A JOINT DAI EUROPE AND UCL IRDR EVENT

PANEL DISCUSSION:

RISK FINANCE FOR THE DEVELOPING WORLD

8th March 2017

For further information please visit www.daiknowhowlab-resilience.org

INTRODUCTION

PANEL DISCUSSION	The panel discussion explored the challenges, incentives and opportunities for risk finance in the developing world, combining commercial, practitioner, donor, government and academic perspectives
RISK FINANCING	Risk financing is highly topical within the UN Agenda 2030
POST-DISASTER RELIEF AND COLLABORATION	There is increasing consensus on the need for alternatives to post-disaster relief and collaboration, as demonstrated by emerging public-private partnerships such as the Insurance Development Forum

This document captures key questions and themes discussed by the panel and audience.

DEFINITIONS

RISK TRANSFER

Transferring the burden for financial loss or responsibility to another party e.g. international donors (aid) or market-based mechanisms including insurance and securities such as catastrophe bonds. (Evidence on Demand, 2016)

DISASTER RISK REDUCTION

Reducing disaster risks through systematic efforts to analyse and manage the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness for adverse events. (UNISDR, 2007)

The two can and should work together.

THEMES: CHALLENGES OF RISK FINANCING

1. EXPECTATIONS
2. REPUTATIONAL RISK
3. INSTITUTIONAL BURDENS AND LEGAL HURDLES
4. AFFORDABILITY
5. MODELLED WORLD VS REALITY
6. LACK OF INNOVATION

1

From a government perspective what is my interest in investing in insurance if there is humanitarian aid?

What are the links between risk transfer and risk reduction?

Are there incentives to the purchasers of insurance to also improve their own resilience?

THEMES

EXPECTATIONS

Some governments expect that aid will flow if disaster strikes.

This is not always the case and aid is not necessarily sufficient.

Risk transfer is more valuable as a mechanism for dealing with losses.

SOLUTION: Build shared ownership of risk by communicating the benefits of both insurance and risk reduction. The R4[1] programme does this by encouraging people to work on reducing risk in their community in order to earn insurance, creating a sense of ownership.

[1] www.wfp.org/climate-change/initiatives/r4-rural-resilience-initiative

2

What has the real impact of insurance been (e.g. what is the real experience of the African Risk Capacity programme?)

Are there examples where risk transfer has led to better risk reduction?

REPUTATIONAL RISK

Risk financing is politically embarrassing to governments if it does not pay out after their investment in it.

The political timescale is shorter than the timeline of disasters and risk financing, which are intergenerational.

SOLUTION: Communicate the benefits of risk transfer and build on government's sense of duty of care to their citizens. HSNP[2] provides a way for the Kenyan government to take responsibility for the provision of reliable services, and be held to account for them.

[2] www.hsnp.or.ke

THEMES

3

What is the extent to which the different options conflict with each other (e.g. insurance, safety net programmes, social protection?)

INSTITUTIONAL BURDENS AND LEGAL HURDLES

Governments rarely have budgets lines for insurance.

In some cases governments may not be able to legally take out insurance.

SOLUTION: Make risk financing available to donors and in-country NGOs to add an extra layer of institutions able to provide risk transfer options.

THEMES

4

AFFORDABILITY

Financial solutions are not straightforward and are not always affordable.

SOLUTION: Public-private collaboration to reduce risk profile and therefore reduce premiums. Spread ownership of risk. In five impoverished neighbourhoods in Bogota,'Build Change'[3] has worked with the reinsurance industry, retrofitting informal housing to bring the risk profile down to one that insurers will accept and that is affordable.

[3] www.buildchange.org

THEMES

5

How well does this conversation fit with the current humanitarian system of UN and other multilateral donors?

How could it disrupt the system?

Can disaster risk financing offer anything to South Sudan?

MODELLED WORLD VS REALITY

- Premiums still go up even when risk reduction measures are taken on board.
- Gap between modelled loss and loss covered has doubled due to increased exposure risk.
- There is a need for local expertise in order to tailor risk assessments to specific contexts. Yet, bespoke views of risk do not always translate to risk markets.

SOLUTION: Talk the same language. The development community needs to understand the modelled world that governs capital flows, while insurance industry must understand the needs of developing country governments.

THEMES

6

?... *How can we ensure that discussions about disaster risk management do not descend into discussions about insurance?*

The insurance and risk transfer industry and products are not innovating fast enough.

LACK OF INNOVATION

Must develop propositions that are appealing to countries with disaster risk.

SOLUTION: Bring diverse actors together in public-private fora to develop and tailor solutions. Re-package risk transfer mechanisms or bundle them with other products. Examples of innovation: CCRIF[4] in catastrophe financing and FM Global[5] mutual ownership structure.

[4] www.ccrif.org
[5] www.fmglobal.com

THEMES

CONCLUSION

RISK FINANCING	Insurance is not a panacea, however, it can be useful in some circumstances, as part of a disaster risk finance strategy
DISASTER RISK REDUCTION & FINANCING	It is important to get the balance right between reducing risks, and financing residual risks that have not been eliminated
DIVERSITY OF SOLUTIONS	A diversity of solutions is required to bridge the protection gap (i.e. the difference between insured losses and actual losses) e.g. sovereign risk pools will not be appropriate for every developing country and social protection mechanisms might be more appropriate than commercial insurance for the most vulnerable people
INNOVATION, CREATIVITY AND PUBLIC-PRIVATE COLLABORATIONS	Innovation, creativity and public-private collaborations are essential for overcoming barriers, communicating benefits, building incentives and developing the most appropriate financing mechanism at each level

PANELLISTS

Daniel Clarke is an actuary and economist with the UK Government Actuary's Department (GAD) where he works to provide advice across government on risk finance for developing countries. Before joining GAD Daniel worked extensively with developing country governments to design and implement risk financing mechanisms.

Daniel Stander is Global Managing Director of Risk Management Solutions (RMS). Daniel works with RMS' public sector clients to understand their risk and develop appropriate strategies to mitigate risk and build financial resilience.

Carmine Galasso is a lecturer with the UCL Department of Civil, Environmental & Geomatic Engineering (CEGE) and UCL Institute for Risk & Disaster Reduction (IRDR). His recent and current projects address multi-hazard risk assessment in China, Kyrgyz Republic, Nepal, and the Philippines.

Swenja Surminski is a Senior Research Fellow at the Grantham Institute, LSE, where she specialises in insurance, climate adaptation and disaster risk reduction. Swenja spent over 10 years in the insurance industry and now advises a wide range of stakeholders on climate change risks.

Sophie Evans is the Programme Director of Capital, Science and Policy Practice at Willis Towers Watson. The practice advises on resilience and risk sharing for governments, international institutions and corporate companies. Prior to this Sophie worked with the Humanitarian Futures Programme.

Ric Goodman is Team Leader on the DFID-funded Hunger Safety Net Programme (HSNP) in Kenya and Resilience Director at DAI. Ric oversaw the design of HSNP's shock responsive social protection mechanism which uses remote sensed data to provide reliable funding in the event of shocks.