Tuesdays with MEFIN
in time of COVID19

THE ROLE OF BUSINESS INTERRUPTION INSURANCE IN CLIMATE & DISASTER RISK MANAGEMENT

Microsoft Teams
12 May 2020
Welcome! Tuesdays with MEFIN
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| 15:00       | **Introduction**  
- Uku Lilleväli, Consultant, GIZ |
| 15:05       | **Opening Message**  
- Dr Antonis Malagardis, Program Director, GIZ |
| 15:10       | **MSMEs Unprepared for Business Interruption**  
- Mr Arup Chatterjee  
  Principal Financial Sector Specialist, Asian Development Bank  
**Seeking Effective Business Interruption Insurance Solutions**  
- Mr Tudor Moldovan  
  Member of Supervisory Board and former CEO of Generali Romania |
| 15:40       | **Open Forum** |
| 15:55       | **Highlight and Wrap Up** |
| 16:00       | **End** |
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THE ROLE OF
BUSINESS INTERRUPTION INSURANCE
IN CLIMATE
& DISASTER RISK MANAGEMENT

ARUP CHATTERJEE
Principal Financial Sector Specialist
Sector Advisory Service Division
Sustainable Development and Climate
Change Department
Asian Development Bank, Manila,
Philippines
MSMES UNPREPARED FOR BUSINESS INTERRUPTION

• Arup Chatterjee
• Principal Financial Sector Specialist
• Asian Development Bank
OVERVIEW

- Business interruption risks of MSME’s
- Types of business interruption (BI) insurance
- Embedding BI insurance with integrated disaster risk management
The Role of Business Interruption Insurance in Climate & Disaster Risk Management

Standard BI
- Insuring Loss of Income and Ongoing costs as a result of property damage to an owned business facility

Non-Damage BI
- Insuring loss of income/revenue and ongoing costs due to disruption of business (There is no physical damage to the insured, the supplier or the customer and there is no BI Claim to be made)

Contingent BI
- Reimburses lost income and ongoing costs & extra expenses resulting from an interruption of business caused by a property damage at the premises of a customer or supplier

Data Driven BI
- Insuring loss of income and ongoing costs due to the interruption of business due to unavailability of data and computer systems caused by hacking, technical failure or human error

The Role of Business Interruption Insurance in Climate & Disaster Risk Management

Reduce risks
- Reduce vulnerability
- Reduce hazards and exposure

Pool, transfer, and manage risks
- Mutual and reserve funds
- Financial insurance
- Social networks and social capital
- Alternative forms of risk transfer

Prepare and respond
- Early warning and communication
- Evacuation plan
- Humanitarian relief supplies
- Post-disaster livelihood support and recovery

Increase capacity to cope with “surprises”
- Flexibility in decision making
- Adaptive learning and management
- Improved knowledge and skills
- Systems transformation over time

EMBEDDING BI INSURANCE WITH INTEGRATED DISASTER RISK MANAGEMENT

Source: “Captives: An Efficient Tool for Catastrophic Losses,” IRMI.com

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Tudor Moldovan

Consultant; Member of Supervisory Board of
Generali Romania- company of Generali
Assicurazioni (Italy);
Former Executive Director of Generali Bulgaria -
company of Generali Assicurazioni (Italy);
Former CEO of Generali Romania
SEEKING EFFECTIVE BUSINESS INTERRUPTION INSURANCE SOLUTIONS

TUDOR MOLDOVAN
MEMBER OF SUPERVISORY BOARD OF GENERALI ROMANIA
AGENDA

1. Two types of business interruption risks
2. Challenges for the insurer underwriting business insurance
3. Motivation for purchasing insurance cover
4. Advancing business interruption insurance solutions
1. RISKS THAT PRODUCE BUSINESS INTERRUPTION

1. Standard risks – fire, property damage, etc.
2. Uncertain hazards – extreme weather events and pandemics

Similarity: losses to business owners
Difference: frequency and magnitude of losses
1. STANDARD RISKS

- For standard risks, mitigation means mutualization (pooling) of similar risks and specialization of insurers providing this line of business.
- Business interruption for standard risks has a long history and practice.
- Standard risks have predictable frequency and predictable losses.

2. UNCERTAIN HAZARDS

- Uncertain hazards have unknown frequencies and produce unknown losses.
- Mutualization of extreme events has not happened.
- Mitigation means finding also other sources for pain relief, e.g., PPPs.
2. CHALLENGES FOR THE INSURER UNDERWRITING BUSINESS INTERRUPTION

- **Randomness**
  - Unpredictable time and place of the insured event
  - Event must be independent of the insured entity’s behaviour
  - Non-homogeneous group of SMEs
  - Financial diversification

- **Frequency and severity** of the insured events must be predictable and quantifiable with sufficient reliability

- **Economic viability**. Premium must:
  - Be affordable and sufficiently reduce the insured risk
  - Cover insurer’s expected claims and costs
Motivation for mitigating and transferring financial risks:

- Avoidance of financial bottlenecks after loss
- Stabilisation of financial assets, e.g., cash flow
- Tax reasons
Insurance could serve as an economic alternative to risk financing to provide liquidity or a capital increase:

- Classic insurance
- Integrated profit / capital insurance solutions, comprehensive insurance covering all areas
- Parametric insurance
PARAMETRIC INSURANCE

- Insurance cover is triggered by facts (thresholds)
- Challenge is to link the triggering measured value and the actual risk exposure
- Potential to develop insurance solutions to protect income and cash flow

Parametric insurance solutions can be the result of a consistent extension of insurance cover from pure property damage, complimented by cover for business interruption and retroactive claims, to income and cash flow losses.
EXTENDED INSURANCE COVER

- Developments in non-damage BI and cyber insurance policies.
- The compensation payment can be based on:
  - The loss actually suffered,
  - The amount of compensation agreed upon, triggered by exceedance of a defined threshold,
  - A staggered (spread over time) compensation triggered by the sequence of two or more objective events and any predefined intensities.
Difficult to establish a correlation between risk exposure and risk situation because of:
- Constant changes in frequency
- Constant changes in the severity of losses

Reducing uncertainties regarding frequency and severity of losses could make the insurance premiums more affordable (weather forecast models).
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QUESTION & ANSWER
TUESDAYS WITH MEFIN

COVID19, Climate Change, and Insurance–related webinars from May–June 2020

1. **Digitalization in Times of Disruption**
   - Microsoft Teams
   - 26 May 2020

2. **Social Protection Initiatives During COVID-19**
   - with focus on social health insurance, cash transfer and food rationing in MEFIN countries
   - Microsoft Teams
   - 23 June 2020

3. **COVID-19 Related Regulatory Relief Issuance in MEFIN Countries**
   - Microsoft Teams
   - 09 June 2020
Thank you!

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12 MAY 2019

Thank you!