

Knowledge Exchange Series on Building Sovereign Financial Resilience in Middle Income Countries

Catastrophe Risk Insurance Market Development

December 09, 2021



**Disaster Risk Financing
& Insurance Program**



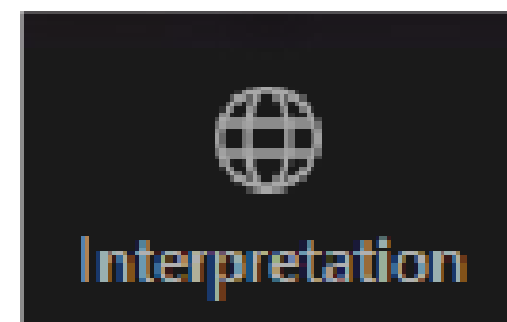
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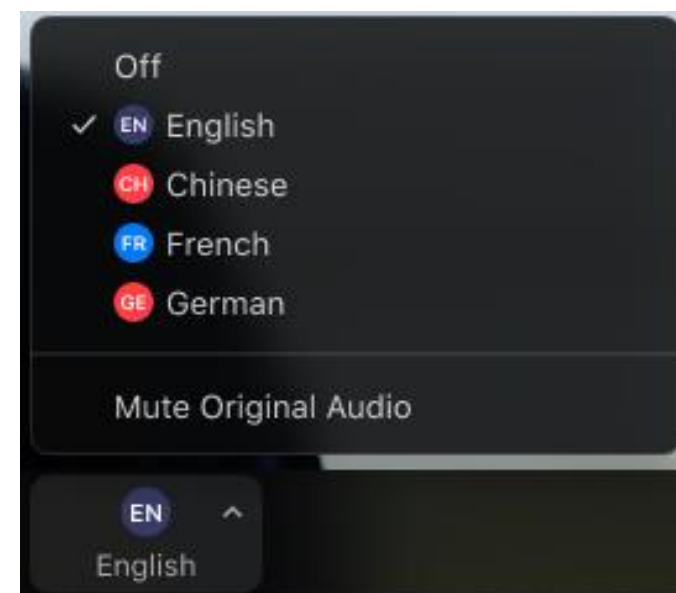
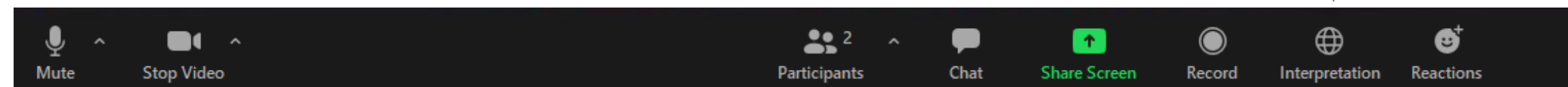
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Simultaneous Interpretations

How to listen to Albanian, English, French:



Step 1. In your meeting/webinar controls, click Interpretation



Step 2. Click the language that you would like to hear.

Additional Step - (Optional) To hear the interpreted language only, click **Mute Original Audio**.





Opening Remarks

Olivier Mahul

Practice Manager, Crisis and Disaster Risk Finance
(CDRF), Finance, Competitiveness & Innovation (FCI)
Global Practice, World Bank Group (WBG)



Overview

Middle-income countries face fiscal challenges in effectively responding to disasters, with many governments primarily relying on (short term) international support to fund disaster response.

Since 2012, Switzerland's State Secretariat for Economic Affairs (SECO) and the World Bank's Disaster Risk Financing and Insurance Program (DRFIP) have developed a joint program to support middle-income countries (MICs) in building their financial resilience against natural disasters. The Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries (the Program) is one component of a broader WB-SECO partnership on fiscal risk management for MICs.

This webinar series, as part of the Program, aims to: assist governments with developing and implementing more effective and cost-efficient financial protection strategies to better manage government disaster related contingent liabilities; and bring countries together to share knowledge, experiences and good practices on disaster risk financing.



Webinar Series

1-2 **Policies and frameworks for managing disaster related contingent liabilities**

Webinar 1: Managing disaster related contingent liabilities

Webinar 2: Fiscal & financial resilience for subnational governments

3-5 **Instruments for financial management of disasters**

Webinar 3: Disaster reserve funds

Webinar 4: Sovereign disaster risk insurance

Webinar 5: Development of Catastrophe Bonds for Sovereign Disaster Risk Transfer

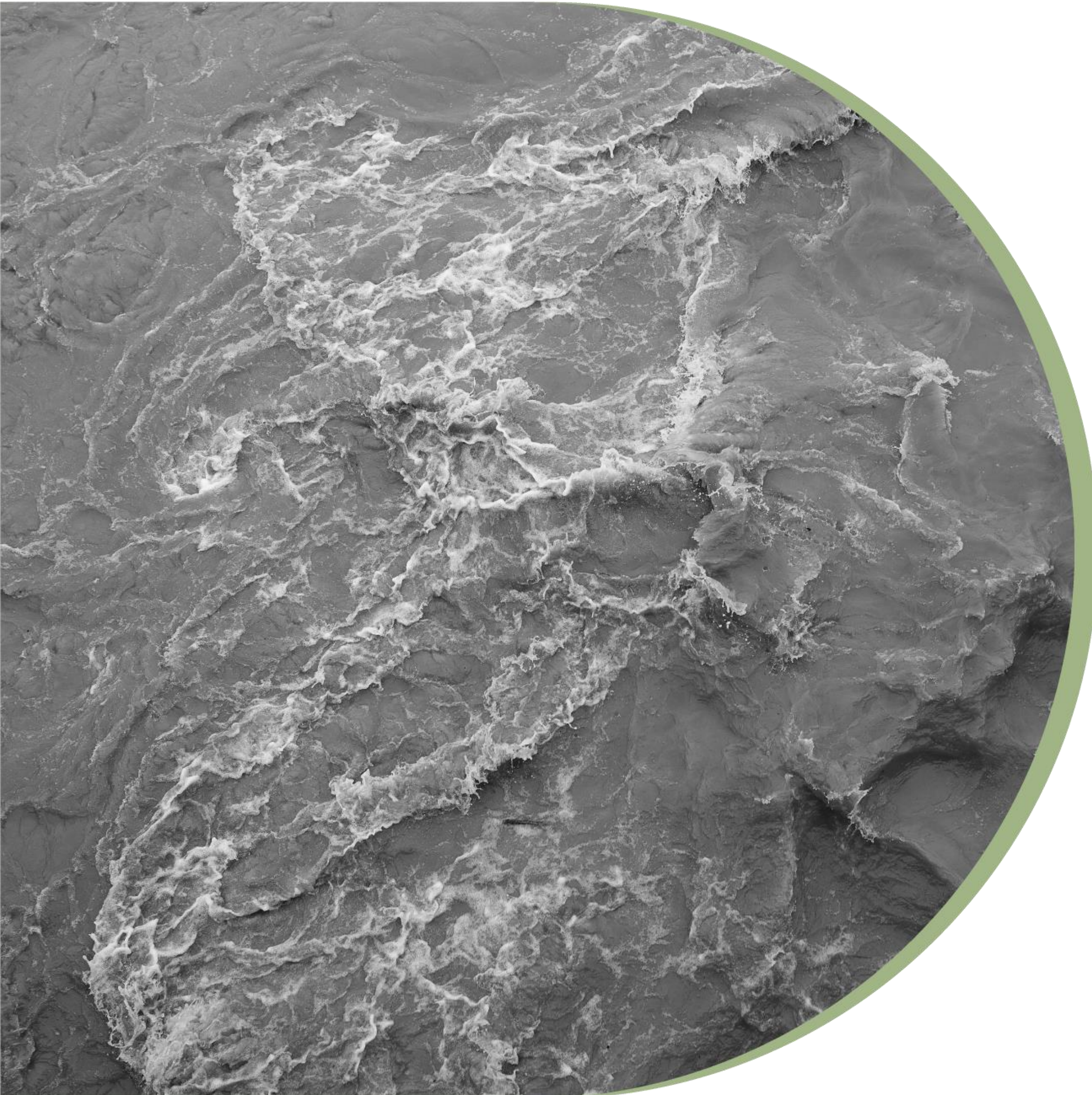
6 **Market development for disaster risks**

