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THE GENEVA ASSOCIATION

Guidelines for Risk Assessment to Support Sovereign Risk Financing and Risk Transfer

A JOINT PUBLICATION OF THE GENEVA ASSOCIATION AND THE INSURANCE DEVELOPMENT FORUM (IDF)

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The Geneva Association

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The Insurance Development Forum (IDF) is an unprecedented public/private partnership between leaders of the United Nations (UN), the World Bank Group, and the insurance industry. Its initial focus is to contribute to closing the protection gap—the gap between insured disaster losses and the actual economic costs of disasters—by optimizing and extending the use of insurance and its related risk management capabilities to build greater resilience for people, communities, businesses and public institutions that are vulnerable to climate change, disasters and related economic shocks.

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Guidelines for Risk Assessment to Support Sovereign Risk Financing and Risk Transfer

List of Authors:

Dr Maryam Golnaraghi, Director Extreme Events and Climate Risk research programme, The Geneva Association*

Mr Ian Branagan, Group Chief Risk Officer, RenaissanceRe and Co-chair of Risk Modelling and Mapping Group, IDF

Mr Stuart Fraser, Fraser Disaster Risk Consulting Ltd. and member of the Risk Modelling and Mapping Group, IDF

Mr Jonathon Gascoigne, Willis Towers Watson and member of the Risk Modelling and Mapping Group, IDF

Ms Anne Marie Gordon, RenaissanceRe and member of the Risk Modelling and Mapping Group, IDF

* For queries related to this document, please contact Dr Golnaraghi: maryam_golnaraghi@genevaassociation.org

The Geneva Association

The Geneva Association—International Association for the Study of Insurance Economics
Talstrasse 70, CH-8001 Zurich
Email: secretariat@genevaassociation.org | Tel: +41 44 200 49 00 | Fax: +41 44 200 49 99

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Contents

I. Sovereign Risk Financing and Risk Transfer Schemes: A Critical Component of a Comprehensive Disaster Risk Management Strategy

Financial losses associated with extreme events are experienced across many stakeholders, hampering socio-economic development, particularly in the most vulnerable nations.

When a disaster strikes it can lead to significant financial burdens which can be felt by several stakeholders i.e. by governments, businesses, and individuals, whether directly or indirectly (World Bank, 2014).

A region's economic vulnerability to extreme events will depend on a range of factors, linked to: (i) increasing exposure and vulnerabilities such as higher concentrations of people and property in cities in exposed coastal regions, poor development planning, complex interdependent supply chains and trade patterns, cascading failure effects of critical infrastructure, and cascading impacts of natural and man-made catastrophes; and (ii) increasing incidence and severity of hazards such as extreme weather events due to climate change. These factors are contributing to the rising financial impacts of disasters.

In absolute terms, the financial costs of disasters are highest for high-income countries. However, in relative terms, the financial effects of extreme events are much more devastating for middle- and low-income countries, when analysed in relation to their average GDP. Recurring disasters present a significant challenge to socio-economic development and poverty reduction efforts in those countries. As is too often the case, the poorest communities are the most vulnerable.

A comprehensive risk management strategy is required to prevent and/or limit the economic impacts of disasters.

A comprehensive risk management strategy should consider several options to reduce and prevent economic losses. Preventive measures such as land-use planning, enforcement of appropriate building codes, retrofitting of homes, commercial building and critical infrastructure (e.g. energy, transport, water and sanitation), better construction practices, and investment in the natural infrastructure (e.g. wetlands) are critical for reducing and preventing economic losses associated with disasters[1]. These can be combined with emergency preparedness and response procedures linked to early warnings, to further reduce the risks[2].

The decision to invest in such measures should be underpinned by an understanding of the risk and cost-benefit analysis of risk reduction and risk prevention measures. However, despite such risk reduction or preventive efforts, some residual economic risk will always remain. Risk financing and risk transfer measures (such as insurance) provide protection cover and can distribute or pool the residual economic risk. A number of recent studies indicate that, following a major disaster, countries with lower levels of insurance penetration experience larger declines in economic output and more considerable fiscal losses than those with higher levels of insurance penetration (Von Peter et al., 2012). Finally, these can be complemented by effective reconstruction plans (that may also consider re-zoning) that aim to reduce future disaster risks and build resilience, after any major event.

