Public Private Partnerships in the Recovery process

Scaling up insurance solutions to build resilience

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Photo Credit: Vincent Tremeau/The World Bank

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Key Messages

1. Disaster risk finance and insurance (DRFI) solutions are at the core of countries’ climate adaptation and disaster resilience efforts

2. Insurance remains inadequate in most developing countries, leaving millions without protection.

3. Climate risks aggravate concerns on insurability, affordability, and the protection gap.

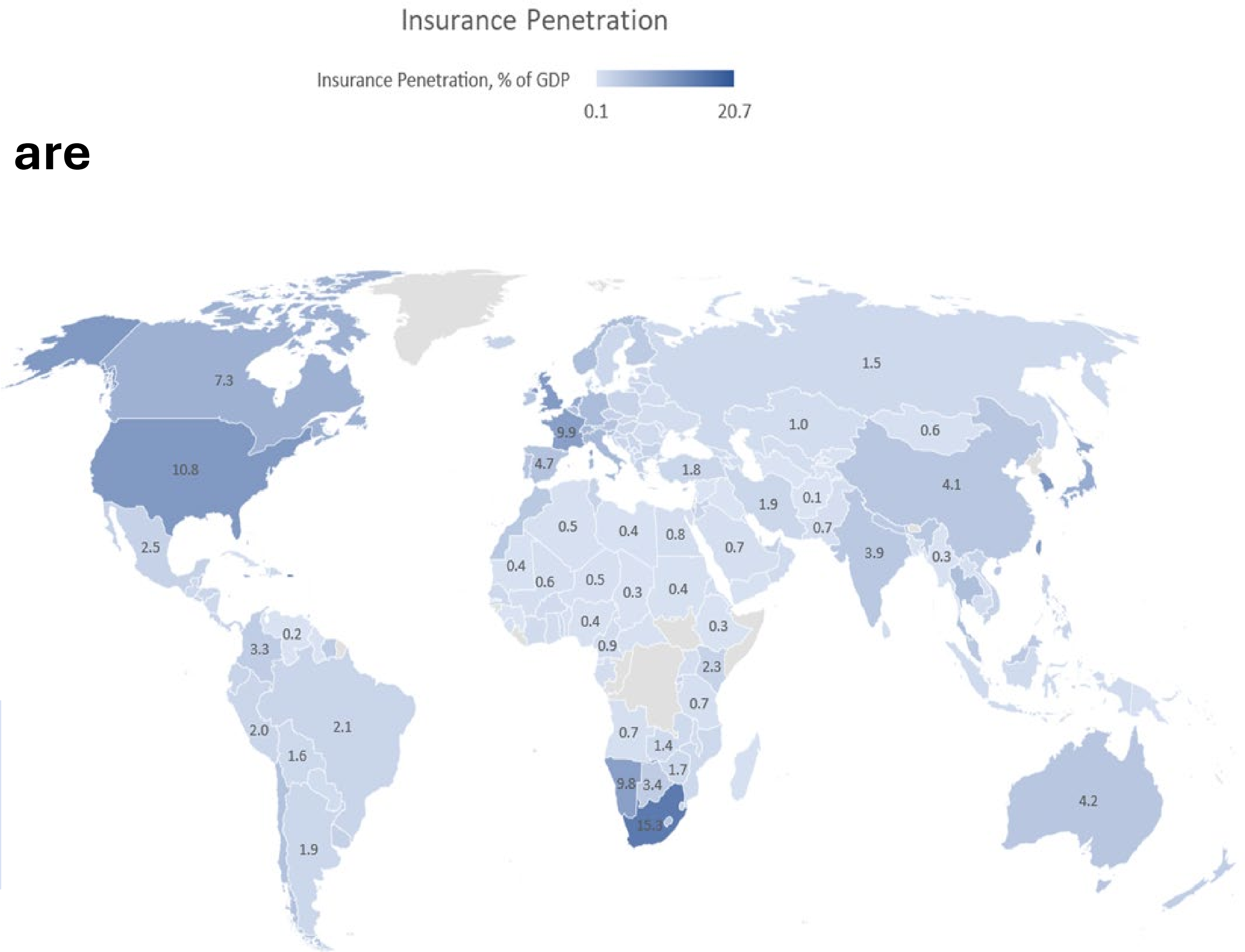
4. Public and private actions needed to improve insurability, affordability and reduce the protection gap.

5. There is no one-size-fits-all – PPIPs have to be adapted to individual country contexts, as part of layered DRFI strategies.

6. Key global initiatives can help close the protection gap and support the broader climate adaptation and resilience agenda.