Webinar 6: Catastrophe risk insurance market development

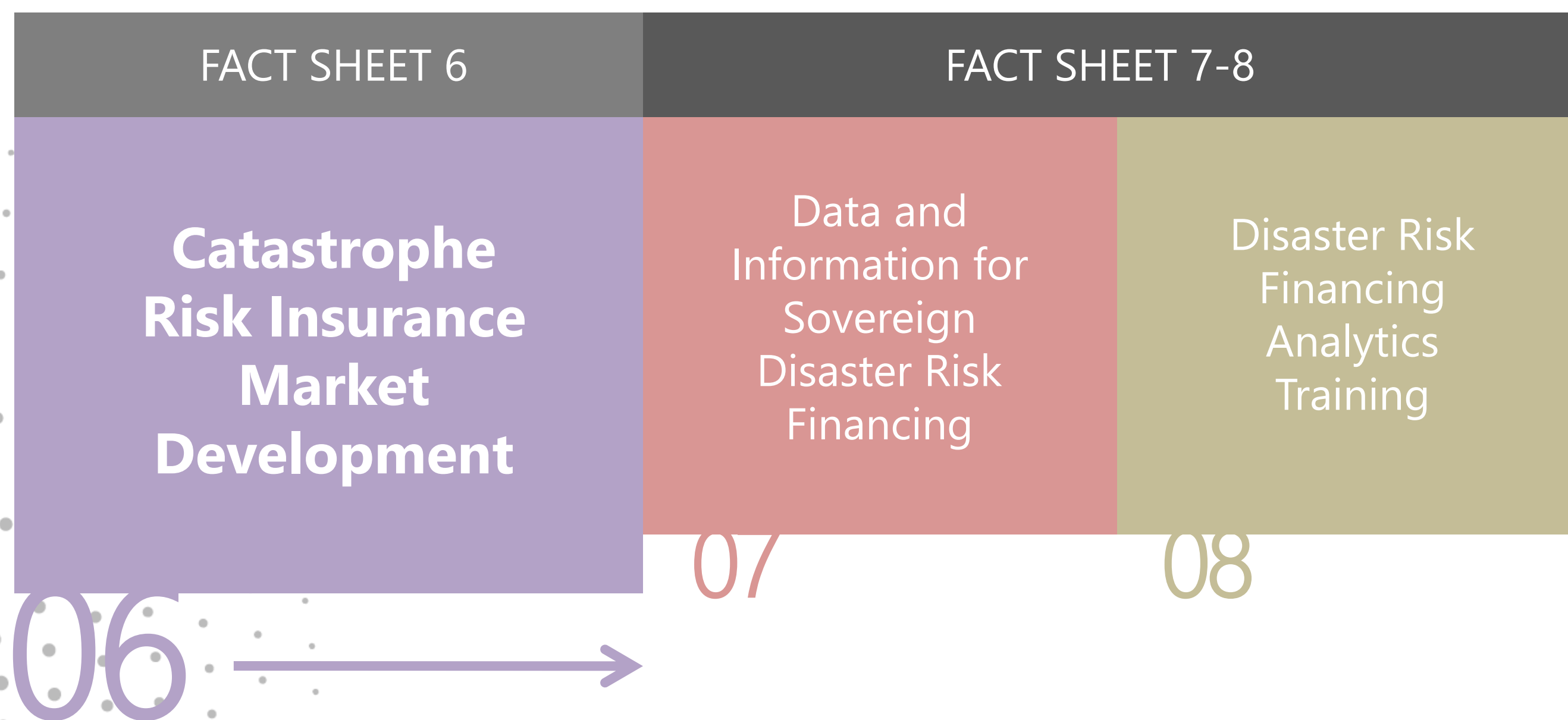
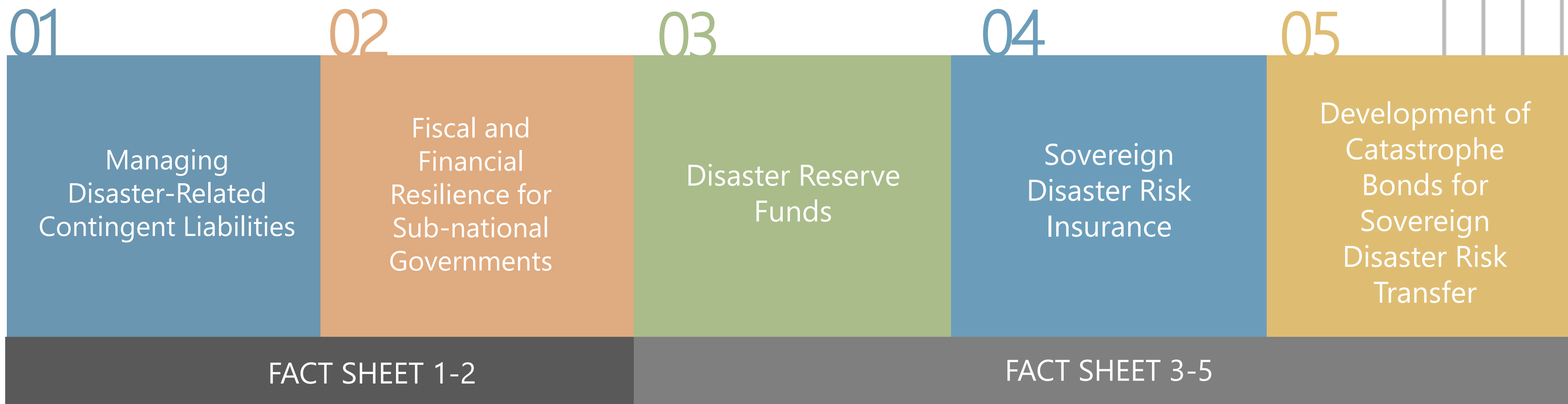
7-8 **Data, information and analytics for sovereign risk financing**

Webinar 7: Data and information for sovereign DRF

Webinar 8: DRF analytics training



Next Webinar



Structure of Webinars



Total of 8 Fact Sheets & 8 webinars



Different guest speakers



Live audience polls: Please participate



Q&A: Please share your questions via chat box (If possible, please indicate which speaker(s) to address your question(s))



Simultaneous interpretation:
Albanian, English, French
Please be patient with interpreters
when lag time occurs!



