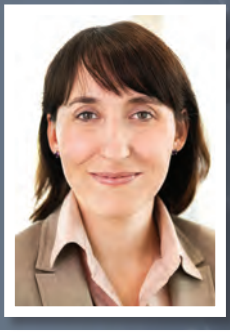
New coalitions to insure climate risks

Asian countries are among the most vulnerable to climate change with 50% of the population living in low-lying coastal areas. Moreover, climate change is accentuating the forces of nature with the strength of tropical cyclones expected to increase, extended drought spells threatening agricultural productivity and extreme precipitation flushing away land and people. **Allianz Climate Solutions' Simone Ruiz-Vergote** provides some informed commentary.



With every assessment by the Intergovernmental Panel on Climate Change, the expected size of impact on Asian countries is raised a notch. How to deal with this dramatically changing risk landscape? Allianz and other global (re)insurers are working jointly with public partners in a move to better understanding these risks, promoting activities that reduce the region's risk exposure and delivering solutions to insure remaining risks in a cost-efficient manner.

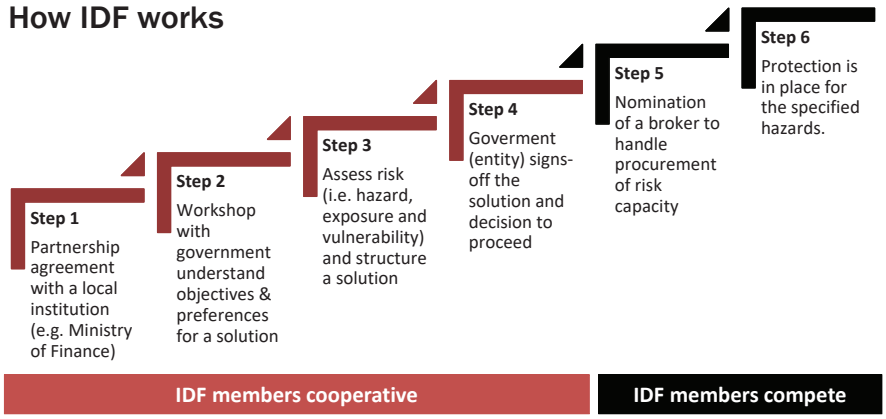
Protection gap in Asia Pacific region requires concerted approach

The term protection gap is often used to refer to the difference between risk exposure and risk cover, i.e. how much of a particular risk is financially secured through insurance or insurance-linked instruments. In respect of climate change, Asian countries are confronted with a daunting challenge of an ever-growing risk exposure, also driven by fast-paced socio-economic change. Allowing the most-exposed and least-prepared segments of the population to deal with the potentially disastrous consequences of rising climate risks, requires a concerted approach between public and private stakeholders.

Closing the protection gap requires making risk cover accessible, affordable and sustainable. This means equal attention must be given to reducing, managing and financing risk. Several initiatives are currently being pursued by insurers and reinsurers, brokers, CAT-modelling and law firms jointly with public sector partners, UN agencies and multilateral development banks that pave the way for significant innovation in the way we approach insurance against natural catastrophes. This form of cooperation aims at better understanding the risk exposure and enhancing the capacity to deal with a changing risk landscape both physically and financially, thereby protecting millions of livelihoods.

In June 2015, the G7, which includes Canada, France, Germany, Italy, Japan, the UK and the US, committed to mobilising access to insurance cover against natural disasters for the most vulnerable people in developing countries. This commitment has turned into the InsuResilience Global Partnership involving more than 65 countries and partners aiming to protect 500m poor and vulnerable people against climate shocks until 2025. Its goal is also to achieve 10% cover of average annual climate and disaster losses for the 48 countries that form part of the Vulnerable Twenty Group and other vulnerable countries through pre-arranged risk financing instruments. In 2018, the German government created the InsuResilience Solutions Fund (ISF) that is open for co-financing by the insurance industry to develop and implement dedicated insurance approaches that follow the spirit of the Global Partnership.

