

Building Socio-Economic Resilience and Insurance Protection with a Concerted Public-Private Approach

The threat of large-scale natural disasters and climate is growing across the world, leaving nations increasingly exposed to myriad of risks. As a result, many initiatives are underway at the international, regional, national, and local level through a diverse-range of stakeholders to find better ways to protect human lives, and livelihoods and reduce economic losses. These efforts require an integrated risk-based management approach involving early warning and preparation, preventative, risk financing and risk transfer measures. There is need to focus effort on raising awareness for socio-economic benefits of preventative and risk transfer measures, broadening the use of modern risk modelling tools in the public sector, and building resilience of critical infrastructure and urban-systems (including mega cities), building on well concerted public-private partnerships, in all countries.

RISING ECONOMIC RISKS OF WEATHER-RELATED EXTREMES AND THE PROTECTION GAP

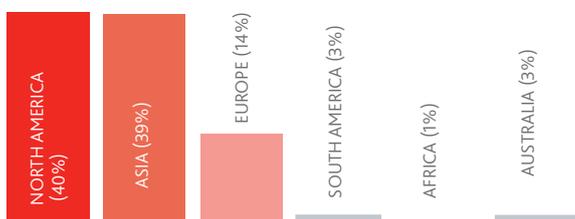
Over the last three and a half decades, a general trend of **rising economic losses from weather-related disasters (meteorological, hydrological and climatological)** has been observed. The growing impacts from such calamities pose threats to human lives, livelihoods and health. They can also severely impair socio-economic growth and development.

Losses are experienced through direct damage to assets such as infrastructure and buildings, as well as indirect losses due to loss of life, business interruption, loss of jobs and reduction in tax revenues. Protection of critical infrastructure and the management of extreme events and climate risks in fast growing urban areas and mega-cities remain a major global concern and challenge.

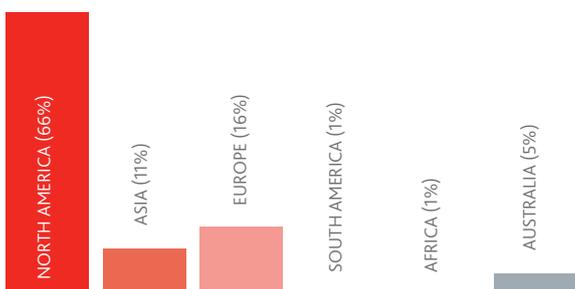
Some 70-75% per cent of total economic disaster losses in high-, middle- and low- income nations remain uninsured and need to be absorbed by the economy and the tax payer, in particular.

RELEVANT LOSS EVENTS COST THE WORLD USD 4 TRILLION (1980-2015)

Distribution of overall losses (%)



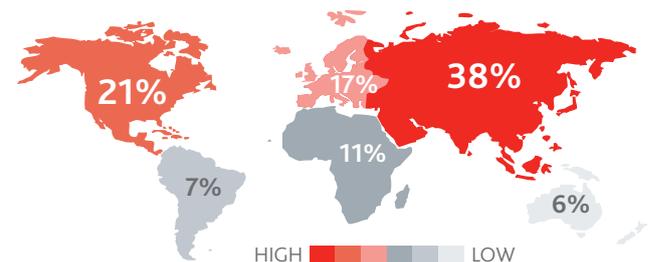
Distribution of insured losses (%)



Globally, over the past three decades, the share of uninsured losses as a percentage of world GDP has increased from 0.02 per cent to 0.12 per cent, according to Swiss Re. The gap is particularly pronounced in low-income countries where typically more than 95 per cent of all losses remain uninsured. This large, and in some areas growing, insurance protection gap points to the fact that the potential of insurance is not fully utilized, particularly in middle- and low- income countries.

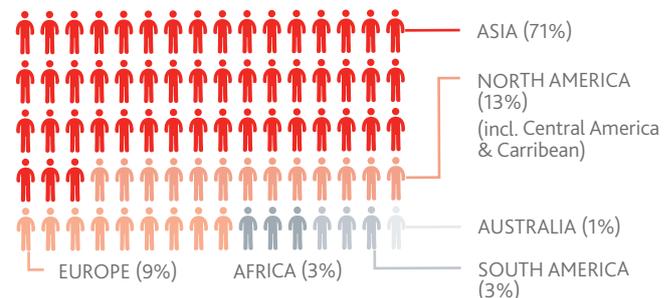
15700 RELEVANT GLOBAL LOSS EVENTS (1980-2015)

Distribution of loss events (%)



RELEVANT LOSS EVENTS CAUSED 1.7 MILLION DEATHS GLOBALLY (1980-2015)

Distribution of fatalities (%)



- 91% of disaster events were weather related
- 51% of fatalities were caused by weather related extremes
- 79% of economic losses were related to weather extremes
- 90% of insured losses were caused by weather extremes.