Certificate of Participation

Certificate of Participation

Participants will have an opportunity to obtain certificate(s) on successful completion of following criteria:



Certificate of Participation: Participants need to attend 4 out of 5 webinars and complete a short survey



Certificate of Completion: Participants need to attend 7 out of 8 webinars and complete a short survey



Scan the QR Code to access the mid-term survey.

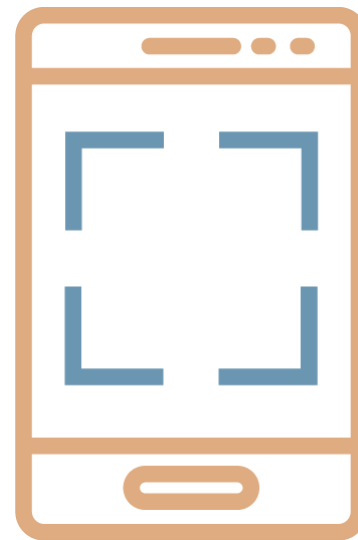


Word Cloud: Where are you currently based?



Option 01

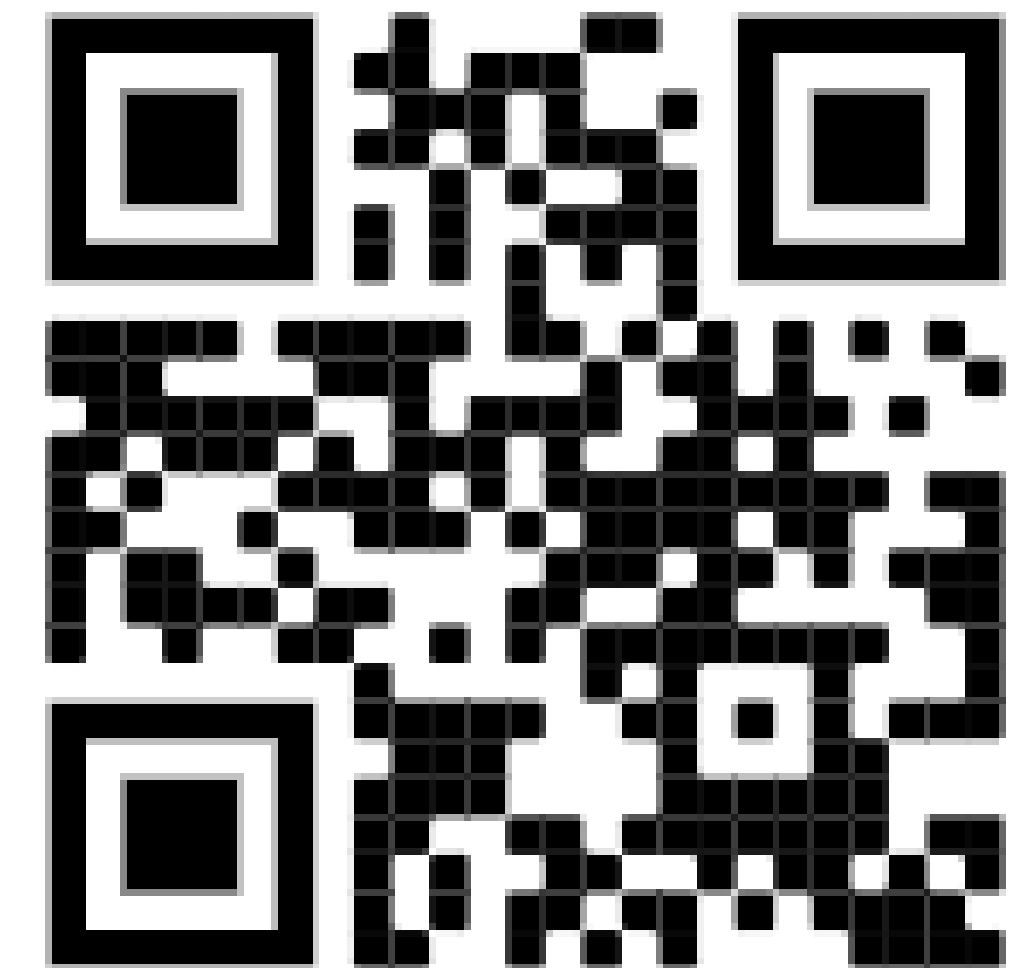
Go to www.menti.com



Option 02

Scan the QR Code →

Use Code: 5362107



Poll 1: Recap

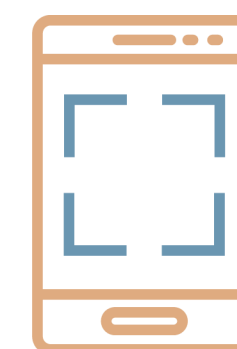
What was the last Webinar about?

- Advantages of catastrophe bonds for sovereign disaster risk transfer
- Key considerations in development of catastrophe bonds for sovereign disaster risk transfer
- I did not attend the previous webinar – this is my first time
- I don't remember



Option 01 –

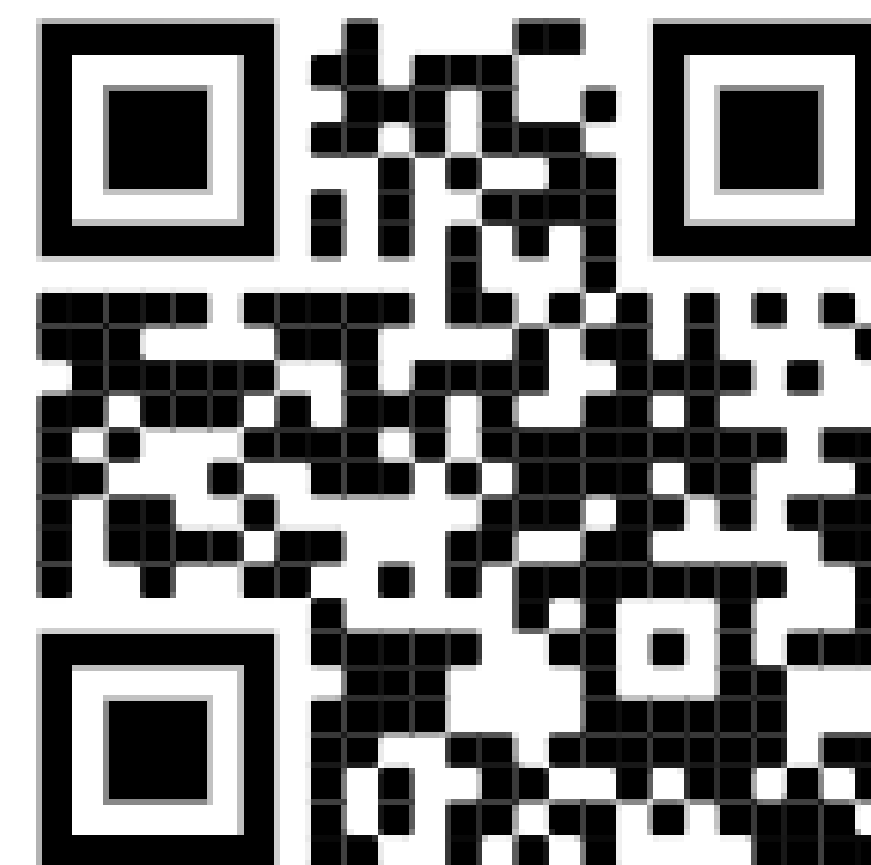
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Option 02 –

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Framing presentation

Catastrophe Risk Insurance

Tatiana Skalon

Financial Sector Specialist, CDRF, FCI
Global Practice, WBG

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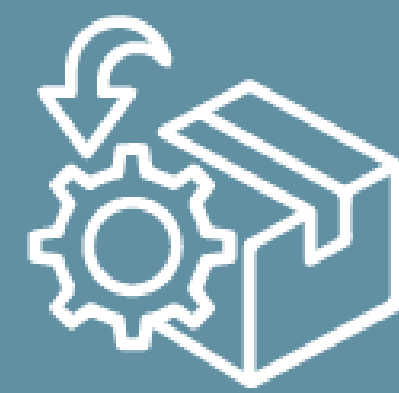
?