In 2015, during Paris COP 21 the Insurance Development Forum (IDF) was also launched to create a platform to deliver these solutions by critically bringing together representatives of the insurance industry, UN and World Bank. Among others, the IDF aims to optimise and extend the use of insurance to build greater resilience and protection for those who are vulnerable to disasters and their associated economic shocks. This cooperation sets the stage to the point of market readiness, when the insurance cover is



being placed in a competitive market environment through a professional intermediary. In the latest move to scale this initiative, the IDF jointly with Germany, the UK and the UNDP agreed to deliver technical assistance and up to $5bn in offered insurance capital for 20 developing countries, prioritised by their vulnerability to climate risks and readiness to accelerate the integration of risk analysis and management into their development plans to increase resilience.

Bringing institutional horsepower into practice: Sri Lanka, Pakistan

Among the first IDF projects to receive funding from the ISF is the restructuring of the National Natural Disaster Insurance Scheme (NNDIS) in Sri Lanka run by the country's National Insurance Trust Fund (NITF). The IDF is working with the Sri Lankan government to make the NNDIS more sustainable, strengthening Sri Lanka's fiscal resilience to extreme weather events and natural catastrophes. The project brings together global (re)insurers, local insurers, risk-modelling firms and the NITF to foster a robust understanding of risk, which in turn will allow for accurate pricing, implement best procurement practice. The group is also working on claims management excellence.

In Pakistan, Allianz and Swiss Re have, on behalf of the IDF, proposed fast-tracking a sovereign-level insurance scheme to help finance the country's exposure to floods and earthquakes, in particular to allow for speedy reconstruction of critical infrastructure. The proposed insurance scheme uses state-of-the-art technology such as satellite imagery and aims to insure the national government to provide funding for rehabilitation after a disaster. The benefits of such programme are manifold. Primarily, it protects the public budget from highly volatile and costly natural disasters without adding to the national debt burden. It allows for predictability in the financial planning process and frees resources for other pressing issues to further advance Pakistan's economic and social development. Moreover, the speed of pay-out allows to speedily reconstruct critical infrastructure thereby significantly limiting the overall costs of a disaster.

Providing a lifeline for public infrastructure post-disaster

Globally, governments have rarely chosen to insure public assets. One reason could be that since governments own a large number of assets, no single event was likely to affect them all. This allowed governments to pool their own risks and set aside a fund to meet those expenses. In reality, though, most governments did not set aside such funds or even when they did, they found it hard to avoid the honey-pot syndrome. As a result, governments in cash-strapped developing countries often rely on the international community to intervene in case of a natural catastrophe disrupting the supply of public goods. Yet, this is slow to come and never sufficient to cover all resulting damages. Increasingly, governments are seeking ways to insure critical infrastructure.

The IDF has recently published a paper on best practise in insuring public assets and how the platform can help governments in this process. Several initiatives initiated by multilateral development banks in Asia have a similar remit, i.e. allowing countries to get a better understanding of their risk exposure with a view to enhance their risk management capacity and get access to risk transfer solutions. The Southeast Asia Disaster Risk Insurance Facility supported by the World Bank for instance aims to provide climate and disaster risk management and insurance solutions to ASEAN member states and is currently working with Laos, Myanmar and Cambodia.

At sovereign level or below

Allianz last year embarked on a public-private partnership with the German development agency, GIZ, where we explore how to insure public assets belonging to municipalities in Accra, Ghana, against flood risks. One of the lessons so far is that a pre-condition for a successful cover beyond the usual 30-year history of weather data is a clear and explicit understanding as to who owns the risk and has the responsibility for maintenance as well as an up-to-date registry of those assets. Moreover, a factor for resilience and affordable premiums is a functioning solid waste management system to reduce the risk of debris blocking the flood ways.

Conclusion

Several initiatives are currently under development in partnership with the public sector to drive insurance solutions that are embedded in wider risk management frameworks for very exposed populations in Asia. This is important in light of the pressure faced by the region from a changing climate, its geographic exposure to the forces of nature and the high pressure on natural resources through socio economic developments. While the sovereign level seems most appropriate to scale such solutions for a larger amount of people, there are also solutions being developed at municipal level that bring important lessons for the success of such initiatives. Asia has made significant strides over the years in terms of its human and social development and investments in critical infrastructure. Active consideration of the risk exposure and management of these risks through leveraging insurance instruments and risk management capacities will be critical in ensuring continued growth for the region.

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