Source: Munich Re's NatCatSERVICE

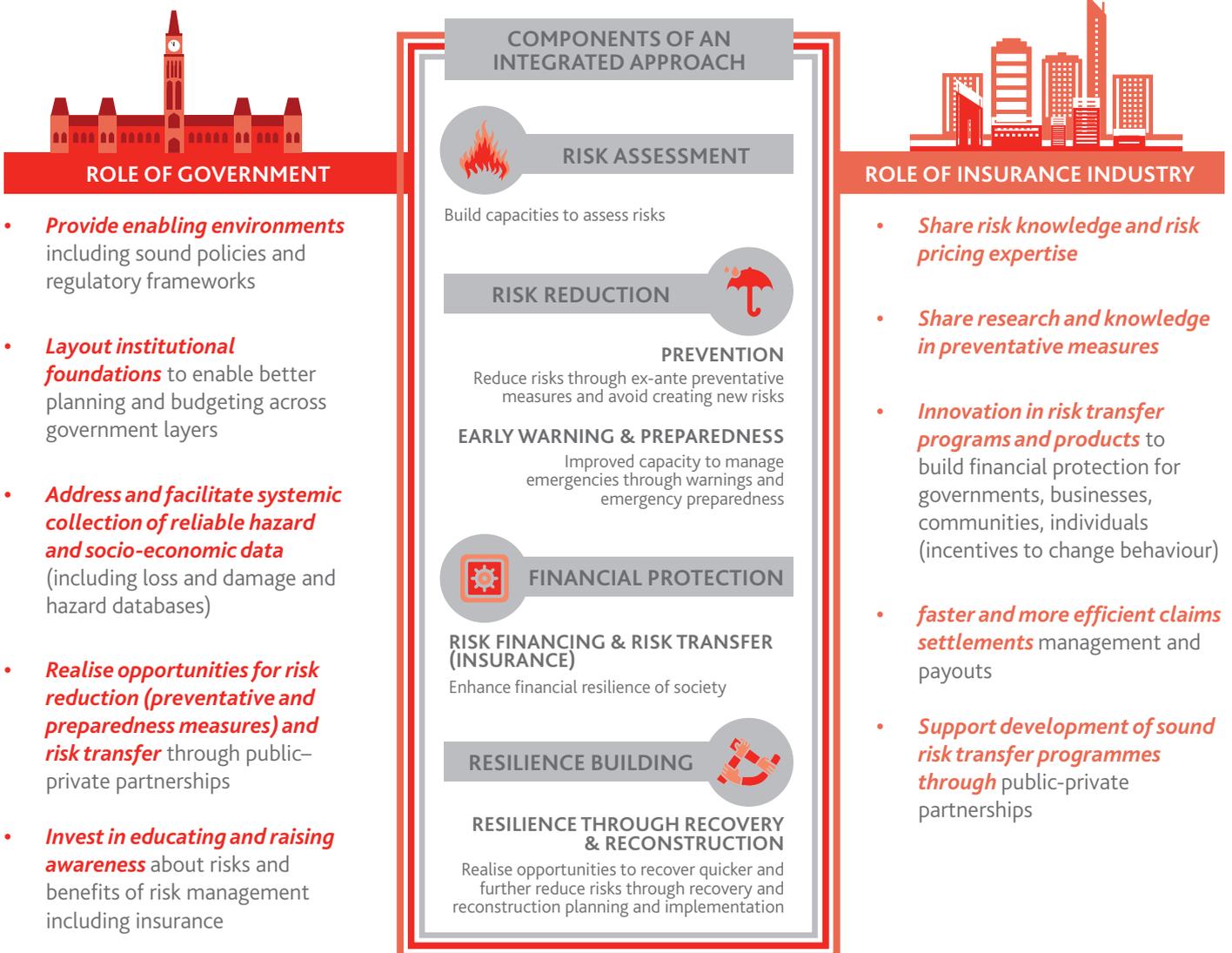
AWARENESS OF THE NEED FOR AN INTEGRATED APPROACH TO BUILDING RESILIENCE TO RISKS

The sheer scope of this problem globally has spurred international policy dialogue on disaster risk reduction, climate change, sustainable development and poverty alleviation. 2015 was a pivotal year for global efforts to address the common issues connecting these topics. Three international framework agreements, namely, (i) The Sendai Framework for Disaster Risk Reduction (2015-2030), (ii) The 2030 Agenda for Sustainable development; and (iii) the Climate Change Paris Agreement have highlighted the importance of an integrated approach to disaster and climate risk management as well as the importance of insurance in building economic resilience across different economic sectors, levels of government and society. Risk-informed measures to reduce and transfer disaster risks and to build resilience need to be brought to life in a scalable and sustainable manner. Governments and the insurance industry have crucial roles to play.

