



**Working Session – Risk Transfer and Insurance for Resilience**  
**Wednesday 24 May 2017, 11:45 - 13:15, Arena F, Moon Palace Resort**

**Concept Note**

**Why is this topic important?**

Countries have recognized that they must shift their focus from managing disaster impacts to managing disaster risks. Integrated risk management programmes that address mitigation, risk reduction strategies and include advance, integrated risk financing are much cheaper than the current, predominant practice of financing recovery post disaster; a practice arising from politics and associated policy decisions, economic priorities and lack of risk awareness.

The Economist Intelligence Unit (EIU)<sup>1</sup> found that the sophistication of a country's insurance market, the existence of emergency funds, and its economic resilience are highly correlated. Between 1980 and 2015, only 2 per cent of losses caused by weather-related natural catastrophes in lower middle and low-income countries were covered by insurance<sup>2</sup>. The 2030 Agenda for Sustainable Development, the Sendai Framework for Disaster Risk Reduction and the Paris Agreement all identify the contribution risk transfer and insurance can make, when integrated into broader risk management strategies.

The Sendai Framework calls for 'the promotion of mechanisms for disaster risk transfer and insurance, risk-sharing and retention and financial protection, as appropriate, for both public and private investment in order to reduce the financial impact of disasters on Governments and societies, in urban and rural areas' (Paragraph 30(b)).

With these calls to action, public entities, insurance carriers, brokers, mutual, cooperative and stock companies, risk modellers and global associations are coming together to develop solutions that build resilience through increased understanding of risk and of actions that mitigate financial impacts. A multi-sector approach is needed to reverse the growing protection gap by creating scalable, replicable and affordable solutions for the world's poorest and most vulnerable populations.

**What gaps need to be filled?**

Collaboration between private and public sectors needs to increase. The private sector has needed capabilities, including risk assessment and catastrophe modelling expertise, but does not have the same drivers as the public sector; it operates only where there is clear demand. The public sector must fill the gap when the private sector cannot satisfy societal needs, but such solutions are not common, are often challenged in implementation and tend to focus on the most prevalent risk<sup>3</sup>. There is a need to increase risk literacy, to improve risk visibility, to educate vulnerable populations and to shift the disaster management focus from response and recovery to mitigation, risk reduction and prevention to minimize disaster impacts globally. The public sector can create a risk management framework that focuses on education, stimulates risk prevention, and can enact policies and regulations that allocate greater capital to disaster risk and mitigation strategies. The protection gap is well recognised, particularly in developing countries and emerging economies, and there is a gap in the ability to model and accurately price climate and disaster risk within relevant, accessible and affordable disaster risk transfer solutions and to accurately assess the impact of these initiatives.

<sup>1</sup> The Economist Intelligence Unit 2016. *Towards disaster-risk sensitive investments: the Disaster Risk-Integrated Operational Risk Model*.

<sup>2</sup> Munich Re, 2016

<sup>3</sup> Kusuma, A., Nguyen, C & Noy, I. 2016: "Insuring Disasters: Demand, Supply, and Consequences

<b>Schedule</b>	24 <sup>th</sup> May, 2017
<b>Room and Venue</b>	Arena F
<b>Organizers</b>	UNISDR and Organizing Team
<b>UNISDR Focal Points</b>	<ul style="list-style-type: none"> <li>▫ Marc Gordon, UNISDR</li> <li>▫ Kiki Lawal, UNISDR</li> <li>▫ Aurélie Blin, UNISDR</li> </ul>
<b>Background and Rationale</b>	<p>This session will examine the role of risk transfer and insurance within integrated risk management and how it can contribute to strengthening resilience and supporting economic growth. It will consider the (re-)insurance industry's contribution to implementation and monitoring of the SDGs and the Sendai Framework for Disaster Risk Reduction.</p> <p>The increase in exposure, disaster intensity and frequency has slowed economic growth, reversed economic and social development, and increased mortality, with the greatest impacts on low to middle income countries. Risk transfer and disaster related (re-)insurance statistically and economically reduce the negative economic growth effects that follow disasters<sup>4</sup>. Prevention and mitigation strategies are the most effective ways to reduce disaster risk yet the retention and/or transfer of risk is often unavoidable. Affordable and accessible risk transfer and insurance solutions, as part of an integrated risk management strategy, can foster societal resilience by reducing economic impacts, incentivizing disaster risk reduction measures, increasing compliance with existing standards, facilitating public-private partnerships, increasing capital access and reducing financial volatility<sup>5</sup>.</p> <p>In the last twenty years, approximately 30% of recorded disaster losses were insured, leaving a financial protection gap of 70%. Disaster insurance penetration remains low, especially in high exposure locations, such as low lying coastal urban centres<sup>6</sup>. Although risk transfer and insurance mechanisms foster societal resilience, they are absent in many developing countries. Most affected countries face tremendous challenges to access effective public, private and mutual disaster insurance solutions; many developed economies experience similar problems.</p> <p>As only one part of an effective disaster management plan, insurance alone cannot reduce risk and is not always appropriate but uninsured losses negatively affect households, private sector and governments. The public sector - often the insurer of last resort - commonly assumes relief, recovery and public infrastructure reconstruction costs and may</p>

