MUTUAL EXCHANGE FORUM
ON INCLUSIVE INSURANCE NETWORK
CLIMATE RISK INSURANCE
PRE-CONFERENCE WORKSHOP
Asia & the Pacific
Fosters Inclusive Prosperity
amidst Uncertainties

09:00 AM – 12:30 PM,
4 NOVEMBER 2019
15TH INTERNATIONAL CONFERENCE ON INCLUSIVE INSURANCE
PAN PACIFIC SONARGAON, DHAKA, BANGLADESH
Objectives of the sessions:
1. To highlight how Asia is leading the development of Climate Risk Insurance;
2. To explain how vital is CRI’s role in the integrated risk management system;
3. To share the alignment of CRI with the Sustainable Development Goals;
4. To present remarkable policies and practices executed by Regulators;
5. To introduce business models on CRI with emphasis on how it’s designed differently from others;
6. To introduce the GIZ CRI program featuring the VIP Engine.

Summary:
Asia Pacific is highly at risk from the effects of climate risks due to its geographical location and population. Climate Risk Insurance (CRI) does not succeed in managing risks on its own. It must work with Disaster Risk Reduction and Management to reduce risks into residuals. An information architecture is needed to advise decisions on climate risks and use of public funds; either to absorb, or transfer to insurance. Climate/Disaster Risk Insurance is still in its very early stages and the Mutual Exchange Forum on Inclusive Insurance (MEFIN) aims to transform CRI knowledge exchanged into implementation. The GIZ Regulatory Framework Promotion of Pro-Poor Insurance Markets I Asia (GIZ-RFPI Asia III) Project focuses on the creation of a data hub as a public good that will assist reinsurers and insurance companies who need more reliable data infrastructure to take action. MEFIN Network works with the public and private sectors to link the feedback of the market on products with regulation.
Welcome and Opening Remarks:

Dr. Antonis Malagardis, RFPI Asia III Program Director presented the background of the MEFIN Network which has been operating for 6 years. It promotes knowledge exchange and the implementation of lessons among its champions. MEFIN works with public and private sectors to get feedback of the market on microinsurance products, and link with regulation. It supports the interaction and sharing of ideas among MEFIN members and the application of learnings. MEFIN supports capacity development at all levels. It has four pillars: Policy and Regulation, Business Model development, Use of Technology platforms, and Knowledge Exchange among MEFIN country members.

Dirk Reinhard, Vice Chairman / Board member of the Munich Re Foundation
The Inclusive Insurance market is a difficult segment. Players are not after the quick and low hanging, but the long-term hanging fruits. A lot can be learnt from the success in the Philippines due to the strategic role of the Regulator, that can be transferred to other countries. Bangladesh also has a low insurance penetration of its traditional insurance products. Climate change affects the poor more, as insurance products addressing climate risks are hardly available.

GIZ and MEFIN provides an important contribution on the development of inclusive insurance by understanding the market, its challenges, and implementing the next steps. MEFIN enables a better understanding of laws related to inclusive insurance, to help achieve the closing of the protection gap.
Dr. Mahammad Mosharaf Hossain, Insurance Development and Regulatory Authority, Bangladesh

Bangladesh ranks 7th among most at risk and vulnerable countries from the effects of climate change. It is the fastest growing economy in Asia. The biggest river delta in the world, located at the bottom of 3 mighty rivers, the Ganges, the Brahmaputra and the Meghna. It has 57 transboundary rivers, 54 shared with India, and 3 with Myanmar.

Bangladesh has six seasons, with different scenic and seasonal dimensions. It is a country with a large population. Its southern portion is home to the world largest mangrove forest. Having huge bodies of water bodies, it has more than 200 species of fishes, sensitive to salt and freshwater conditions. The south east part, has one of the longest sandy beaches in the world.