THE IMPORTANCE OF LEVERAGING PUBLIC-PRIVATE PARTNERSHIPS

Effective public-private partnerships are central to the implementation of effective and sustainable risk transfer and insurance programs. Governments, the insurance industry and other stakeholders need to align priorities and leverage their strengths and initiatives in a more coordinated manner to address the resilience and insurability challenge. With governments at the centre of this issue, over the last decade, increasingly more coordinated multi-lateral initiatives have been forged to raise awareness and facilitate the implementation of disaster and climate risk management capacities at the international, regional, national and local levels. These efforts have engaged various international intergovernmental organizations (IGOs), international donors, non-governmental organisations (NGOs), insurance industry, scientific and engineering communities, academia, and media agencies.

MANAGING RISKS OF EXTREME EVENTS AND CLIMATE: ROLE OF GOVERNMENTS AND (RE)INSURANCE SECTOR



The design of effective disaster risk management strategies requires an in-depth understanding of the risks along with an appropriate consideration of the specific governance, institutional, financial, societal and cultural characteristics. For an effective application of risk transfer, the public sector needs to provide enabling policy and regulatory frameworks.

This fundamental role should be complemented with specific government-sponsored initiatives in close partnership with the private sector, particularly the win-win situations that could arise from leveraging their respective roles and strengths.

HARNESSING THE INSURANCE INDUSTRY: CHALLENGES AND GAPS

Sound disaster risk financing and insurance strategies increase the financial resilience of governments, businesses, communities, households and individuals. Research shows that countries with a

robust penetration of market-based insurance coverage recover faster from the financial impacts of extreme events. If properly designed and implemented, market-based insurance mechanisms not only help with risk sharing and risk transfer, but also encourage more risk-conscious behaviour. However, there remain many challenges in expanding and harnessing benefits of insurance globally to address the protection gap and enhance economic resilience.

ADDRESSING THE CHANGING CLIMATE

The 2016 Global Risks Report of the World Economic Forum (WEF) has identified 'failure of climate change mitigation and adaptation' as the highest risk facing our society. Our understanding of how climate change impacts the nature of extreme events is increasing, but is subject to uncertainty due to the complexity of the global climate system. On the hazard side, opportunities for leveraging scientific advancements with observing and predicting climatic regimes and related weather extremes should be considered, in providing essential input for forward-looking risk models.

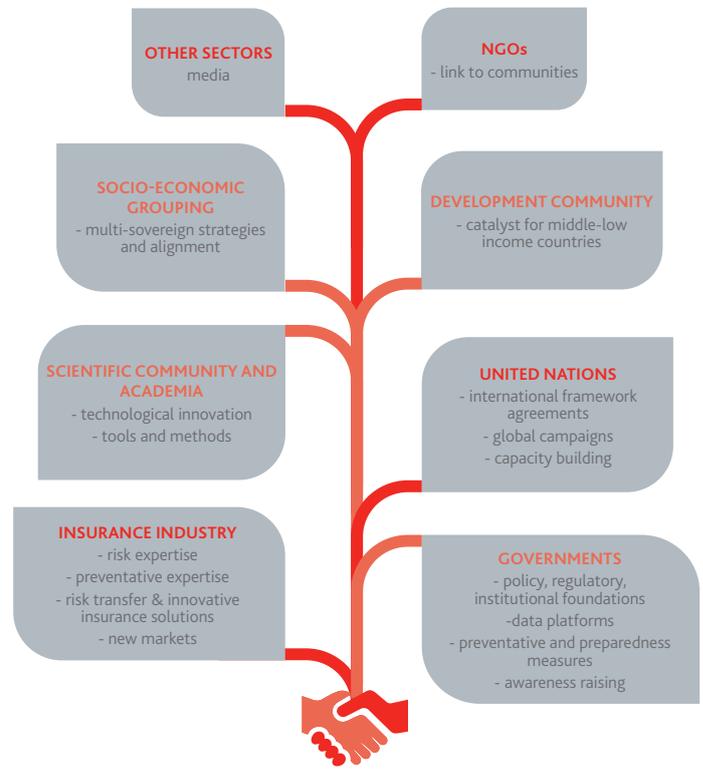
CHALLENGES AND HURDLES WITH EXPANSION OF INSURANCE AROUND THE WORLD



The influence of climate change on insurance provision is expected to be multifaceted, complex and regionally variable. For those who provide risk transfer solutions, this creates new risks, but also opportunities. Several of the new pilots and risk transfer schemes, supported by global insurers in low-income countries have been motivated by the concern about climate change. Insurance is increasingly seen as an instrument for climate adaptation, justifying public investment into insurance. However, if and how future climate change risks are being factored in existing and new insurance schemes could benefit from close engagement with the insurance industry to find innovative solutions.