What is catastrophe insurance
and its role after disasters?

Despite the benefits, the penetration is low in most developing countries



Demand



Supply

LARGE PROTECTION GAP

Many governments attempt to close the protection gap

The approaches are different as they try to consider different perspectives:



Consumers



**Insurance
companies**



Government



Few lessons learned



Balancing affordability with sustainability



Closing the protection gap is not straightforward



Long-term financial sustainability needs to be addressed from the start

MORE INFORMATION IN THE FACT SHEET

Catastrophe Risk Insurance Market Development

Morocco



Abdeljalil El Hafre

Division Head, Insurance
and Social Welfare Division, Treasury and
External Finance Department, Ministry of
Economy and Finance, Morocco

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The risk of natural disasters in Morocco is both chronic and severe:

Over the past decade, Morocco experienced many major floods. The one that occurred in Guelmim in 2014 alone caused 47 deaths and overall economic losses of 5.5 billion dirhams (520 million USD). The impact of this phenomenon is likely to be exacerbated under the effect of climate change, urban pressure and phenomena of increase and concentration of assets.

Morocco is exposed also to earthquakes like the Agadir earthquake in 1960 which destroyed totally the city and killed 25,000 and injured 12,000 people, or that of Al-Hoceima which occurred in 2004 which killed 628 people and caused more than 3.2 billion dirhams (360 million USD) in direct economic losses. A much greater risk exists in the Fez and Tangier regions, which are located on the African / European plate.

Preparatory work for the establishment of a catastrophic event consequences coverage scheme began in 2004, just after the Al Hoceima earthquake.

Law No. 110.14 establishing a Moroccan DRF Program was adopted by Parliament in August 2016 and entered into force on January 1st 2020.



Moroccan DRF Program implemented on January 1st 2020 by the law n°110.14 covers:



Natural phenomenon:
Flood, Earthquake and Tsunami



Human violent action:
Terrorism, Riots and Popular movements

It combines two schemes



Insurance Scheme
For policy holders (people and businesses)



Solidarity Scheme
For non insured people



Insurance Scheme

The Law No. 110-14 made the guarantee against disasters a mandatory inclusion in insurance policies:



Insurance policy covering damage to property (houses, industries, cars, ...): covers the damage caused directly to the insured property;



Insurance policy covering motor vehicle liability: The guarantee under civil liability insurance policies for motor vehicles covers:



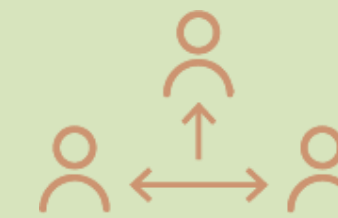
Bodily injury suffered by the driver and any person transported in the insured vehicle at the time of the disaster, as well as the injury suffered by their beneficiaries as a result of their death;



Bodily injury suffered by the owner of the vehicle, his spouses and dependent children, as well as the damages suffered by their beneficiaries as a result of their death;



Damage to the insured vehicle;

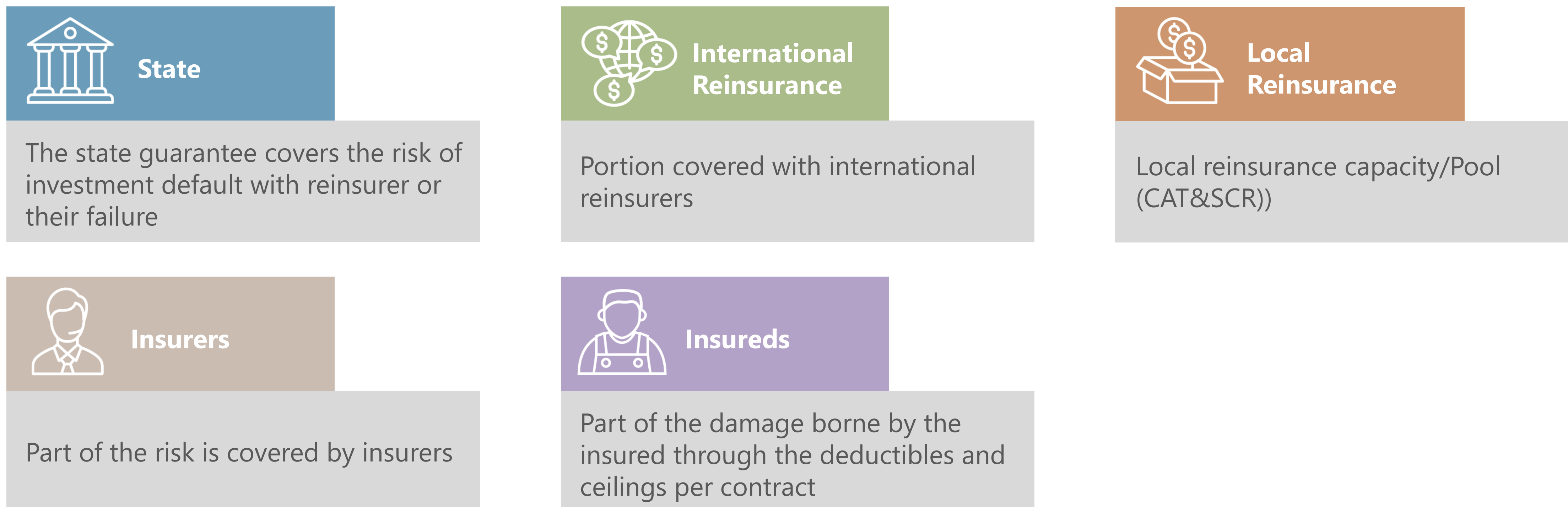


Insurance policy covering bodily third-party liability: bodily injury suffered by victims as well as the damages suffered by their beneficiaries due to their death for the guarantee covering bodily third-party liability.

The reinsurance scheme

In order to support the insurance mechanism, a State guarantee, intended to cover the risk of default of reinsurance coverage with foreign reinsurers or the default of the latter, is granted to the Moroccan insurance sector, through the signing of an agreement with the State and the solidarity fund . In this context, an agreement was signed in 2019 between the State, the solidarity fund , the SCR and the CAT(insurance sector aggregator for catastrophe risk).

