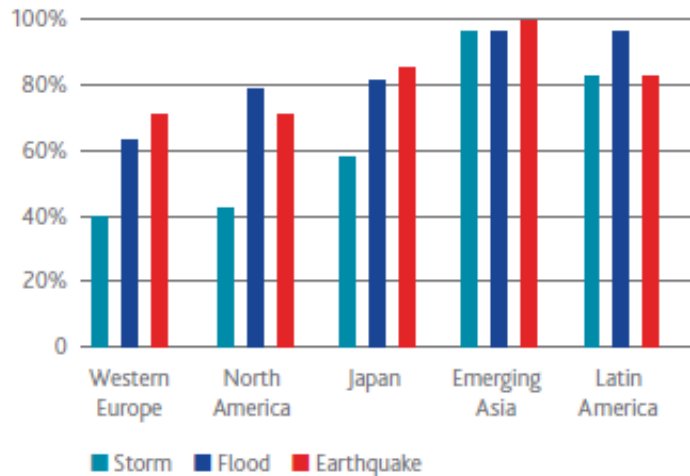
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The protection gap

In 2018, total economic losses from natural disasters and man-made disasters amounted to US 165 billion and only half of which was insured.

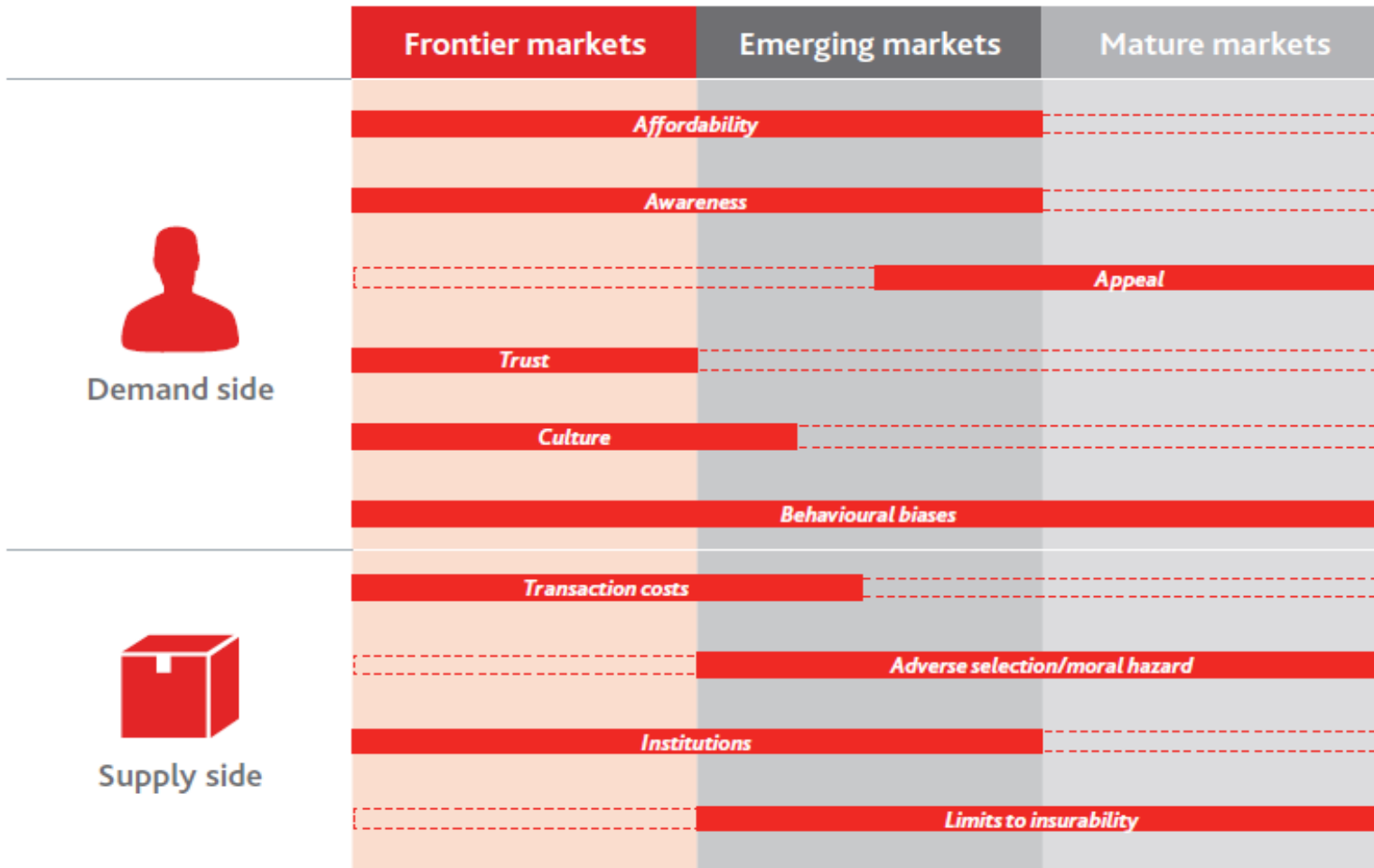
In emerging economies, only 10% of climate related risks are covered



Source: Munich Re NatCatSERVICE

The average natural catastrophe protection gap by region and peril, 1980-2016

Causes of insurance protection gaps



Source: The Geneva Association (2018): Understanding and Addressing Global Insurance Understanding and Addressing Global Insurance Protection Gaps.