Photo Credit: Arne Hoel/The World Bank

Limited access to insurance worldwide leads to protection gaps

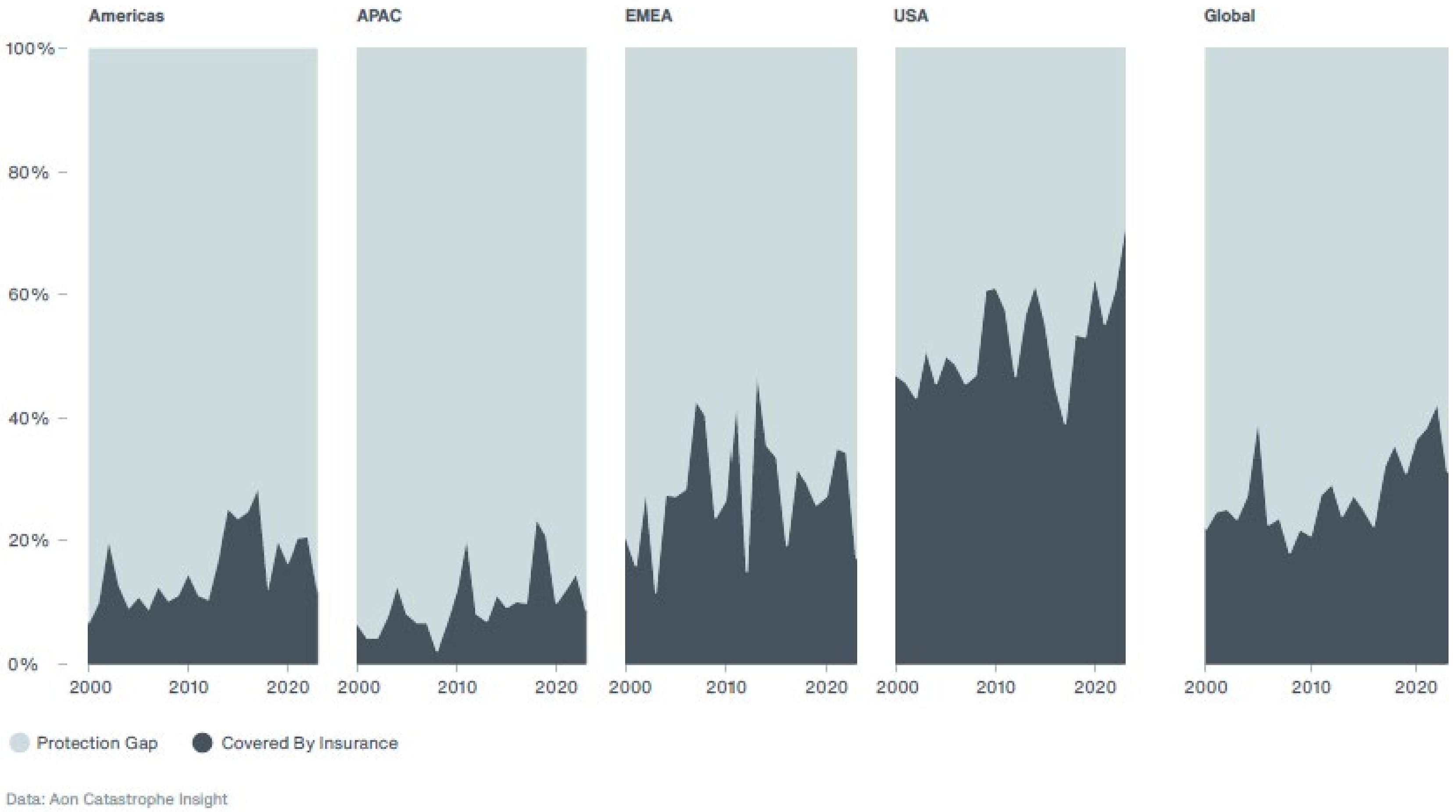


Domestic insurance markets are underdeveloped in EMDEs…

less than **10%** of catastrophic losses are insured **in developing countries**

Across the world, protection gap increases

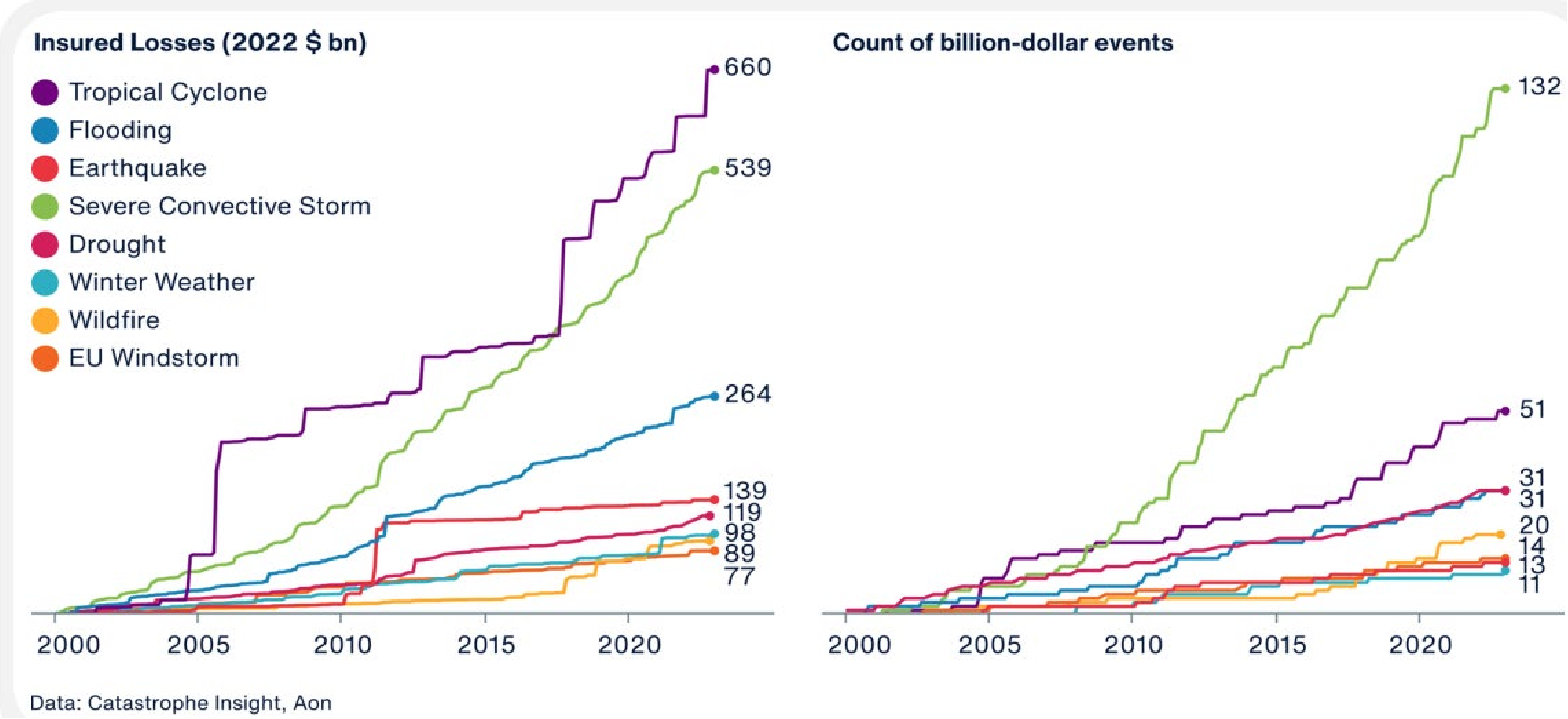
More than 70% of disaster losses are NOT insured globally, and this exceeds 90% in most developing countries