The Global Coverage Scheme for the insurance component:



The mechanism adopted for catastrophic risk insurance

In order to avoid placing excessive risk on the Moroccan insurance system, the law provides for the setting of overall ceilings for compensation to victims of catastrophic events, by event and by year. These ceilings are set as follows:



3 Billion Dirhams (330 million USD) per event and 9 billion Dirhams (990 Million USD) per year in the case of a catastrophic event caused by a natural agent ;

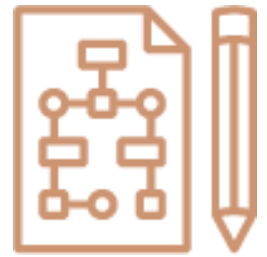


300 Million Dirhams per event and 600 million Dirhams per year in the case of a catastrophic event caused by violent human action.

Thus, the indemnities due under the guarantee against the consequences of catastrophic events (CAT guarantee) are reduced according to these global indemnity ceilings in accordance with a procedure fixing the conditions and modalities of this reduction, fixed by a decree of the Minister of Finance.



The pricing of the CAT guarantee



For the pricing of the CAT guarantee, we developed a probabilistic model of the risks of natural disasters to estimate the losses they generate.



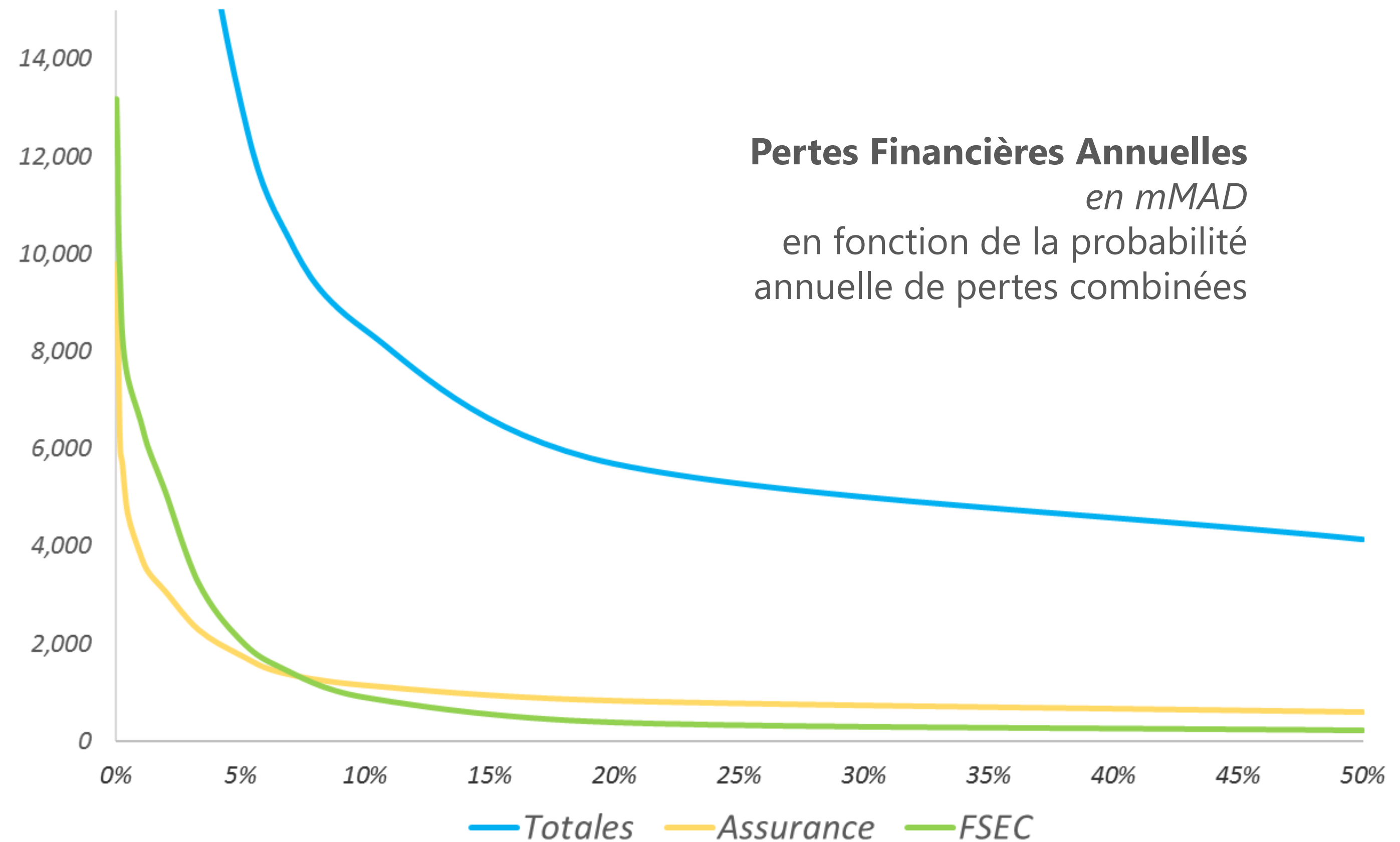
This model simulates 100,000 earthquakes and 10,000 floods and gives an estimate of the probable financial losses linked to natural disasters (EQ and FL).



Once the insurance losses had been estimated, it was necessary to define a pricing which takes into account the risks associated with each guarantee (vehicles, home damage, commercial, industrial, etc.).



Same model was used to estimate the losses of solidarity fund and to define its financial strategy and the amount of parafiscal tax.



Challenges

01
Thanks to this plan, all Moroccans are covered against bodily injury and loss of their home.

02
The use of new technologies can help to improve the functioning of the regime, particularly in the claims assessment and management process and in the transfer of risks through a better understanding of these risks.

03
The development of inclusive insurance will improve the coverage of the insurance scheme and provide margins for the solidarity fund to cover other perils like drought or pandemics or losses like business interruption for small enterprises.

04
The Moroccan DRF Program should connect with other government programs like the national strategy of DRM (already done) but also with the National Strategy of Financial Inclusion and the Social Protection Program.

05
Ensure that the premiums set for CAT guarantee are sufficient to meet the expected future costs of claims and running the insurance scheme.

06
Consider coverage of public infrastructure against catastrophic events that are outside the scope of this regime, in a public/private partnership framework.

Catastrophe Risk Insurance Market Development

Insurance of Natural Perils in Switzerland

Eduard (Eddie) Held

Managing Director, Swiss
Elemental Pool, Reinsurance, Swiss Insurance
Association

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Agenda

- 1. Introduction**
- 2. Dual Solidarity**
- 3. Swiss Elemental Pool**
- 4. Prevention Measures**
- 5. Conclusions**

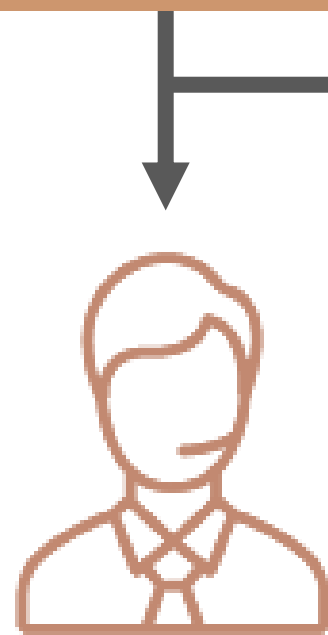


Introduction

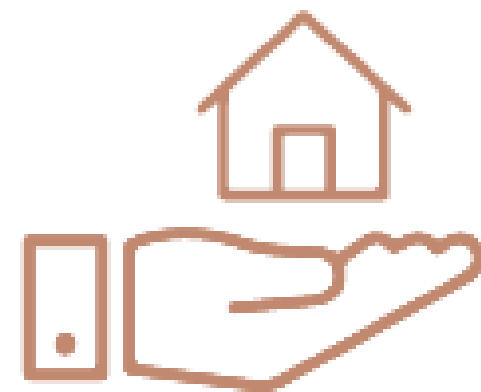
Goal of the «Swiss model»: everyone has insurance protection for the consequences of natural hazards, at affordable costs.