Disasters lead to a number of direct and indirect financial impacts on governments, businesses and individuals.

The direct impact of a disaster on a government's budget could include: (i) emergency relief and response expenditures; (ii) relocation of affected and/or at-risk citizens; (iii) reconstruction or improvements of non-insured or partially-insured public infrastructure and family dwellings; (iv) costs of social and economic programmes for rehabilitation and recovery; and (v) contingent liabilities for state-owned and other enterprises that are critical to economic recovery.

1 Several studies indicate that these ex-ante preventive risk-management measures are more cost-effective than post-disaster response and reconstruction crisis-management approaches

2 Well-coordinated early warning and emergency preparedness systems primarily lead to reduction in loss of lives and in some cases reduction of some damages to homes, if the public has the incentives and knows what measures to take (Golnaraghi, 2012). Early warnings are also proving useful to (re)insurance companies to design contingency plans that could expedite claims management processes, following a disaster.

Governments will also suffer indirect impacts: (i) decreased tax revenues associated with business interruption and decline in GDP growth; (ii) opportunity cost of diverting funds from intended development plans to reconstruction and recovery programmes; (iii) additional expenditures related to effectiveness of social recovery programmes; (iv) increased borrowing costs and potential negative impacts on the sovereign credit rating; and (v) migration of population due to loss of livelihoods.

Disaster risks will impact businesses and individuals directly through (i) cost of reconstruction of uninsured or partially-insured assets; (ii) cost of replacement or repairs of uninsured or partially-insured assets; (iii) health care; (iv) loss of sources of income; and (v) decline in property value due to destruction of surrounding infrastructure. The indirect impacts could include (i) loss of income due to business interruption, unemployment, death or economic decline; (ii) increased borrowing costs; and, (iii) additional costs such as relocation and alternative housing and long-term disability.

At a sectoral level, the economic consequences of some disaster risks could be felt across an entire supply chain and can affect economic output by interruption of supply chain and market accessibility. For example, this can impact the country's exports, or have global impacts that result from supply chain disruptions. On the other hand, in countries with limited economic diversity, a single catastrophe can lead to profound economic impacts. For low-income nations, these types of economic shocks, can deepen poverty levels and lead to complex emergencies, requiring significant humanitarian and relief interventions.

Post-disaster financial needs are often defined by three phases: (i) immediate relief and rescue response; (ii) early recovery; and (iii) the reconstruction phase. The funding needs will differ in each phase. Relief and rescue requires immediate access to funds for urgent rescue, food, medicine, clean water and shelter for those injured, affected and displaced. Early recovery requires funding, within weeks, to restore the livelihoods and help communities to return to some level of normality and to restart their economic activities. Reconstruction requires more substantial funds to be mobilised for repair and rebuild of damaged assets such as homes and critical infrastructure. Funds are therefore required on different timescales. Delays in receiving funding can hamper each phase, negatively impacting the population and the economy.

Sovereign risk financing and risk transfer measures offer a variety of solutions to provide cover against financial impacts of disasters on governments, business and individuals as well as financing some of the post-disaster expenses.

Sovereign risk transfer can take several forms, each with different trigger mechanisms, payout conditions and timescales. The suitability of this approach will differ depending on each government's budget and risk contexts (World Bank, 2014; OECD, 2015; Golnaraghi, et al. 2016).

The first important distinction is whether public or private assets are being considered and whether these are on aggregate level, for example via a sovereign insurance scheme; or on individual level (see Boxes 1 and 2).

Another important distinction is between indemnity-based and parametric insurance. With the former, claim payments are linked to the actual losses incurred by the insured. Under indemnity covers all claims need to be individually checked, which may lead to significant transaction costs. On the other hand, parametric trigger-based insurance contracts make a payout if a physical loss parameter (e.g. wind speed or amount of precipitation) is reached—and not on the basis of actual losses incurred by the insured. Compared with indemnity-based insurance, loss parameters used in risk transfer schemes with parametric triggers are available immediately, after the event causing losses. The most significant disadvantage of parametric triggers is basis risk, i.e. the difference between the actual loss incurred by the insured and the payout.