These natural beauties and resources are now in danger due to climate change. Hail, erratic rainfall, prolonged drought, vector-borne diseases including multi—dimensional perils are happening. Government responds by mitigating these risks through the Delta Plan for 2100 which addresses climate change impact. The plan includes a recommendation for bundled insurance products, interest-free loans, subsidies from Government, Donors, etc. to create a long-term adaptation strategy for anticipated and present perils.

Atty. Gideon Joseph Operiano, Insurance Commission, Philippines

The Philippines Insurance Commission has been an active member of the MEFIN since May 2013 and recognizes the relevance of peer to peer exchange among regulators, and the insurance sector to develop the microinsurance market. Microinsurance has been in the Philippines for 10 years, through 3 regimes, operating on 4 pillars. Clear-cut Government policies increased participation resulting to 38 million insured individuals in 2018.
The Philippines geographic location and characteristics: high exposure, fragility, and lack of coping capacity makes it a high-risk country. Its ten-year moving average of annual disaster events shows 1,800 deaths and economic losses of USD1.6 billion. Around 38.9 million Filipinos and 5% from the informal sector are deeply at risk from losses. The lack of best practices on financial modelling particularly for the poorest areas is affecting the population.

The Insurance Commission is aware that insurers are pivoting their products to exclude climate risk protection because of the lack of best practices that exist when it comes to risk assessment and financial modelling, particularly for the poorest areas and the workshop is tackling the same relevant issue which is value adding.

Dr. Antonis Malagardis, RFPI Asia III Program Director

Climate Risk Insurance does not succeed on its own, and must work with Disaster Risk Reduction and Management. Decision makers, and the insurance industry have to work together within the five stages of the GIZ Integrated Disaster Risk Management Strategy: Prevention, Response, Assessment, Recovery and risk transfer. MEFIN is concerned with the development of residual risk transfer to the insurance industry. The private sector will insure risk at a price; while local officials have to be convinced to invest, and to integrate the five DRRM stages into their plans and priorities. MEFIN highlights the key element of each stage to create impact. Use of technology in different stages is needed to create a granularity of hazards, exposure and vulnerability. Trust in microinsurance is also needed from the various stakeholders to support product acceptance.

Microinsurance will not help when covering low frequency and high severity climate events. Customers cannot be convinced to wait for a 50-year event to receive a pay-out from CRI, when their only requirement is a smooth cash flow after a climate disaster. Ordinary and accessible insurance products that meet the needs of families, pays out fast, and can be bundled with accident, health, fire, for SMEs is more appropriate.

Countries allocate budget to address disaster risks, but still retain risk. However, the elements needed to insure communities through local governments: pricing, insurance providers, Local Government Unit budgeting, are not available at the moment. Public asset insurance and sovereign insurance, are developed but faces challenges. Interference of political decision among local governments, and business interest of the private insurance sector, does not support the intention of Climate Risk Insurance. International assistance has a role to advice stakeholders to prioritize access to Climate Risk Insurance.
Mr. Augusto Hidalgo, Head of Capital, Science & Policy Practice in Southeast Asia, Willis Towers Watson

Reinsurers as price setters of risks. They require an information architecture to analyse and inform decisions on climate risks. The GIZ RFPI III Project focuses on the creation of the Vietnam, Indonesia and Philippines (VIP) Engine as a data hub. It aims to create a climate risk data repository, as a public good, which other actors may not be motivated to perform.

The VIP engine could quantify a hazard in a specific location (through the number of households), its vulnerability, to calculate possible economic loss. The development of Climate Risk Insurance products can be supported by the VIP Engine. It is not advocating insurance, but the risks people face and the costs to Governments, if not addressed.

Through GIZ RFPI, it is possible to build trust and confidence between all actors to quickly start information gathering and analysis. It is possible to create a “freemium” business model, where basic data is free, and layered data will be paid.