<sup>4</sup> von Peter, G., von Dahlen, S. & Saxena S. 2012: "Unmitigated Disasters? New Evidence on the Macroeconomic cost of Natural Catastrophes", in: *Bank for International Settlements*, Working Paper 394, December, Basel.

<sup>5</sup> Baur, E & Parker, M. 2015: "Building financial resilience – the role of risk transfer for sovereign disaster risk management" in *Planet at Risk*, Vol 3, No 1, Davos

<sup>6</sup> Ibid.

be expected to provide transfer payments for private rebuilding in developing economies.<sup>7</sup>

The insurance industry has innovated and developed capabilities that can enhance resilience. It translates science and engineering knowledge into financial information that enhances understanding of risk exposure, helps effectively price risk and informs investment and policy decisions. It has loss prevention and mitigation skills, risk financing and risk pooling mechanisms that can transform uninsurable risks into insurable risks. For example, pooling economic risks from weather related disasters to provide income security and to use index based (parametric) approaches with payouts triggered by weather indices rather than by indemnity.

These risk transfer initiatives exist at macro or sovereign levels, at the meso or national levels. They can support public efforts to install integrated and efficient disaster risk management approaches. Public and private efforts, e.g. the Turkish Catastrophe Insurance Pool, the G7 Climate Risk Insurance Initiative, and the Insurance Development Forum (IDF), seek to optimize and extend insurance and risk management capabilities to increase resilience and economic protection for vulnerable communities, businesses, and public institutions affected by disasters. Micro-insurance provides low-income individuals, households and businesses with affordable disaster insurance but geographic coverage, uptake and commercial viability is often limited; the educational requirement and the lack of an enabling regulatory environment can be an impediment. This session will explore these 3 levels for scalability and replicability.

The realization of the Sendai Framework and the 2030 Agenda for Sustainable Development will be advanced by combining the insurance industry's knowledge, capabilities, and risk transfer and insurance mechanisms with public science to fill insurance gaps, to develop mechanisms that support and to incentivize risk reduction, societal resilience and to provide benefits beyond pure indemnity payment.

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<sup>7</sup> United Nations Framework Convention on Climate Change 2017: "Risk Management Approaches to Address Adverse Effects of Climate Change-Insurance"  
[http://unfccc.int/cooperation\\_support/response\\_measures/items/4971.php#MICROIBI](http://unfccc.int/cooperation_support/response_measures/items/4971.php#MICROIBI)