Challenges are on both supply and demand sides

With lack of financial resilience, households, farmers and firms cannot recover and can be trapped in a cycle of poverty

Frequency of losses are increasing

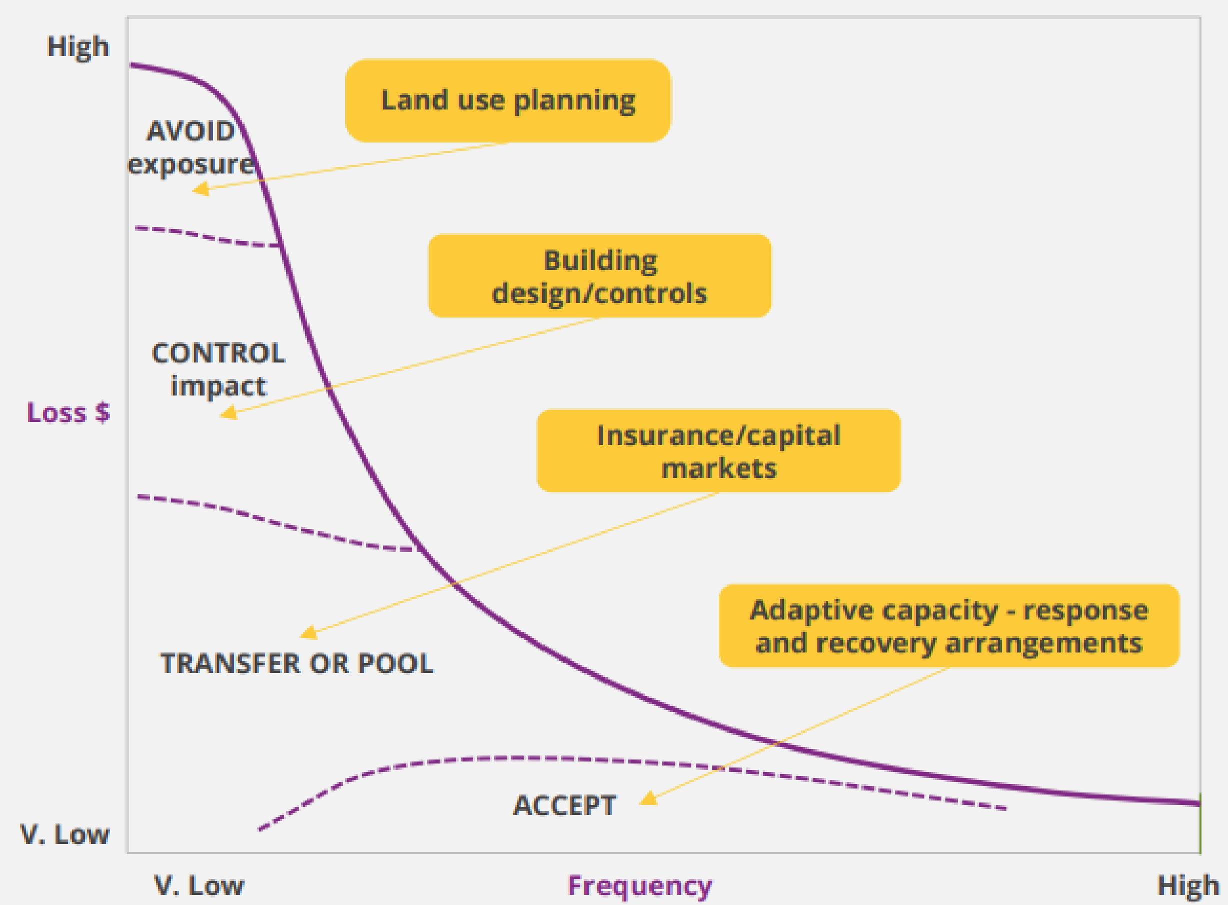


Governments cannot deal with the scale of losses on their own

Insurance can play a major role

- With high levels of insurance penetration, **economic recovery can be faster.**
- **Funding availability:** insurance can reduce the post-disaster funding gap and increase post-disaster funding significantly.
- **Capacity to absorb shocks:** the insurance industry can underwrite loss at a large scale: insurance covered US$ 108 billion in 2023.

Insurance is one part of risk management



Avoid the Risk

Consider where to build to avoid the risk exposure. Ie avoid flood plains.

Control the Risk

Through Public Policy reduce the risk by incorporation of risk reduction measures through controls such as building standards and compliance checking.

Transfer the Risk

Mitigate the fiscal risk the Government's Balance Sheet by transferring the risk to the International and Local Insurance Markets.