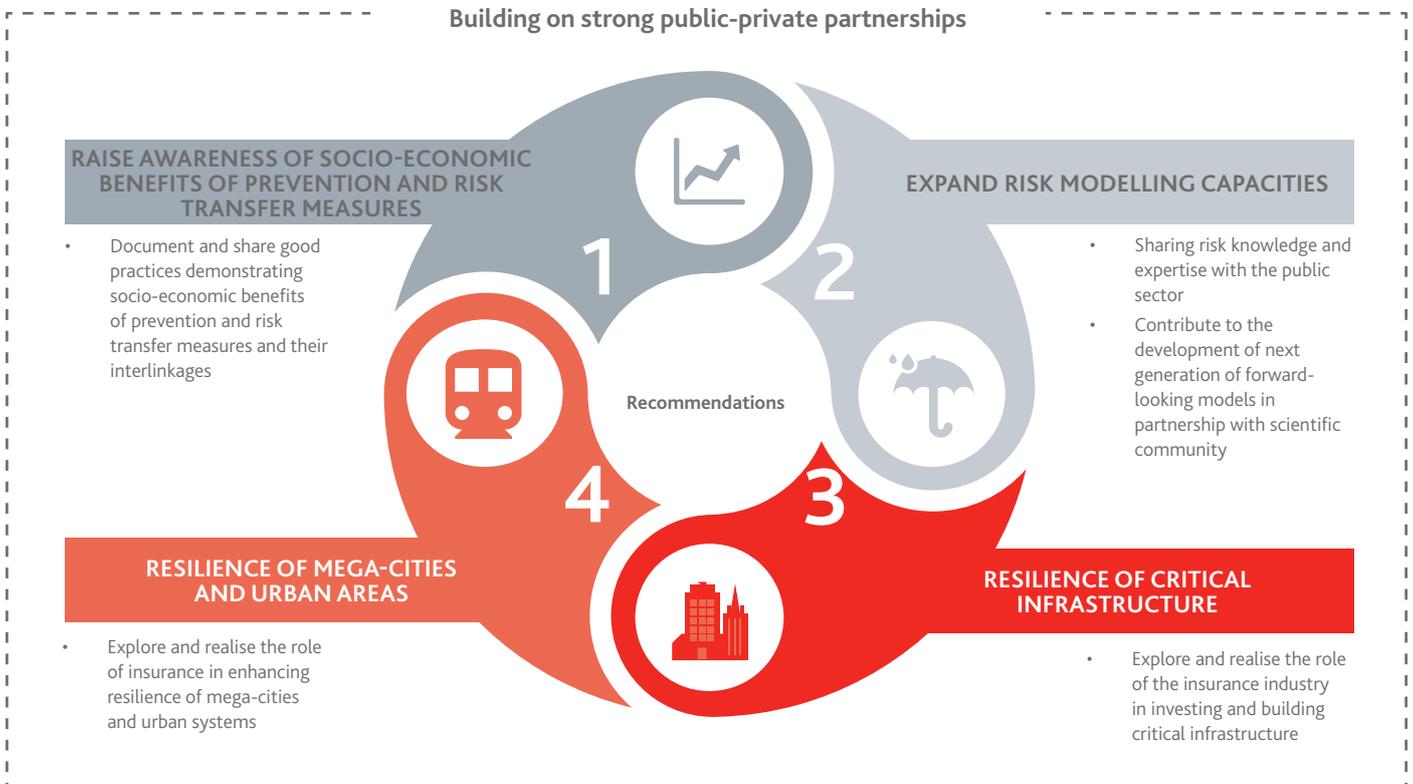
CONCLUSION

Neither the (re)insurance industry nor the public sector alone can manage disaster and climate risks effectively. To make the best use of risk sharing and risk transfer now and in the longer term, an integrated disaster risk management approach is required to address the underlying sources of risks and align the unique capabilities of both the public and private sectors in order to achieve adequate risk resilience.



EFFECTIVE PUBLIC-PRIVATE PARTNERSHIPS ARE AT THE CENTRE OF DEVELOPING EFFECTIVE AND SUSTAINABLE RISK TRANSFER AND INSURANCE PROGRAMMES

RECOMMENDATIONS FOR EXPANDING THE CONTRIBUTIONS OF THE INSURANCE INDUSTRY TO MANAGING RISKS OF EXTREME EVENTS AND CLIMATE



An integrated approach to disaster and climate risk management must be adopted, empowered and utilized. Now is the time for action to solve the myriad problems that arise from the pervasive insurance protection gap.