Since the 1990s, a number of 'alternative risk transfer' (ART) capital market instruments have been developed to complement the more traditional (re)insurance solutions. These insurance-linked securities (ILS), for example catastrophe bonds, provide substantially more reinsurance capital to cover catastrophe losses, by transferring risks to the capital markets.

II. Key Considerations for Development of Sovereign Risk Financing and Risk Transfer Programmes in Middle- and Low-income Countries

When developing sovereign risk transfer programmes in middle- and low-income countries, several factors should be taken into consideration (Golnaraghi et al., 2016). In summary:

1. There must be a clear understanding of the objectives of the sovereign risk transfer programme. For example, the risk transfer program may be primarily required to provide stimulus for domestic insurance markets or to provide cover that the government is not able or willing to provide, for example emergency relief. Or the programme may be required to supplement budgetary measures that can provide a portion of post-disaster financing to help expedite recovery.

2. Any risk transfer product should cover the appropriate risks to the appropriate level of cover that aligns with the government's risk appetite and budget for covering post-disaster costs. It is necessary to understand what risks require cover, the likely frequency and size of losses that the government may have to cover, the percentage of these costs the government will pay from its own budgetary space and the proportion it wishes to insure or finance. The estimated costs should help to determine the risk the government may wish to retain, (i.e. the proportion of the post-disaster costs that they can cover from their own budget).

3. There must be adequate data and technical expertise to support the pricing, structuring and provision of the risk transfer or financing cover

    - The data should be able to describe the magnitude, frequency and geographic distribution of potential losses, in order to correctly price and structure cover

    - This data can be generated by risk assessment methods, referred to as probabilistic catastrophe (Cat) modelling. The development, calibration and utilisation of such models require multi-disciplinary technical expertise and experience with interpretation of model output. Input data is often unavailable or incomplete. Incomplete knowledge of hazard events and their impact means more uncertainty for insurance pricing and availability.

4. When developing new risk transfer mechanisms, a number of market considerations may also be considered, depending on the objectives:

    - A strong and reliable primary insurance market and access to reinsurance are important. In the absence of mature institutions to partner with, there may be a need to provide (re)insurance capacity and expertise, and there may be higher associated costs of distribution, claims verification and settlement.

    - There should be awareness of and appreciation for any regulatory issues within the market

    - Potential for adverse risk selection by the insurers, due to scarcity of data, particularly in markets that are not yet well-developed.

    - Risk of limited take-up resulting in a small pool of policyholders

    - Creation of a moral hazard, unless new insurance protection incentivises risk-reducing behaviour

5. Understanding the linkages of insurance premiums, frequency of payments and insured limit/cover is important. Calculation of the annual expected loss (AEL) is the single most important individual contributor to the final cost (premium) of an insurance product. Simply, the expected loss is a result of a calculation looking at how often (frequency) and how much (insured limit or cover) will be paid to the insured. This relationship is key, as changing one of the three elements (premiums, frequency and insured limit) will immediately impact one of the other two.

III. Risk Assessment: A Critical Step for Design of Sovereign Risk Financing and Risk Transfer Programmes

To determine the required scope and type of risk financing or risk transfer, a government should first understand the risk context, for example the potential impact of disasters on their population, infrastructure and economy.

Disaster risk assessment modelling provides this understanding and quantification. Results are presented not only in terms of the average loss that is expected to occur in any year but also, more usefully, the probability that losses exceed a given size in any given year ('return period' or 'recurrence interval', also expressed as '1 in 100 year loss', for example). Losses can be broken down by geographic region, event type, etc.

Disaster risk is a function of three interlinked components: hazard, exposure, and vulnerability[3].

Probabilistic Catastrophe models provide a systematic and rigorous approach to pricing, underwriting and managing complex risk portfolios.

Since the 1980s, probabilistic catastrophe (Cat) risk modelling has been developed by the insurance industry to create a systematic approach to pricing, underwriting and managing complex insured risk portfolios. Increasingly, probabilistic Cat models, or variations thereof, are being used by national authorities to design sovereign risk financing and risk transfer applications.

These models include:

- Hazard module: Developed by assigning spatial and temporal distributions to hazard events and their characteristics. This is typically based on the historical catalogue of events in a region. These catalogues are incomplete due to unrecorded events, especially as we look further back in time. Therefore a probabilistic model is required, in which simulations are used to augment the historical catalogue with distribution of possible realistic events that could be expected to occur, but may not have yet been observed[4].