Accept the Risk

Build disaster recovery strategies, internal finance mechanisms and capabilities to enable timely access to capital and resources to support

Public intervention should be market-enhancing

Targeted public intervention in catastrophe insurance markets can help correct market inefficiencies

Legal and regulatory framework	Market infrastructure
Operational management	Access to risk capital

Key principles for public intervention

Product customization

Additionality

Sustainability

Affordability

There are some challenges that are critical for people to start (continue) having access to insurance

- Need Investment in Risk Reduction
- Issue of affordability
- Demand for insurance
- Domestic insurance sector capacity to manage losses

Investment in risk reduction is essential

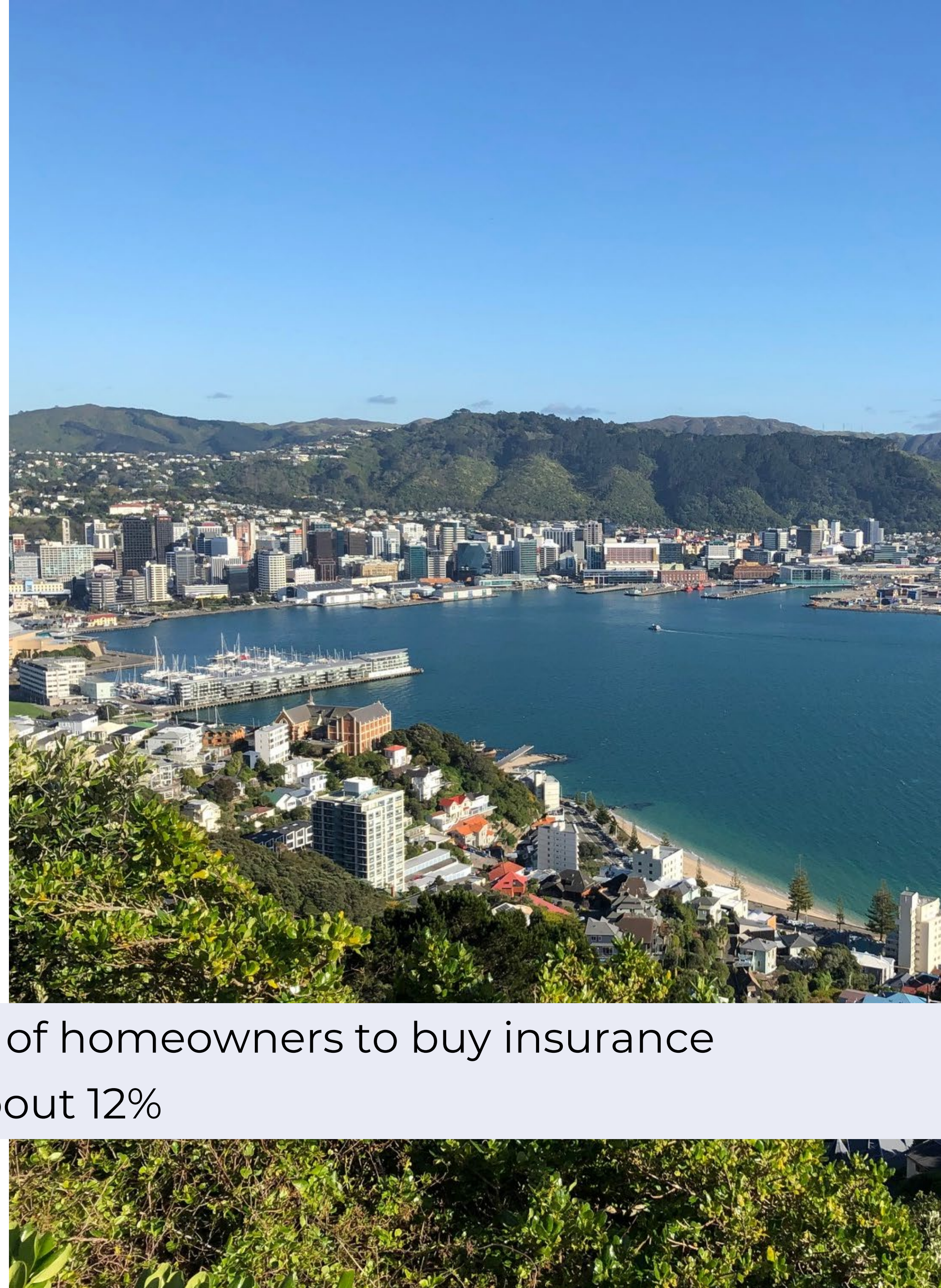
but few catastrophe risk insurance programs are linked to risk reduction measures

California Earthquake Authority (CEA) and **the National Flood Insurance Program** (NFIP) in the United States are fully risk-based and risk reduction investment leads to premium reduction

CAT NAT program in France requires municipalities to develop Prevention Plans against natural disasters to insure property owners.

Flood Re offers additional insurance coverage for rebuilding up to standards

The issue of affordability



- Affordability is one of the factors of product attractiveness
- Affordability vs financial sustainability
- Maintaining affordability is more challenging with growing climate risk and exposure (already now more than 2 billion people cannot afford insurance globally)
- Covering poor who cannot afford insurance

New Zealand: impact on interest of homeowners to buy insurance

California: limited penetration about 12%

Pricing approach: solidarity vs risk based

Demand for insurance

- No appetite to buy insurance: (1) culture & lack of awareness; (2) ability to pay; (3) government approach to compensations.