This can only be achieved with a system based on solidarity and with some form of compulsory insurance.

The scheme of natural perils insurance in Switzerland is based on a two fold system:



Private insurers



State-owned
(cantonal) building insurers

The insurance of natural perils is linked with fire insurance. This is all defined in the law, including the 9 perils covered (flood, storm, hail, avalanches, rock fall, etc.)



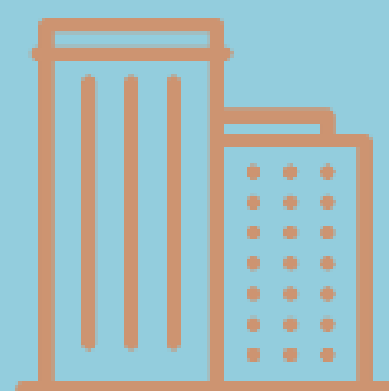
Dual Solidarity



Solidarity among the insureds

Insurance conditions and premium rates are identical for everybody:

→ Premiums are affordable!



Solidarity among insurance companies

The «Swiss Elemental Pool» pools the losses of its member companies (representing >90% of the market)

→ Insurers accept also exposed risks!



Swiss Elemental Pool

The Swiss Elemental Pool serves two purposes:



To pool the losses:

Insurance companies carrying losses above their market share are compensated by insurance companies carrying losses below their market share.



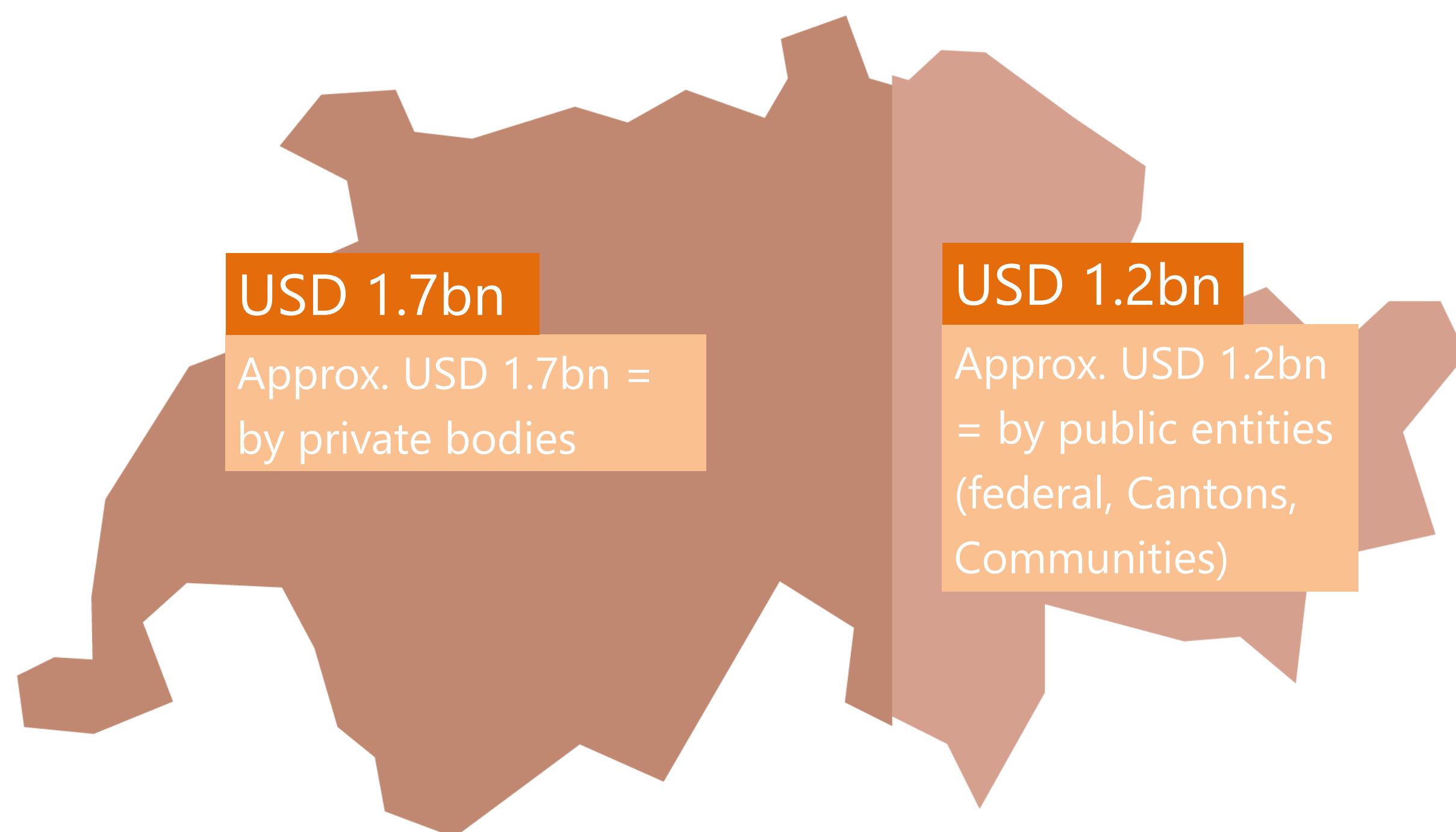
To buy reinsurance for the Pool:

This allows to benefit from global reinsurance capacity. As the portfolio of the Pool is considered a diversifying and transparent book (and loss-free since 2005), it is a very popular program.