- Exposure module: A representation of assets (e.g. buildings, agricultural crops, etc.) that could sustain a loss and should describe the location, value and construction attributes of each asset.

- Vulnerability module: It comprises a relationship for each asset (e.g. a building) and its properties (e.g. construction type), describing how hazard intensity relates to damage sustained (generally as a proportion of asset value).

Prior to conducting an assessment for risk financing and risk transfer, the scope and type of financing mechanism should also be defined, as this influences the required content, fidelity and extent of modelling. In turn, this affects the level of investment and partnerships required in development of the hazard, exposure and vulnerability data[5].

3 In a disaster risk assessment, the following three components are represented in a catastrophe model:
- Hazard refers to the likelihood and intensity of a potentially destructive natural phenomenon, such as ground shaking caused by an earthquake or extreme winds related to a cyclone.
- Exposure refers to the infrastructure, buildings, agricultural land, and other assets that might be affected by the hazard.
- Vulnerability is the extent to which we expect assets to be damaged when impacted by the hazard.

4 For example, a cyclone hazard dataset contains a large number of cyclone tracks (some that have actually occurred, and others that are statistically possible in terms of the event parameters). Each track has details of cyclone size, travel speed, and wind speed, which are all important to determine its impact on assets.

5 Development of each model component typically requires extensive investment of specialist expertise to analyse data and build and validate each model component (that is, to make sure it is as realistic as possible). Significant technological resource is required to develop and operate catastrophe models that can contain hundreds of thousands of events and millions of assets, with the impact of each event being computed on every asset to estimate risk to the entire portfolio.

An important question in the risk assessment stage is to define the goals of the assessment, and identify who can and should perform it.

A government may want to use an existing assessment, or design and implement their own risk assessment using internal scientists and experts. In considering these options, the methods and outputs should be assessed to confirm whether they may be seen as acceptable for use by the insurance market. In cases where an assessment is deemed not to be acceptable for insurance market use, engagement with experienced external catastrophe modelling organizations may be required, in order to develop risk models and implement assessments specifically for use by the insurance market.

For some countries and perils, several models exist and each is likely to provide different estimates of risk. A common question is 'which model is right?'

Different models employ different assumptions and processes in each step of the model chain, owing to available data or resource, alignment with a particular statistical or computational method, or how the model treats uncertainties. Combined, these differences contribute to (sometimes large) differences in the estimated losses. A government should look to evaluate the methods and validate input and outputs when making a judgement on which model(s) to use as a basis for designing their risk financing or risk transfer programmes.

They should assess the source and scientific justification of methods, ensure that uncertainty is correctly accounted for in each component and retained throughout the model. The input data used to develop a model should be from a reliable source, and should be as complete as possible with any assumptions around data contents being adequately justified. Data and methodological transparency is important in being able to validate models. This is improving with the growth in availability of open source models. However, in the case of commercial models, validation should be conducted through detailed discussions with model developers[6].

Parametric options may be considered when exposure and vulnerability information is lacking or unreliable.[7]

In instances where hazard(s) information for a particular region is reliable but data for exposure and vulnerability is either not available or of low quality, then mechanisms for financial payouts could be constructed based on hazard(s) data only. This would require analysis and design of the settlement index, triggers and associated payout. If the index is not carefully designed it may payout when there is little or no impact; or even worse, not payout when there has been an impact.

6 It is important to note that such analysis is required for development of indemnity-based insurance solutions; however, development of parametric solutions do not require this level of analysis. In fact most parametric products are considered when exposure data and vulnerability information are not available.

7 Particularly in case of financing emergency response and early recovery, rather than financing of reconstruction.

IV. Key Stakeholders

The development of a successful risk financing and risk transfer programme requires the collaboration of multiple stakeholders and information providers.

Risk assessments and development of sovereign risk financing and risk transfer programmes should engage a variety of stakeholders from the government (ministries), national technical agencies and data providers, academia and centres of excellence, (re)insurance industry, international and regional development banks, non-governmental organisations (NGOs), and the risk modelling community (Golnaraghi and Khalil, 2017).

Multi-stakeholder processes should ensure: (i) consideration of end users' needs and requirements; (ii) development of in-country technical and operational capacities; (iii) utilization of the risk assessment by all stakeholders; and (iv) incentives for take-up of the programme and promotion of its sustainable use.