Voluntary vs mandatory requirement

- Right products for right market segments: insurance for specific perils, multi-hazard, different types of products

Between 1980 and 2019, only **around 14% of Türkiye's climate-related total economic losses were insured**

Domestic insurance sector capacity to manage losses

- Private sector may not have enough capacity to deal with catastrophes: access to data or risk capital
- Government, supervisors and development partners play an important role
- **Private public partnerships** in catastrophe insurance and **different perspectives**

In 2010-2011, **New Zealand** had to recapitalize one insurer and let another one fail. **Agroasemex** – sole reinsurer of self-insured crop funds – experience loss ratio of more than 1200% and had to be recapitalized.

Insurance is not a silver bullet to close protection gap

Key considerations

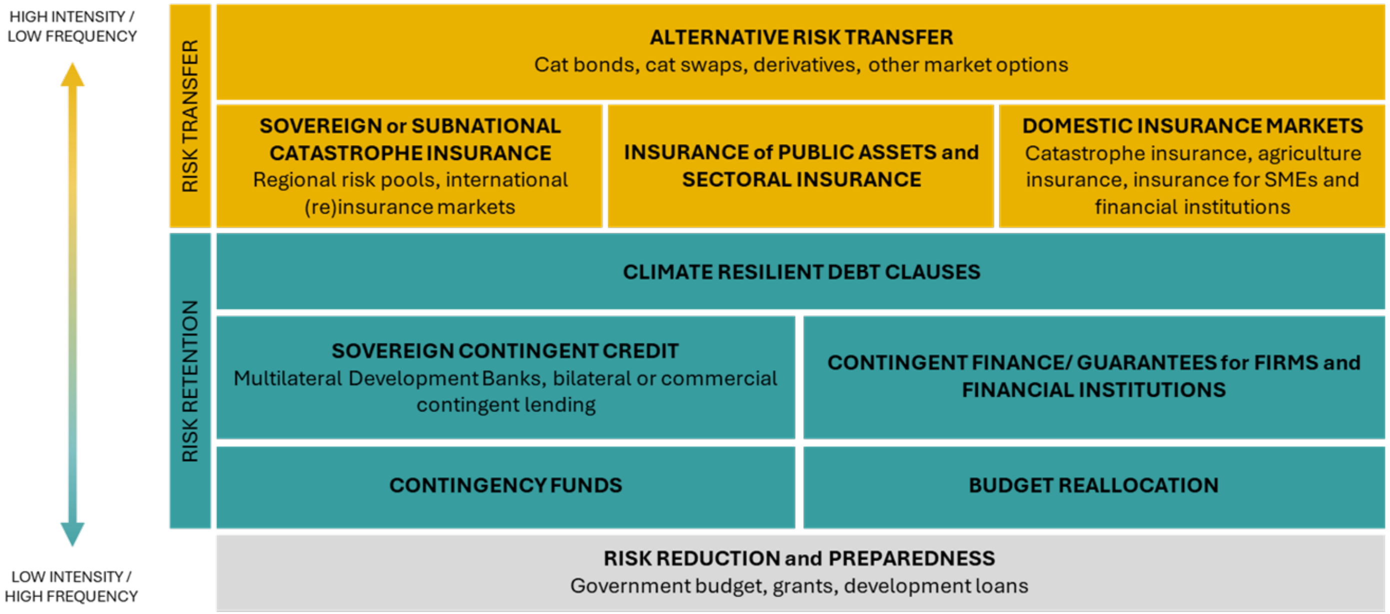
- **Risk layering** - different instruments for different objectives
- **DRF strategy** – coherent approach to risk financing
- Disaster risk as part of **budget** planning
- Criticality of assessing **contingent liabilities**

Important not to forget

- **Disaster resilience** builds on **three pillars** and they are interlinked

The foundations of successful PPIPs

1. **PPIPs are part of a comprehensive, risk-layered DRFI strategy**
   - Insurance is one instrument within a broader menu of options
   - Risk layering helps optimize financing, ensure cost-effectiveness and timeliness of funding