In the Philippines, 1% of the population is insured and 99% are self-insured. How is the cost for the 99% to support capital after disasters allocated by Government? There will be International Aid, insurance, or loans to bailout loss. But analytical information must be available to support risk-informed decisions. If articulated, better options to reduce the social cost of climate risks will be available.

The Climate Risk Insurance (CRI) Landscape Study

Mr. Manoj Pandey, General Manager, Micro-Save Consulting

Asia is exposed to high vulnerability from Climate risks due to catastrophic floods, typhoons, and droughts. A Disaster Risk Reduction Management Frameworks is present and implemented in the regions. However, there is no regulation specific to climate risk insurance. Fourteen of 22 countries have well defined contingency funds. There is around USD5 Billion ex ante funding available, and USD9 Billion has been provided in aid. Of the
USD140 B losses from natural catastrophes and disasters, only USD20B (14.2%) were insured across all regions. People with some degree of coverage is around 212 million in Asia Pacific, while 91.5% are still without any kind of coverage against disaster risk. Over 40 million farmers and more than 43 million hectares of farm land are covered by crop insurance.

Sovereign insurance such as the Pacific Catastrophe Risk Insurance and Financing Initiative (PCRIIF) and the South East Asia Disaster Risk Insurance Facility (SEADRIF), Risk Pooling Mechanisms, Catastrophe Bonds, are available to provide liquidity in the event of disasters. There are 9 index-based, 9 indemnity-based, and 2 mixed insurance products for agriculture. Technologies such as the AXA Red Button and the Block Chain-based solution in Sri Lanka with Etherisc are existing.

Insurers are concerned with Regulations (regulatory environment); Data (Access) and Technical Capacities (risk modelling and technical analysis capacities) in developing Climate Risk Insurance products. There is a need for more reliable data and infrastructure for insurers to be incentivized in taking actions. Product design that makes economic sense, and the capacity to market products is a challenge.

The InsuRisk Assessments focuses on residual risk (Coping capacity, risk, vulnerability, exposure) and readiness (insurance industry, enabling environment, individual level). There are some countries with high residual risk, and high coping capacity, while others are the opposite. Client education and awareness about MicroDRI has to be addressed. The right fit with other financial services ex. credit, savings can help clients meet their disaster risk financing needs.

**CRI Business Models: On Design, Development, and Distribution**

Ms. Shayne Bulos, Senior Advisor, GIZ-RFPI III

Climate Risk Insurance has faced challenges in the Philippines. In a case study, the premium rate and coverage was increasing proportionately before Typhoon Haiyan in 2013. After the high loss ratios of Haiyan, the limit of liability has been decreasing. Affordability and the need to convince the poor to buy a disaster cover given smaller benefits, an 85% loss ratio for insurance companies (70% of which is associated to the typhoon cover) and the absence of reinsurance are significant issues. Authenticity of claims in index-based insurance (basis risk); double claims; the lack of an automated database (manual recording exposed to errors); insurers were assuming all risk, with no reinsurance; among others were also documented.

Missing data points, a complicated product information, high cost to distribute, poor historical performance, lack of reinsurance support, high basis risk, and poor geographical connectivity are some challenges. The needed actions involved product
repackaging, the development of a database system, and formulation of a group incentive scheme.

**MENTI Assessment:**

Creating a better regulatory environment; Government intervention; Open data and data analytics; and public-private partnership were some of the recommendations to strengthen CRI. Participants believed CRI was on its very early stages and were open to learn more on enabling regulations; CRI product design; Price scenarios; Blockchain solutions; understanding the Roles of regulators; Public-private partnerships; and New risk models, among others.

**Open Forum:**

CRI is in very early stages, at the same level of business of microinsurance, 20 years ago. The right model is needed, to respond to Climate Change events and the affected population. Government should set a clear and responsive Policy Framework for the CRI product. Using an example from India, Government could request insurance companies to develop products through competitive bidding.