Specifically:

1. Development of data and models should be done in collaboration with national operational services and data providers to build capacity and promote the sustainable maintenance of the risk data. This may include academics, national meteorological, hydrological and geological services, as well as other government and non-governmental agencies that collect and maintain sectoral data, such as the national bureau of statistics.
2. From the buy-in perspective, cooperation within and across government agencies (including national, provincial and local governments) is important to generate buy-in to the transfer programme and foster insurance take-up at the individual level where required.
3. From a sustainability and effectiveness perspective, partnership with a variety of risk transfer experts is important. The development of risk transfer solutions appropriate to the government's requirements could benefit from risk modelling, actuarial and risk transfer expertise of the domestic and international private (re)insurance industry; as well as of regional or international development banks and groups such as the IDF[8]. Where a risk transfer mechanism targets a specific sector, for example agriculture, it is paramount to include sector specialists in data provision and generation, and ensure the risk transfer product can be effective for its target market and beneficiaries.
4. NGOs may have an important role to play in a number of areas, as per their expertise. For example, in the promotion of these solutions at the local level and in assisting with the corresponding take-up.
5. The above may be further supplemented by bringing in other domestic and international experts.

8 The IDF is a public-private partnership led by the insurance industry and supported by governmental and international organisations

V. Examples

Over the past years, a number of initiatives have been established to offer coverage for the protection of government budgets, communities and individuals in a disaster situation. Prominent examples of regional pools include the Caribbean Catastrophe Risk Insurance Facility, the Pacific Disaster Risk Financing and Insurance Programme, which was built upon the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), and the African Risk Capacity. National risk transfer programmes have also emerged. A comprehensive list is provided in Golnaraghi and Khalil (2017).

Box 1: Examples of Regional Pools

Caribbean Catastrophe Risk Insurance Facility (CCRIF). The CCRIF was established in 2007 as the first multi-country risk facility, providing catastrophe insurance to 16 Caribbean governments. Initial funding came from grants, the largest being from the Canadian and UK governments, as well as sponsorship by the World Bank. CCRIF is a mutual insurance company owned by its client country members, designed to provide emergency relief to governments on a parametric basis, allowing swift payment after a loss. The largest payment made by CCRIF for a single event was US$23.4 million to Haiti, under the country's tropical cyclone and excess rainfall policies, as a result of hurricane Matthew in October 2016. Initially, most members were dependent upon premium funding in order to be able to join but now all but one (Haiti) pays its premium. CCRIF also provides educational and technical support across the Caribbean and has spawned several micro-insurance schemes. CCRIF buys traditional reinsurance and issued a Cat bond in 2014. CCRIF is advised by a UK-based reinsurance broker on risk modelling, reinsurance design, pricing and placement.

Pacific Disaster Risk Financing and Insurance Program. Launched in 2013 to provide parametric disaster insurance for tropical cyclones and earthquakes. Currently there are five participating countries. The overall aim is the provision of short-term liquidity to participating governments in the event of disaster. The first payout was made to Tonga in January 2014 (USD 1.27 million). The pool is part of the PCRAFI, a joint initiative of the World Bank, the Secretariat of the Pacific Community and the Asian Development Bank, with financial support from the Government of Japan, the Global Facility for Disaster Reduction and Recovery and the ACP-EU Natural Disaster Risk Reduction Program.

African Risk Capacity (ARC). ARC was formed in 2014, initially to provide cover against drought to African countries. Its creation was sponsored by the UN's World Food Programme, operating under the African Union. Like CCRIF, ARC is a mutual insurance company, although countries that provided loans to capitalise the company (UK and Germany) are also members. Cover is on a parametric index basis offering drought and windstorm policies. ARC Insurance Company Limited has a sister organisation, ARC Agency, which provides African governments with advice on why insurance is required, how its insurance contract should be structured and how to create contingency plans. ARC has 32 member countries with eight currently buying insurance. In January 2015, Senegal, Niger and Mauritania received an insurance pay out of more than USD 26mn, triggered by the drought in the Sahel, before an international humanitarian aid appeal was made. 24 reinsurers participate in reinsurance cover, including Lloyd's syndicates.