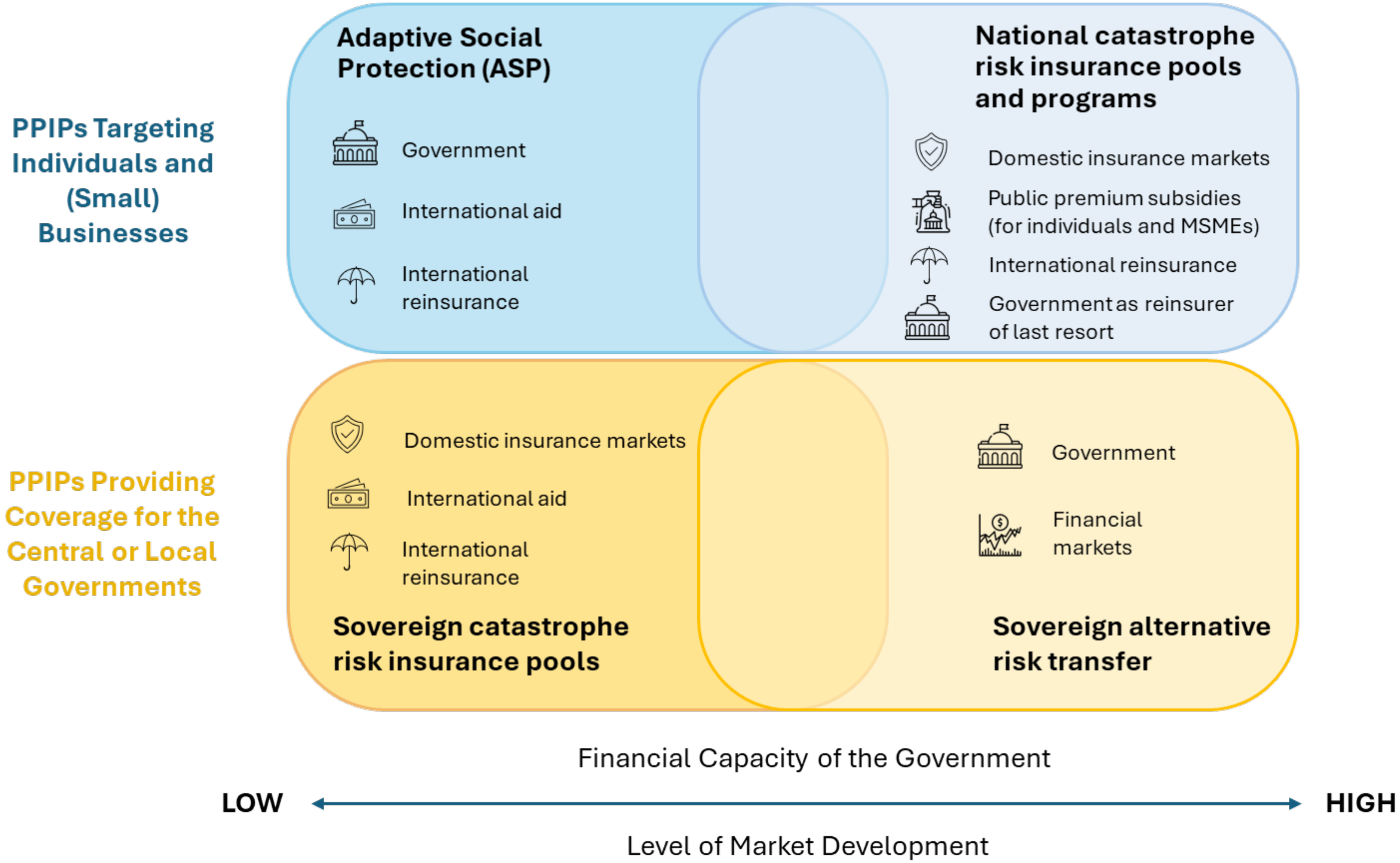


2. **Long term objectives should be considered alongside immediate needs**
   - Address urgent priorities (saving lives and livelihoods) while building the foundations for more sophisticated solutions
   - In low-income countries donors/development community play an essential role
3. **PPIPs require strong political commitment and ownership**
   - A strong champion within the government (typically within the MoF) is essential to ensure continuity and to carry through reforms

There is no one-size-fits-all: Public-private insurance programs have to be adapted to the local context

Public-private insurance programs can take many forms, depending on

- i. **policy objectives**
- ii. **level of development of the insurance market**
- iii. **financial and institutional capacity of the government**

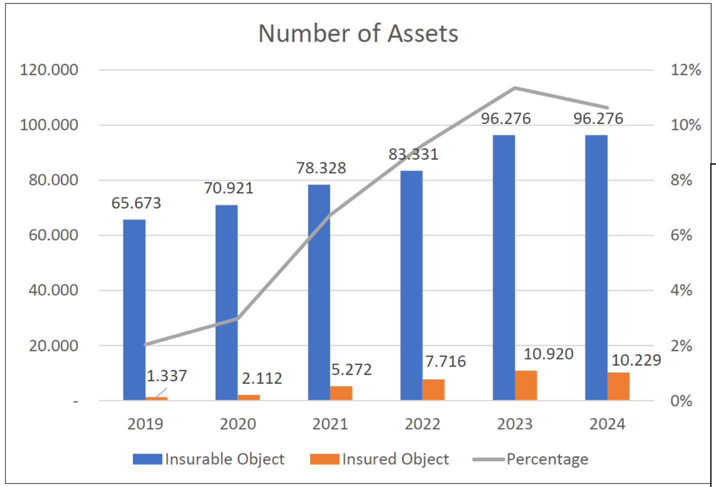


Examples of PPIPs from around the world

	Ownership	Voluntary / mandatory purchase	Coverage	Government Guarantee	Premium
TCIP (Turkey)	Government owned enterprise	Compulsory purchase	Earthquake, earthquake fire	yes	Risk-based
Morocco	Private and Public Solidarity Fund (FSEC)	Compulsory addition and cover for poor and vulnerable households	Earthquake, flood, landslide	yes	Solidarity
EQC (New Zealand)	Government agency	Linked to Home Fire Insurance. Home Fire Insurance compulsory to obtain a mortgage	Earthquake, volcanic eruption, hydrothermal activity, landslide, tsunami	yes	Solidarity, has one flat rate
CEA	State managed, privately financed	Voluntary	Earthquake	no	Risk-based
NFIP	Government administered plan	Voluntary, but required for mortgage	Flood, tsunami	yes	Risk-based
NATCAT (French)	Government scheme	Compulsory addition	Flood, mudslide, earthquake, landslide, avalanche, etc. - As declared by ministerial decree	yes	Solidarity, charges a percentage of the policy premium
Spanish Cat Scheme	Government owned enterprise	Compulsory addition	All natural disasters, and meteorite, terrorism	yes	Solidarity, sets rates by type of property insured

EXAMPLE

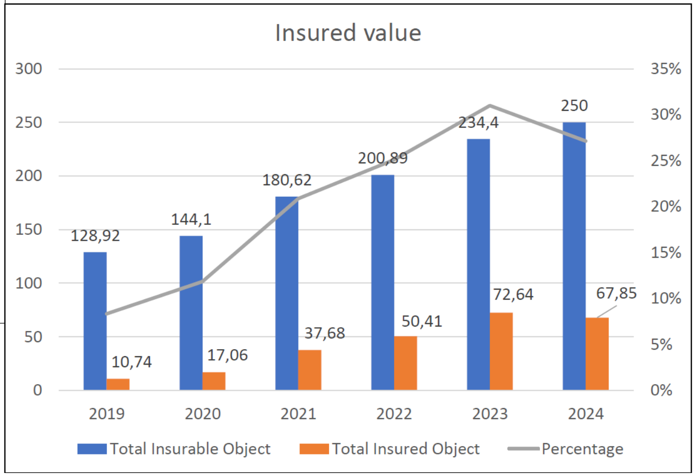
Indonesia: leveraging domestic insurance to protect public assets and limit government fiscal exposure