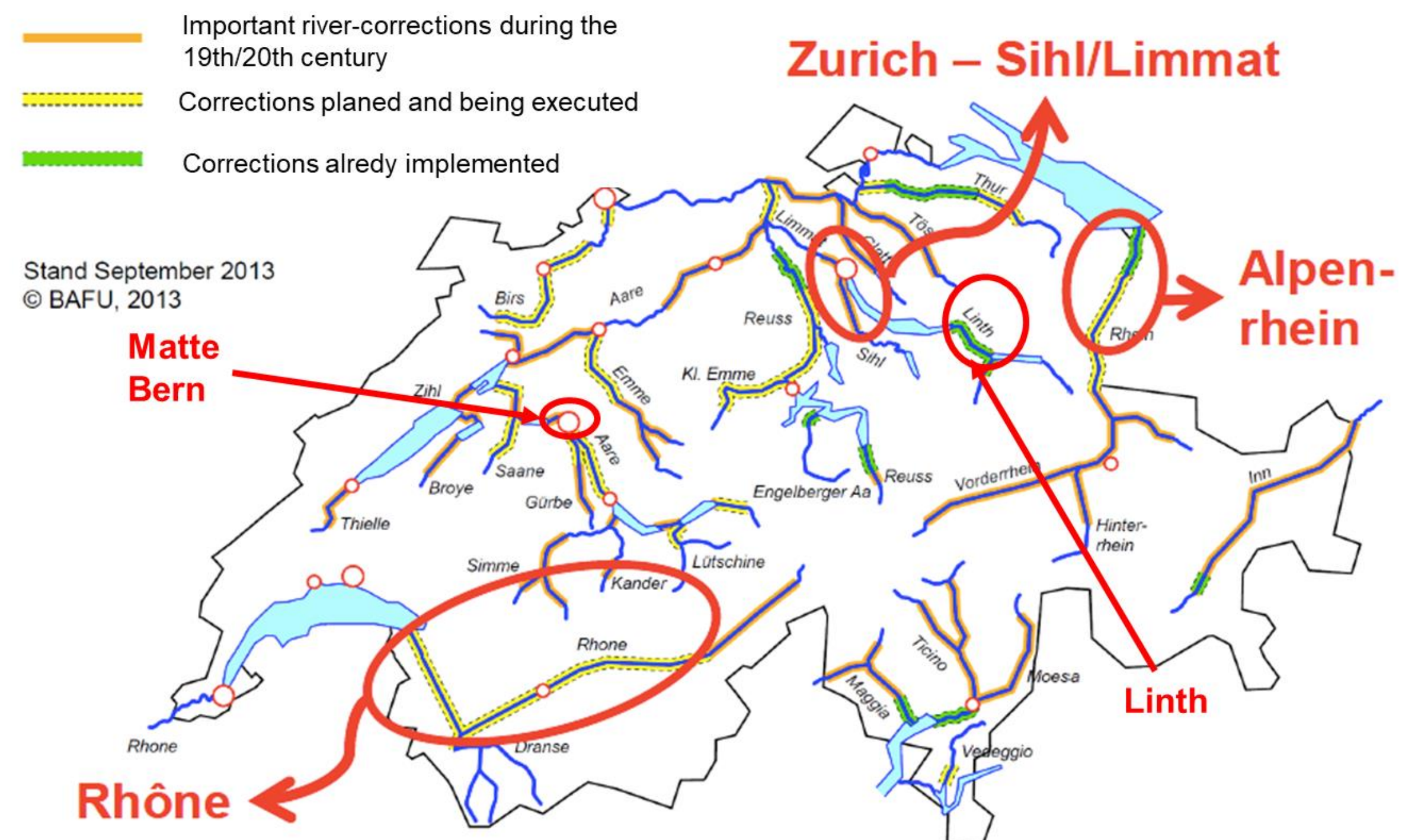
Prevention Measures

Switzerland's total Investments per year = approx. USD 2.9bn



This corresponds to ca. USD 400.- per capita per year.
Such infrastructure reduces the vulnerability to disaster risk.
Based on the United Nation's Risk Reduction Index
Switzerland ranked #1 among 180 countries*

*: UN Global Assessment Report on Disaster Risk Reduction 2011
Maps are used for Creative Representation purposes only. May not be accurate.



Conclusion

- Switzerland benefits from an unique model: effective and proven since 1936/1953
- It is based on a public/private partnership
- It is defined in the law, it is implemented by the insurance industry
- It is based on dual solidarity
- It allows affordable premiums for everybody
- Prevention measures significantly reduce the risk
- In case of a disaster: it brings a significant relief to public authorities

Muss jetzt die Pflicht zur Elementarschadenversicherung kommen?



Die Überschwemmungen in Rheinland-Pfalz und Nordrhein-Westfalen hinterlassen hohe Schäden. Nicht alle Hauseigentümer sind versichert. Foto: Thomas Frey, dpa (Symbolbild)

Flood disaster «Bernd», Germany July 2021: «do we need compulsory insurance for elemental risks»?

Catastrophe Risk Insurance Market Development

Flood Re

Harriet Boughton

General Counsel, Flood Re, United
Kingdom

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Scheme success and the future
December 2021

Flood Re – our statutory Purpose

Flood Re's purpose is to promote and enable the **availability** and **affordability** of flood insurance for eligible homes and manage over its lifetime the **transition** to an affordable market for household flood insurance where prices reflect the risks of flooding



ELIGIBLE PROPERTIES



Insured in the name of individuals



Must have a Council tax band (All Council Tax bands covered)



Held for residential use



Insured on individual basis



Occupied by policy holder or immediate family some of the time or unoccupied



OUT OF SCOPE



Homes built on or after 01 January 2009

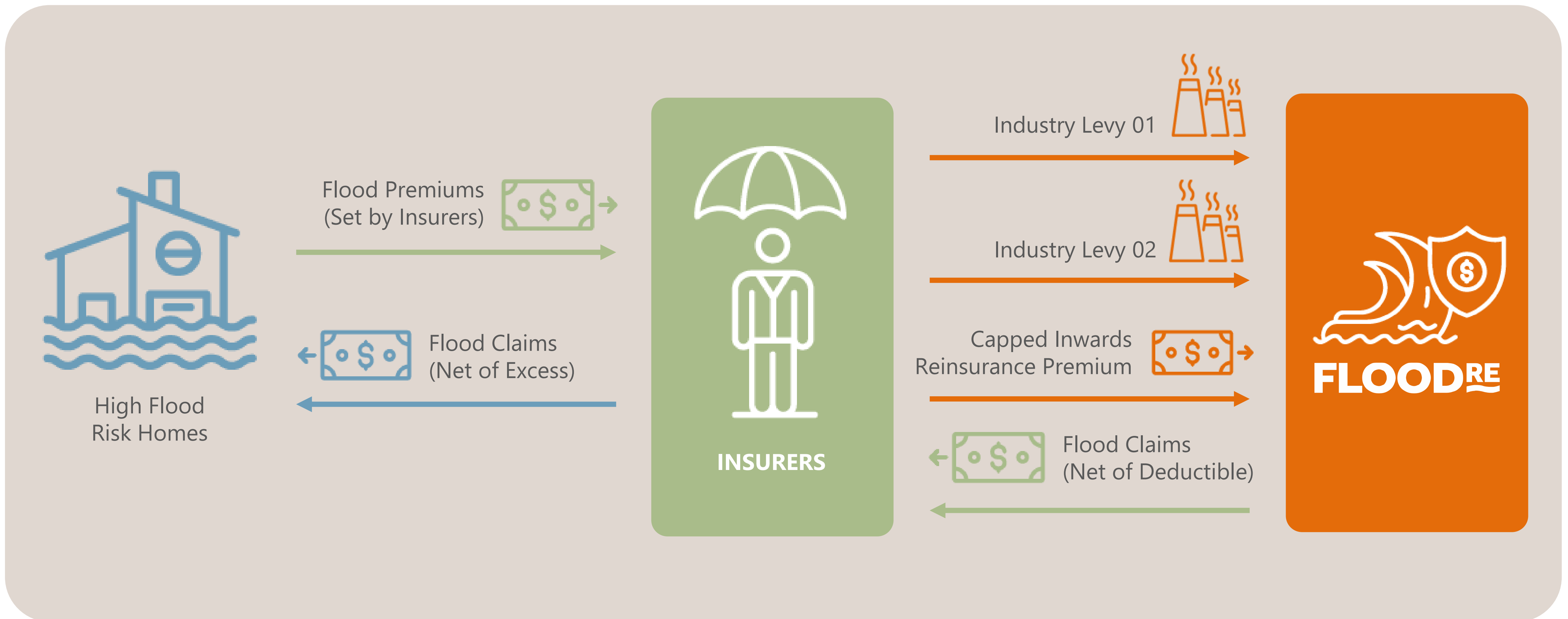


Small businesses (business rated)