Note: When engaging in regional facilities, the availability of premium financing among governments can strongly influence take-up of sovereign risk transfer. As of May 2017, only eight of 32 member countries in the ARC purchase cover, with the most significant barrier to growth being a lack of a premium financing facility. The CCRIF overcame such issues by providing such a facility, which allowed members to join and phase-in premium payment over several years. With such a facility, it is estimated that ARC could cover 20 countries by 2020, meeting a significant proportion of the G7's InsuResilience target (400 million people in developing countries to be brought under the coverage of catastrophe insurance by 2020).

Box 2: Examples of National Risk Transfer Programmes

Turkish Catastrophe Insurance Pool (TCIP). The ever-present threat from widespread earthquake damage led to the creation of the TCIP in 1999. The TCIP provides earthquake and fire insurance coverage at affordable yet actuarially sound rates for registered urban dwellings, limits the government's financial exposure to loss, builds long-term catastrophe reserves and encourages risk reduction and mitigation practices in residential construction. During the first five years the World Bank provided a contingent credit layer that would have provided capital relief should there be a shortfall as a result of claims activity. Reinsurance cover per event is purchased through various layers. Current market penetration is around 34% (approximately 5.6m policies), with an average premium per policy of EUR 59.

India's Telenor Suraksha Micro-insurance. In September 2015, Telenor India launched Telenor Suraksha, India's first mass-market life insurance product in partnership with Shriram Life and MicroEnsure, a leading UK-based micro-insurance specialist. Cover is offered via Telenor's network of 48 million customers, who can sign up when topping up their phones. The electronic registration process is simple and no paper policy document is required. Cover is offered without exclusions and for free after a certain amount of airtime usage as a reward to loyal subscribers. Education of the benefits of insurance is made through marketing materials, SMS and a phone menu that provides all the information required. Claims are paid using mobile money. Within 148 days, more than 22 million customers had opted for the programme, with most people living in rural areas. Over 95% of customers had never had any form of insurance before.

France's Caisse Centrale de Réassurance (CCR). The French CCR was created in 1946 as a pool to cover all perils not traditionally insured through the private market, including flood, mudslide, earthquake, landslide, subsidence and tidal waves. Losses are only covered when an event is declared a natural disaster by government decree and results in property damage. Cover is compulsorily included (to avoid adverse selection) in fire and property damage policies covering homes, commercial and industrial properties, farms and motor vehicles including any business interruption cover where provided in the original policy. A flat premium rate is applied, which is set by the state, to each eligible policy which varies by class. Gross written premium is above EUR 1bn. The CCR has an unlimited state guarantee and CCR purchases its own reinsurance programme in the open market to manage volatility.

The New Zealand Earthquake Authority. Through a mixed public–private insurance scheme, the New Zealand Earthquake Authority has worked closed with the private insurance companies to build trust, share data, apply research and develop strategies for assisting homeowners in building resilience. The compulsory nature of this programme has led to stronger penetration of insurance and more effective recovery after the recent earthquakes.

Mexico's Fund for Natural Disasters (FONDEN). Mexico is aiming at better linking risk reduction and risk financing. The primary interest in Mexico on disaster risk reduction (DRR) dates back to the 1990s, when the finance ministry identified sovereign insurance for increasing fiscal stability. In 1996, the Mexican government created a budgetary programme to enhance their country's financial preparedness for natural disasters—the Fund for Natural Disasters (FONDEN). Its objective is to prevent imbalances in the federal government finances as a result of natural catastrophes. Over the years, FONDEN has led to innovative risk financing arrangements, such as using catastrophe bonds to protect the balance sheet. As an ancillary benefit of the risk financing strategy, which also required detailed information from risk assessments, risk reduction has been incentivised. FONDEN is currently promoting DRR in reconstruction activities, and about 25% of FONDEN resources are earmarked to rebuild post-event damaged assets to better withstand future disasters. As another measure, in a context of increasing risk and cost awareness, FONDEN is also deliberating and encouraging relocation of housing in high-risk areas.

VI. Checklist

Table 1 provides a checklist for defining a risk assessment for purposes of sovereign risk financing and risk transfer schemes.