Number of Insurance Company

59 General Insurance/ reinsurance

17 Sharia Insurance/ reinsurance



- Implementation of an insurance program for public assets as part of the national DRF strategy in 2019, with 10% of assets insured in 2024
- Development of a registry of public assets
- Creation of a consortium of domestic insurers backed by international reinsurers
- Increasing number of public assets insured under this program over time.

Source: Ministry of Finance, Government of Indonesia (2024)

EXAMPLE

Morocco: A dual approach to protect insured and uninsured households

Catastrophe risk insurance regime (Law No 110-14)

Building domestic catastrophe risk insurance market

A national cat insurance program against catastrophic events for **insured homeowners and businesses**

- Mandatory extension of guarantee in (voluntary) property/liability insurance policies
- Public-private partnership with coinsurance pool and state guarantee
- Triggered **US$40m** insurance payouts following the 2023 Al Haouz earthquake

Protecting the uninsured under a principle of solidarity

A Solidarity Fund or Fonds de Solidarité contre les Evènements Catastrophiques (FSEC), for **uninsured households**

- Funded by a parafiscal tax on insurance policies
- Risk layered strategy with reserves, contingent credit and insurance
- Triggered funding to respond to the 2023 Al Haouz earthquake: **$275m** payout from earthquake reinsurance policy + **$25m** reserves

Institutional capacity strengthening (Disaster Risk Management Unit in Ministry of Interior)

Disaster risk reduction investments (230+ risk reduction projects implemented by the National Resilience Fund)

Risk Understanding (Development of a cat risk model and associated financial risk models)

EXAMPLE

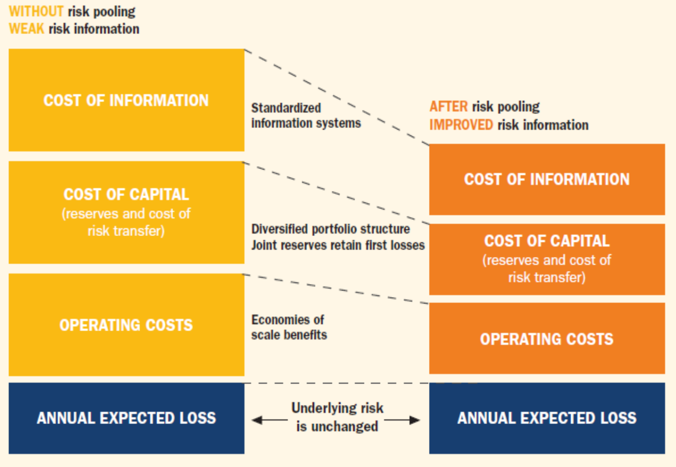
Regional catastrophe risk pools

- Established end 2019
- 8 ASEAN+3 countries are currently members
- First product is a parametric flood risk insurance product for Lao PDR
- US$1.5 million in payouts to date

- Established in 2007
- 26 members (Caribbean and Central American countries, and Caribbean electric utility companies)
- Parametric catastrophe insurance (tropical cyclones, earthquakes, excess rainfall, the fisheries sector and the public utilities sector).
- 64 payouts to 16 members to date – approx. US$268 million

- Specialized agency of the African Union
- 39 member states
- Parametric insurance (drought, tropical cyclones, and floods; outbreaks and epidemics)
- Over $170 mn in payouts since 2014

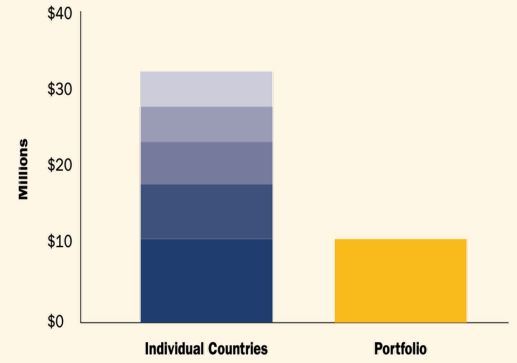
- Established in 2016
- 6 Pacific nations are currently members
- Parametric catastrophe insurance (tropical cyclone and earthquake, including tsunami)
- Four payouts to date - more than US$11 mn



Source: World Bank Disaster Risk Financing and Insurance Program (2015).
Note: The size of the boxes is not meant to be proportional to each component's actual contribution to the insurance premium.

Diversification Benefits Modeled for the PCRAFI Program

Simple Aggregates Versus Pooled Risk for 1-in-250 Year Return Period Losses



Source: World Bank and PCRAFI (2016).

EXAMPLE

New Zealand: Natural Hazard Commission

Overview of the scheme

- Established in 1945, EQC (now Natural Hazards Commission (NHC)) was reformed in 1993 to focus solely on natural catastrophe insurance for residential property.
- NHC is a New Zealand (NZ) Crown Entity fully underwritten by a NZ Government Guarantee that provides home insurance to help communities get their lives back on track after an event.
- NHC provides “first loss” solidarity cover on residential dwellings and land per event against specific natural hazard perils. Building cover above the NHC cap is provided by the homeowner’s private insurer, as outlined in their policy.