Buildings cover for leasehold premises 4 or more units

How Flood Re operates



Our progress so far and what's to come



218,090
Policies
this year

94%
Of the home
insurance
market offer
the Flood Re
Scheme

4 out of 5
households with
previous flood
claims have seen
a reduction of
more than **50%**

Managing the
transition
towards
sustainable
risk reflective
pricing

Delivering on
availability &
affordability

94%
with prior flood
claims can now
receive quotes
from five or
more insurers

Operating
with
efficiency &
financial
security

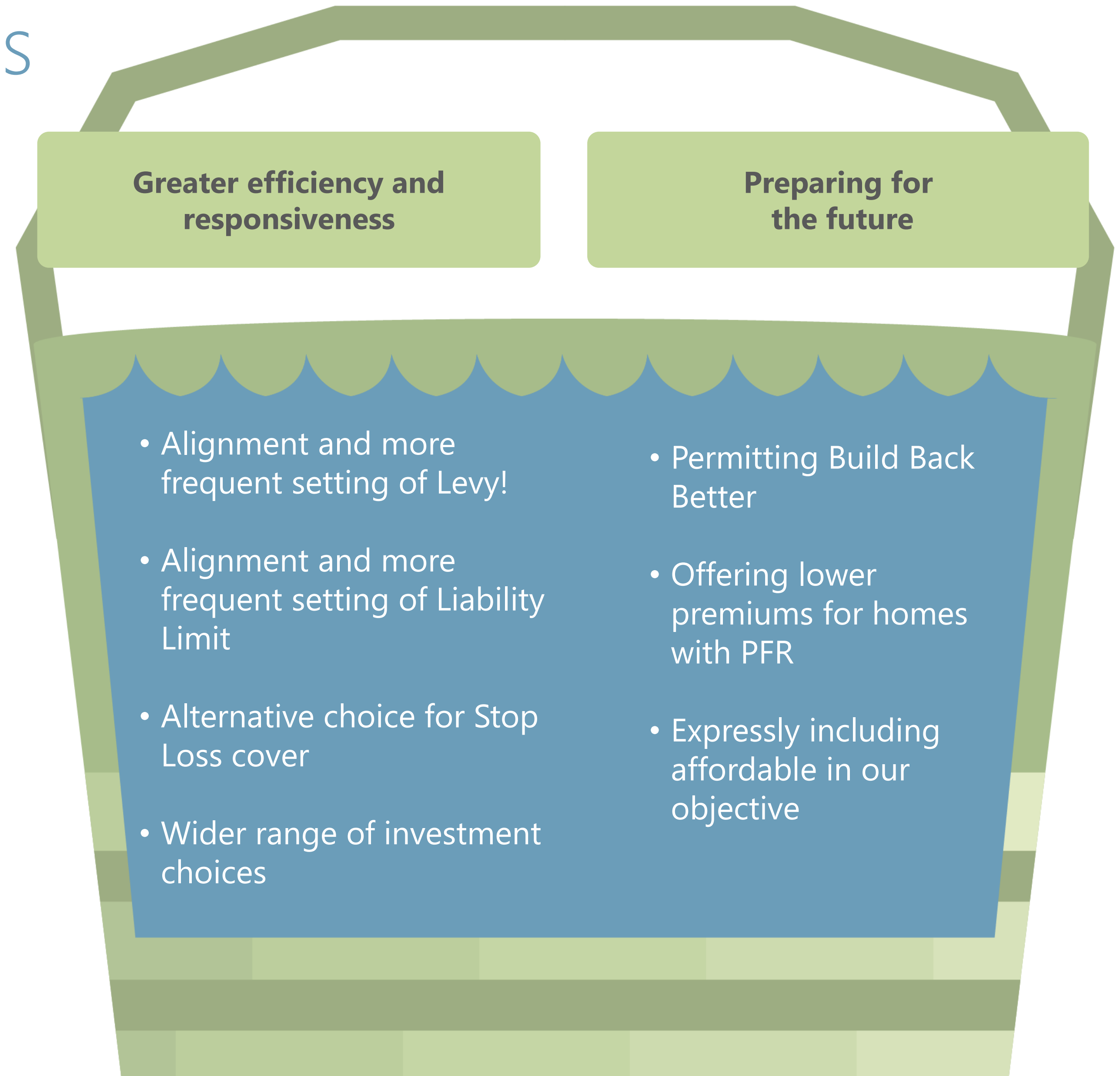
More than
350,000
Properties
benefiting
since launch



QQR – package of proposals

Our recommendations for change in 2021:

Flood Re is presenting the below proposals as a package. We believe these:



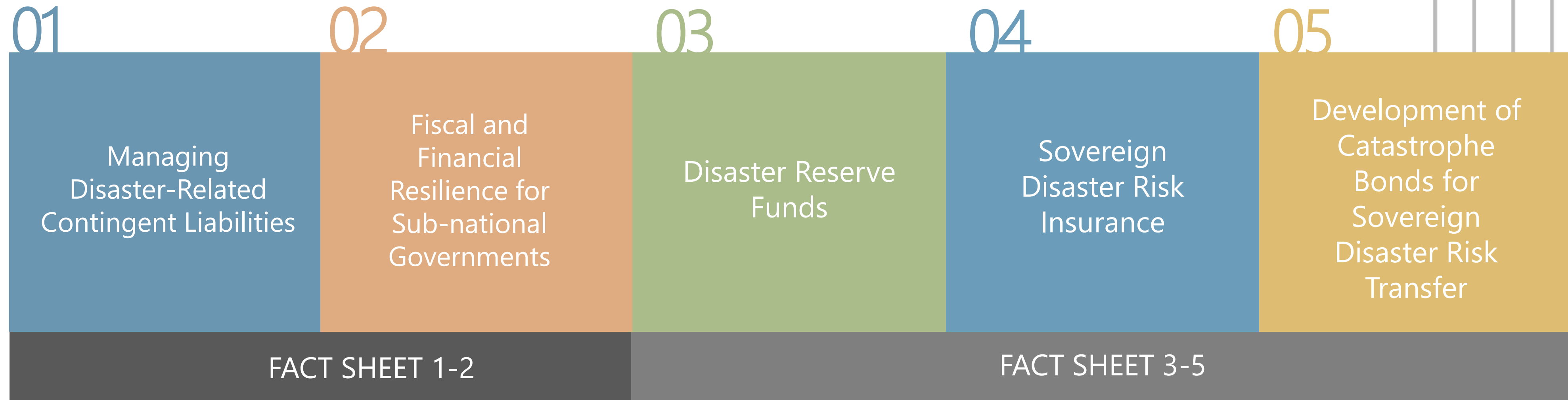
Q&A

- Please share your questions in English via chat box.
- If possible, please indicate which speaker(s) to address your question(s).



**Scan the QR code to join
the Disaster Risk Finance
Community!**

Next Webinar



Thank you

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