Checklist for Preparations of Risk Assessment for Design of Risk Transfer Schemes			
For Protection of Government Budget		For Protection of Individuals	
❑	Define geographical coverage of programme, e.g. national, sub-national, city [1, 2]	❑	Define geographical or unit of coverage of programme, e.g. national, sub-national, city, community, household [1, 2]
❑	Define hazard(s) or peril(s) to be covered by the programme, e.g. windstorm, drought, cyclone, excess rainfall, earthquake, epidemic [1, 2]	❑	Define hazard(s) or peril(s) to be covered by the programme, e.g. windstorm, drought, cyclone, excess rainfall, earthquake, epidemic [1, 2]
❑	Define what risk(s) are to be covered, e.g. budgetary risks post disaster, property, critical infrastructure agriculture, infrastructure [1, 3]	❑	Define what risk(s) are to be covered, e.g. residential property, agriculture, infrastructure, livelihoods, etc. [1, 3]
❑	Identify existing government protection arrangements (includes risk transfer programmes, credit lines, or budget allocation) to be used to disburse funds in the event of disaster. Define objectives and assess how a new programme will efficiently enhance or add to existing schemes [1, 3]	❑	Identify existing insurance arrangements to protect individuals (includes risk pools, government-backed insurers) to be used to pay individuals' claims in the event of disaster. Assess how a new programme will efficiently enhance or add to existing schemes [1, 3]
❑	Define the type of trigger that will be used to signify payout, e.g. indemnity (loss) or parametric (hazard) [NB: possible to migrate over time or have both components in a scheme] [1, 3] Collect, assess and quality assure data for the hazard, exposure and vulnerability modules of the models [2, 3]	❑	Define the type of trigger that will be used to signify payout, e.g. indemnity (loss of an asset) or parametric (based on characteristics of hazard) [NB: possible to migrate over time or have both components in a scheme) [1, 3] Collect, assess and quality assure data for the hazard, exposure and vulnerability modules of the models [2, 3]
❑	Determine level of international sponsorship of the programme, e.g. from, international development banks, global insurance and reinsurance companies [1]	❑	Define cover types compulsory (possibly politically unpopular) or optional (possible adverse selection and low take up) [1]
❑	Determine who will guarantee the programme, e.g. reinsurance purchase, or capital markets [1, 4]	❑	Determine who will guarantee the programme, e.g. government as insurer of last resort, reinsurance purchase, or capital markets [1, 4]
❑	Determine premium rate conditions: flat-rate (increases social solidarity) or risk-adjusted (influencing behaviour and often required by international schemes). Determine whether premium financing scheme is required to encourage take-up [1, 4]	❑	Determine premium rate conditions: flat-rate (increases social solidarity) or risk-adjusted (influencing behaviour and often required by international schemes) [1, 4] Identify potential hurdles to take up
❑	Identify internal and external experts to support the development, interpretation and guide the utilization of the risk model(s) [1, 2, 3, 4]	❑	Identify internal and external experts to support the development, interpretation and guide the utilization of the risk model(s) [1, 2, 3, 4]
❑	Conduct risk modelling of appropriate fidelity and scope to support the design of risk transfer programme, based on outcomes of above steps [1, 3]	❑	Conduct risk modelling of appropriate fidelity and scope to support the design of risk transfer programme, based on outcomes of above steps. [1, 3]

Note: Square brackets [ ] indicate the stakeholders who should be involved in each step:

1. Government authorities at all the relevant levels, insurance experts and insurance industry representatives (domestic and international) to define needs of programme
2. Academics, domestic technical experts, centres that collect and maintain hazard (national meteorological, hydrological and geological services) and sectoral data; as well as regional and international experts when required
3. Risk analysis experts / risk modellers
4. International sponsors (e.g. development banks, NGOs, etc.)