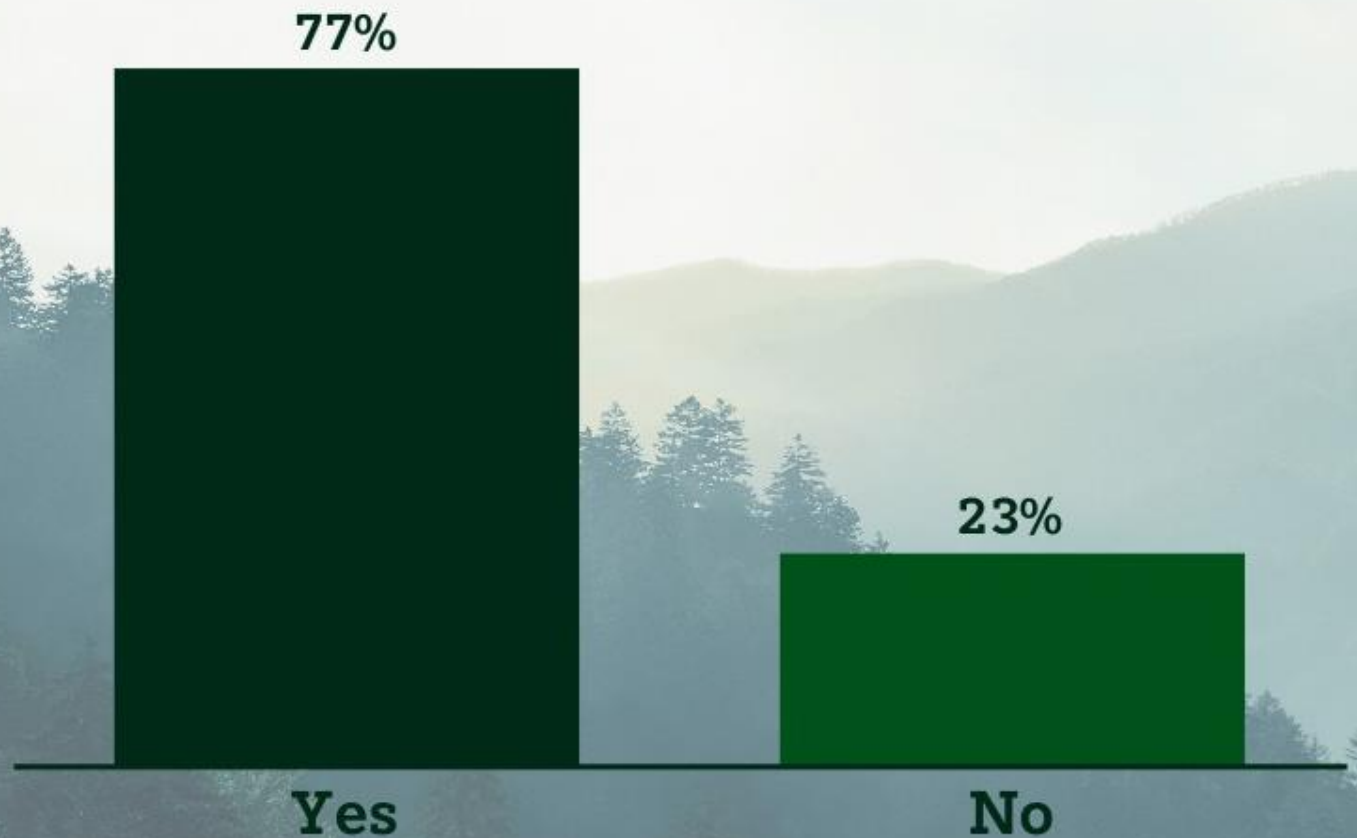
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Regulatory solutions

Source: Mentimeter Survey among 47 industry representatives, conducted by A2ii.

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



Regulatory solutions- main obstacles

1| Lack of a clear regulatory framework

2| Lack of awareness of insurance supervisors on new and innovative products – hesitation to approve them

3| Insufficient provision of public goods (data and insurance awareness)

4| Index-based insurance products not defined by regulation/regulations that do not allow for index-based insurance

5| Limits on (innovative) distribution channels, regulations on who/how products can be sold create barriers to innovative selling

6| Electronic policies / e-signature, payments using airtime deduction are discouraged

7| Taxes/fees on micro products not differentiated from traditional products thus adding to the cost and reducing affordability.

8| International reinsurers regularly face trade barriers when providing insurance capacity to markets with unserved populations.

9| Restrictions on cross border reinsurance transactions, local presence requirements

Regulating for resilience



Insurance regulators and supervisors are key players and need to have an active role in addressing the protection gap.

- A sound regulatory framework is required to enable a stable insurance market and protect policyholders
- Regulatory certainty as a success factor

Government solutions

- Promoting risk mitigation
- Coordination of stakeholders
- Provide public goods, in particular data and financial literacy/insurance awareness
- Addressing limits to insurability
 - Providing public insurance programmes
 - Risk financing (e.g. by facilitating access to reinsurance or acting as reinsurer of last resort)
 - Providing support for market infrastructure

Industry solutions

- Insurance companies need to understand and adapt products, processes and distribution channels to reach the large uninsured population
- Actively share risk knowledge to support risk understanding within the public sector
- Integrate into their business models ways to encourage the adoption of comprehensive disaster risk reduction approaches
- Ensure that reinsurance risk is diversified with strongly rated companies

The existing protection gap is an opportunity for the insurance industry to both grow and to help more of the global population be better prepared to manage the financial hardship that disaster events can inflict.

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How to effect change?

Dialogue with various parties to improve understand and implement risk mitigation strategies

Openness to make positive changes

Monitor evolution and make periodic adjustments

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

Thank you.

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Beyond pure regulation...

Stay at the forefront of initiatives to develop agricultural and climate risk insurance insurance

Engage in dialogue with policymakers and industry on how insurance should be integrated into broader policy frameworks such as disaster risk management

Coordination of stakeholders, e.g. multi-stakeholder steering committee, including: Government, other supervisors, stakeholders in key areas such as data sharing

Awareness creation/ financial education