<b>Session Objectives</b>	<p>This Session will examine how to optimize and extend insurance and related risk management capabilities as part of an integrated risk management approach to build societal resilience and protection. It will explore disaster risk transfer, insurance mechanisms and collaborative, innovative approaches and how they can incentivize disaster risk-sensitive planning and investment decisions by the public and private sectors.</p>
<b>Discussion agenda and structure</b>	<ol style="list-style-type: none"> <li><b>1. Introduction &amp; welcoming remarks by Co-Chairs</b></li> <li><b>2. Panel discussion</b></li> </ol> <p><i>Review trends in the risk landscape.</i></p> <p><i>Developments in risk transfer &amp; insurance over the last decade at micro, meso and macro levels in developed, emerging and developing countries.</i></p> <p><i>Enabling environment and self-sustaining approaches.</i></p> <p><i>Linking risk transfer with risk reduction.</i></p> <ol style="list-style-type: none"> <li><b>3. Interactive guided discussion</b></li> <li><b>4. Wrap up and conclusion by the co-Chairs</b></li> </ol>
<b>List of speakers</b>	<p><i>Co-Chairs:</i></p> <ul style="list-style-type: none"> <li>▫ Riikka Laatu, Deputy Director General at the Department for Development Policy, Ministry for Foreign Affairs, Finland</li> <li>▫ Simon Young, COO, African Risk Capacity Insurance Company Limited (ARC Ltd), Africa</li> </ul> <p><i>Speakers:</i></p> <ol style="list-style-type: none"> <li>1. Shaun Tarbuck, CEO, ICMIF and Member of the Steering Committee (IDF)</li> <li>2. Robert Muir-Wood, Chief Research Officer, Risk Management Solutions (RMS)</li> <li>3. Phil Evans, Chief Operating Officer, Met Office, UK.</li> <li>4. Liliana Cardozo de Cano, Gerente General, Taja, Paraguay</li> <li>5. Sophia Belay, R4 Program Manager, Africa</li> </ol> <p><i>Discussants:</i></p> <ul style="list-style-type: none"> <li>▫ Javier Rodríguez Della Vecchia, CEO, Zurich Insurance, Mexico</li> <li>▫ Ulrich Hess, Team Leader of G7 InsuResilience Initiative</li> </ul>

<p><b>Expected outcomes</b></p>	<ul style="list-style-type: none"> <li>▫ Participants are aware of the efforts of, and challenges experienced by governments, the private sector, international organizations and NGOs to reduce and manage the risk of disasters by applying risk transfer mechanisms.</li> <li>▫ Participants are aware of the benefits of an integrated and comprehensive disaster risk management approach and how insurance and risk transfer can support this.</li> <li>▫ Potential success factors and limitations of risk transfer solutions have been debated.</li> <li>▫ Participants will understand what is needed to strengthen resilience – including the gaps between demand and supply - and discussed how the private and public sectors can contribute to building societal resilience and bridge these gaps.</li> </ul>
<p><b>Technical Equipment Required</b></p>	<p><i>Mobile mics: 9 (2 Co-Chairs, 5 panelists) + 2 for questions from the floor Ppt projector Laptop WEF lounge format</i></p>
<p><b>Background documents</b></p>	<p>Making Climate Risk Insurance Work for the Most Vulnerable: Seven Guiding Principles. UNU-EHS Publication Series   Policy Report 2016   No. 1 Munich Climate Insurance Initiative(<a href="https://collections.unu.edu/eserv/UNU:5830/MCII_Pro_Poor_161031_Online.pdf">https://collections.unu.edu/eserv/UNU:5830/MCII_Pro_Poor_161031_Online.pdf</a>)</p> <p>How will Risk Modelling Shape the future of Risk Transfer. (Geneva Association, March 2017 - <a href="https://www.genevaassociation.org/media/957787/pr-17_4-risk-modelling-event_final-9march.pdf">https://www.genevaassociation.org/media/957787/pr-17_4-risk-modelling-event_final-9march.pdf</a>)</p> <p>An Integrated Approach to Managing Extreme Events and Climate Risk: Towards a Concerted Public-Private Approach (Geneva Association, September 2016 - <a href="https://www.genevaassociation.org/media/952146/20160908_ecoben20_final.pdf">https://www.genevaassociation.org/media/952146/20160908_ecoben20_final.pdf</a>)</p> <p>The Stakeholder Landscape in Extreme Events and Climate Risk Management. (Geneva Association, January 2017 - <a href="https://www.genevaassociation.org/media/956576/stakeholder-landscape-in-eecr.pdf">https://www.genevaassociation.org/media/956576/stakeholder-landscape-in-eecr.pdf</a>)</p> <p>Defining the Protection Gap - a working paper (Insurance Development Forum Working Group on Indicators and Metrics for Insurance and Resilience, 2017)</p> <p>Risk transfer and insurance for disaster risk management: evidence and lessons learned – a Review paper (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) under the Advance Climate Risk Insurance plus (ACRI+) project, 2017)</p>