VI. Resources

About The Geneva Association: Available at www.genevaassociation.org

About Insurance Development Forum (IDF). Available at http://theidf.org/

About the World Bank Global Facility for Disaster Risk Reduction (GFDRR): The GFDRR website provides a large library of research, tools and publications that relate to every aspect of resiliency and protection against natural disasters including disaster risk financing and insurance. Available at https://www.gfdrr.org/

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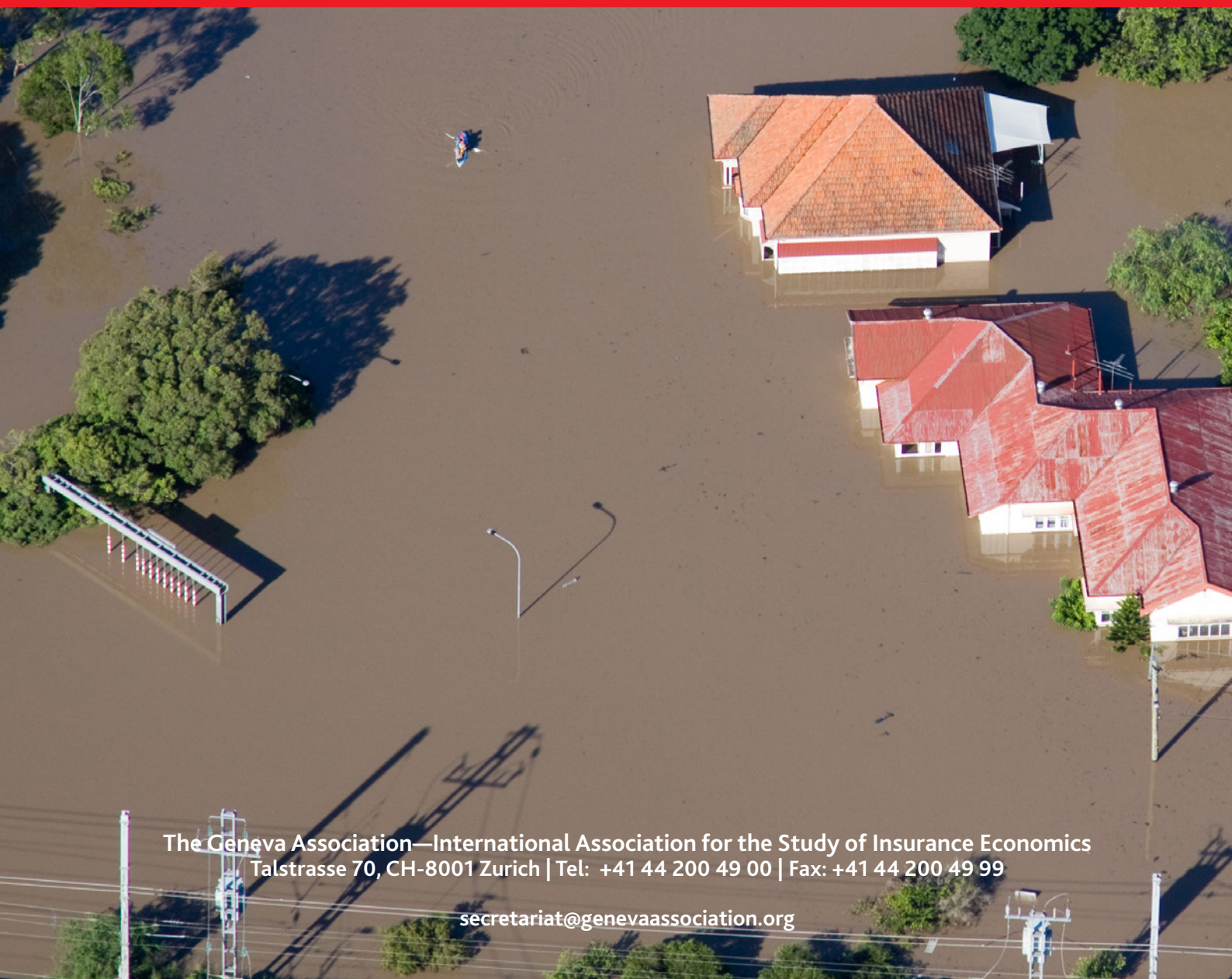
This document has been developed in response to a request from the United Nations Office for Disaster Risk Reduction (UNISDR) as part of *Words into Action Guideline on National Disaster Risk Assessment: Governance System, Methodologies, and Use of Result*. This module provides governments with a framework for risk assessment to support development of sovereign risk financing and risk transfer programmes. It also offers a checklist for conducting the underpinning risk analysis to guide the design of such programmes.



The Geneva Association—International Association for the Study of Insurance Economics
Talstrasse 70, CH-8001 Zurich | Tel: +41 44 200 49 00 | Fax: +41 44 200 49 99

secretariat@genevaassociation.org