Climate Risk Insurance is needed because urban populations are increasing and the market is growing. CRI should start with the “numbers” to calculate commercial feasibility, and supporting the economies of scale. This is a long-term partnership to gain customer loyalty, eventually producing positive return of investments at a longer term.

The participants discussed the mandatory aspect of CRI and its requirements, taking from the credit-life model, as well as Government subsidies. According to a study, 12 out of 15 private insurance companies bundled products to get to the right proportion of insureds that made credit-life financially viable --- will this be the same model for CRI?

In India, of 22 million famers, 60% are loan borrowers receiving 85-87% Government premium subsidy, while 40% among large farm holdings are buying products voluntarily. In this case, better risk models would make bundling more effective. If there is no Government subsidy (for a 12-15% premium), mandatory affordability should be balanced through appropriate regulations.

The insurance industry would find solutions if they see profit in CRI, unless made mandatory for State-Run insurance institutions. However, 500 million smallholder
farmers worldwide are in need of protection from climate risks. Even for a minimal fee of USD 6-15/year, a business case is feasible. The aim for CRI is to build resilience, to restore the dignity of the poor, after climate-related disasters.

The application of index-based insurance might become an issue since only 2 countries targeted by RFPI III, including Vietnam and Indonesia, have referred to CRI in their strategies. An enabling environment needs to be created to support the implementation of CRI.
# Annex A
## Agenda of the Pre-Conference Workshop

<table>
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<tr>
<th>Time</th>
<th>Activities / Speakers</th>
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<tr>
<td>8:30 – 9:00</td>
<td>Arrival and Registration of participants</td>
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| 9:00 – 9:30| **Welcome and Opening Remarks**  
- Dr. Antonis Malagardis, RFPI Asia III Program Director  
- Dirk Reinhard, Vice Chairman / Board member of the Munich Re Foundation  
- Dr. Mohammad Mosharraf Hossain, Insurance Development and Regulatory Authority (IDRA)  
- Atty. Gideon Joseph Bendita Operiano, Insurance Commission Philippines |
| 9:30 – 9:40| **Acknowledgement of Participants**  
Overview of the activity |
| 9:40 – 10:00| **Climate Change in Asia & the Integrated Climate (and Disaster) Risk Management System**  
The presentation will discuss the Integrated Climate Risk Management System that GIZ implements and the relevant role of Climate Risk Insurance (CRI), its alignment to the Sustainable Development Goals (SDGs) and other international Climate Change-related agreements.  
- Dr. Antonis Malagardis, RFPI Asia III Program Director |
| 10:00-10:15| **Making CRI Inclusive: The Vietnam, Indonesia, and the Philippines (VIP) Engine**  
Due to the need to manage uncertainties stemming from climate change, risk and financial modelling tools and platforms are needed by the insurance industry more than ever. This session will provide an introduction to the VIP Engine that will enhance the current underwriting practices related to CRI.  
- Mr. Augusto Hidalgo, Head of Capital, Science & Policy Practice in Southeast Asia, Willis Towers Watson |
| 10:15– 10:20| Photo Opportunity |
| 10:20– 10:45| Morning Snacks |
| 10:45 – 11:05| **The CRI Landscape Study**  
The GIZ conducted a CRI Landscape study that explores the level of implementation and adoption of Climate Risk Solutions in Asia and the Pacific, the best regulatory practices in the region and lessons learned, opportunities for collaboration with international and regional partnership platforms. The study’s results, including the lesson learned and outlook, will be presented during the session.  
- Mr. Manoj Pandey, Senior Manager, MicroSave Consulting (MSC) |
This session will present the difference between Underwriting CRI vs. other insurance products, index-based insurance, and specific CRI insurance products and the current distribution channels being utilized.  
- Ms. Shayne Rose Bulos, Senior Advisor, GIZ-RFPI III |
| 11:20 – 11:50| Panel |
| 11:50-12:00| Closing Message/Synthesis |
| 12:00 – 13:00| Lunch |