About the scheme

Perils covered

- Earthquakes
- Landslides
- Volcanic activity
- Hydrothermal activity
- Tsunamis
- Storm or Flood (Land cover only)
- Fire caused by any natural hazards listed above.

Level of coverage

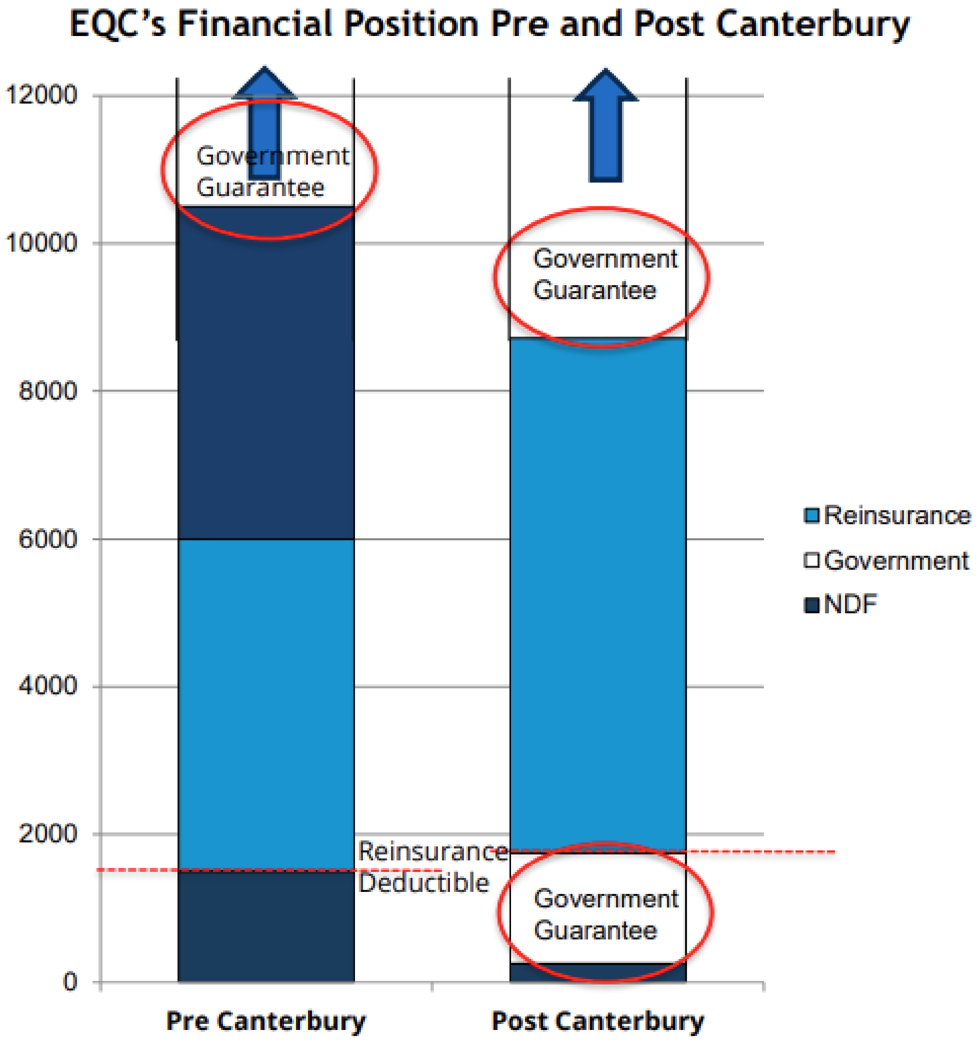
- NHC is indemnity cover
- NHC provides cover for damage up to the cap of $NZD 300,000 (+General Service Tax (GST)) for each natural disaster event
- NHC will pay the cost to repair the damaged land or the value of the land

Households covered till date

- NHC Cover is provided when an annual Fire Insurance policy is purchased
- A fire and home policy is required to obtain a mortgage
- Premium is collected by the private Insurers on behalf of NHC
- 95% of households are covered with insurance

EXAMPLE

NHC Cont.



- NHC's risk financing strategy is aimed at ensuring there are sufficient assets to meet their financial liability in the event of a natural disaster.
- The Canterbury Earthquake sequence comprised of a 7.1 magnitude earthquake in September 2010, a 6.3 magnitude earthquake in February 2011, a 6.3 magnitude in June 2011 and 5.8 magnitude in December 2011. There were more than 11,200 aftershocks
- The earthquakes generated over 470,000 claims for NHC out of a total of 650,000 claims for the event.
- There was also a 7.8 magnitude earthquake in Kaikōura in November 2016 that generated a further 40,000 claims for EQC.
- There are four sources of finance for EQC which are:
  - Premium income from insured home-owners
  - Investment income for Natural Disaster Fund (NDF)
  - Reinsurance
  - The Crown guarantee
- The Canterbury and Kaikōura earthquakes exhausted the Natural Disaster Fund.

Looking ahead: A three-pronged strategy

Reducing the disaster protection gap requires a three-pronged strategy:

PRIORITY 1

Scaling up PPIPs as part of comprehensive DRFI strategies

PRIORITY 2

Promoting domestic insurance and financial markets in EMDEs

PRIORITY 3

Leveraging insurance to incentivize risk reduction measures and investments


FINANCE
MOBILIZING PUBLIC-PRIVATE SOLUTIONS TO MANAGE THE FINANCIAL IMPACTS OF NATURAL HAZARDS IN EMERGING MARKET AND DEVELOPING ECONOMIES
Challenges and Opportunities of Operationalizing Public Private Insurance Programs
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SCAN ME

Thank you

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