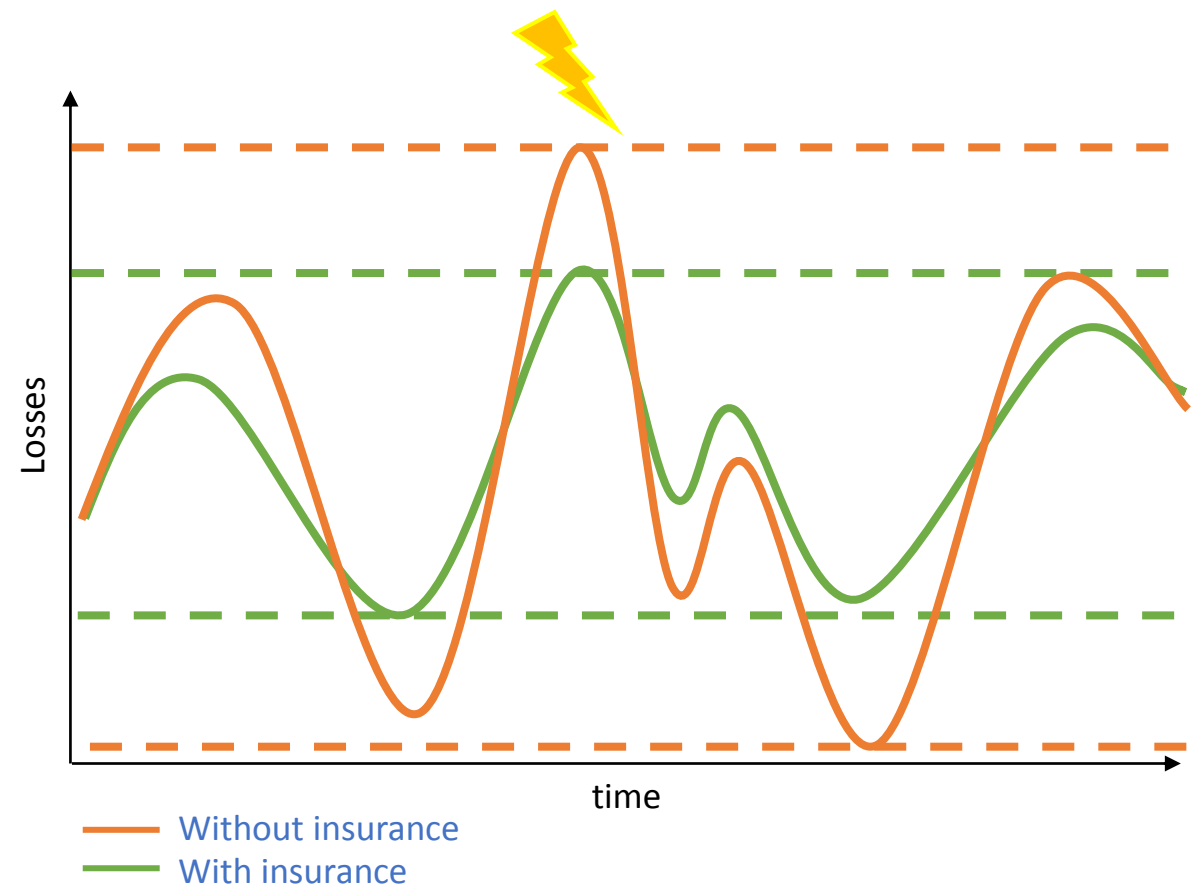


An overview of DRF(I)nsurance
**Analysis to action - an executive education program on
disaster risk finance**
July 2018

*“Insurance is a practice or arrangement by which a **company, investor or government agency provides a guarantee of compensation for a specified loss, damage or event occurring in return for payment of a specified premium.**”*

What insurance does

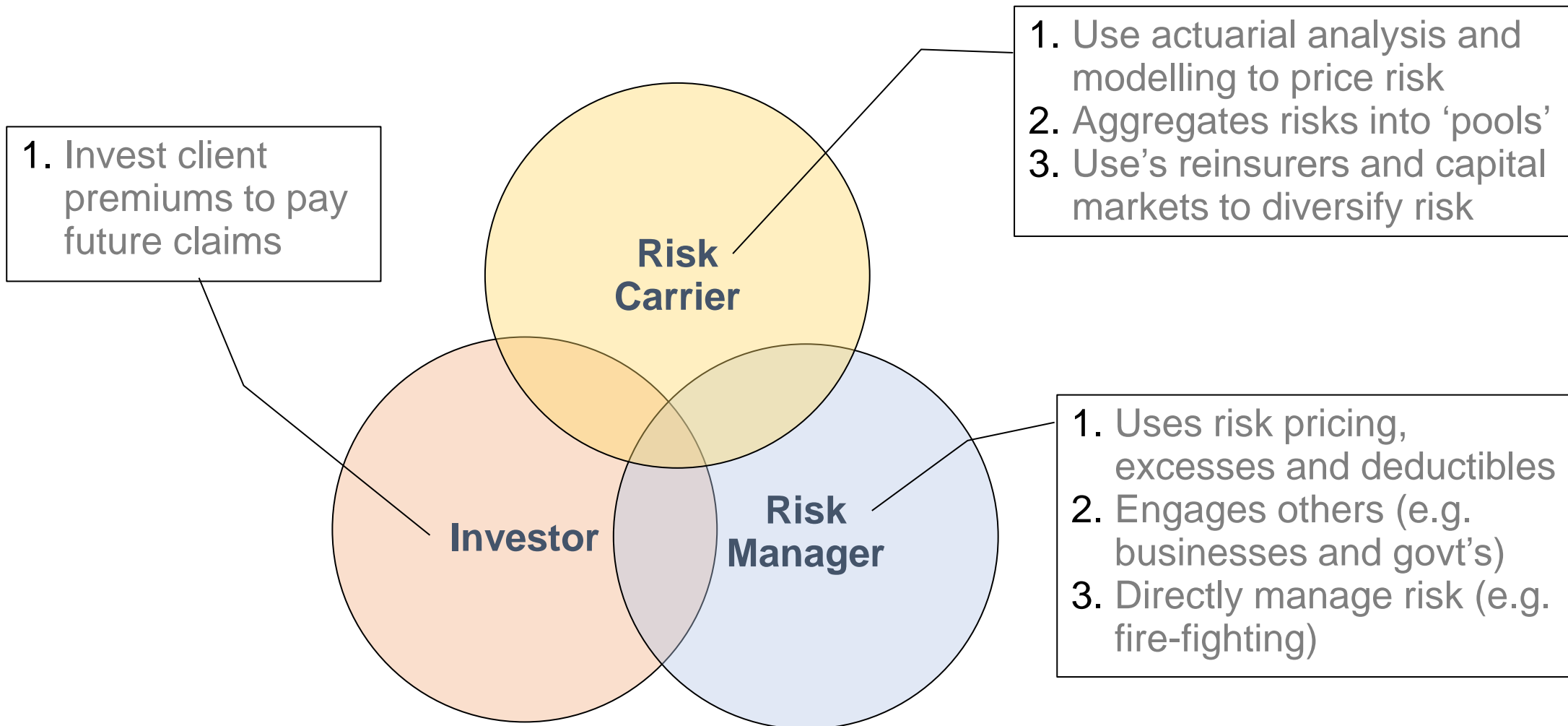
1. It manages exposure to **'sudden and unexpected'** losses.
2. It **flattens economic 'peaks' and 'troughs'** over time.
3. It allows the insured to **focus on managing positive risks** (e.g. growing the economy.)



When is a risk insurable?

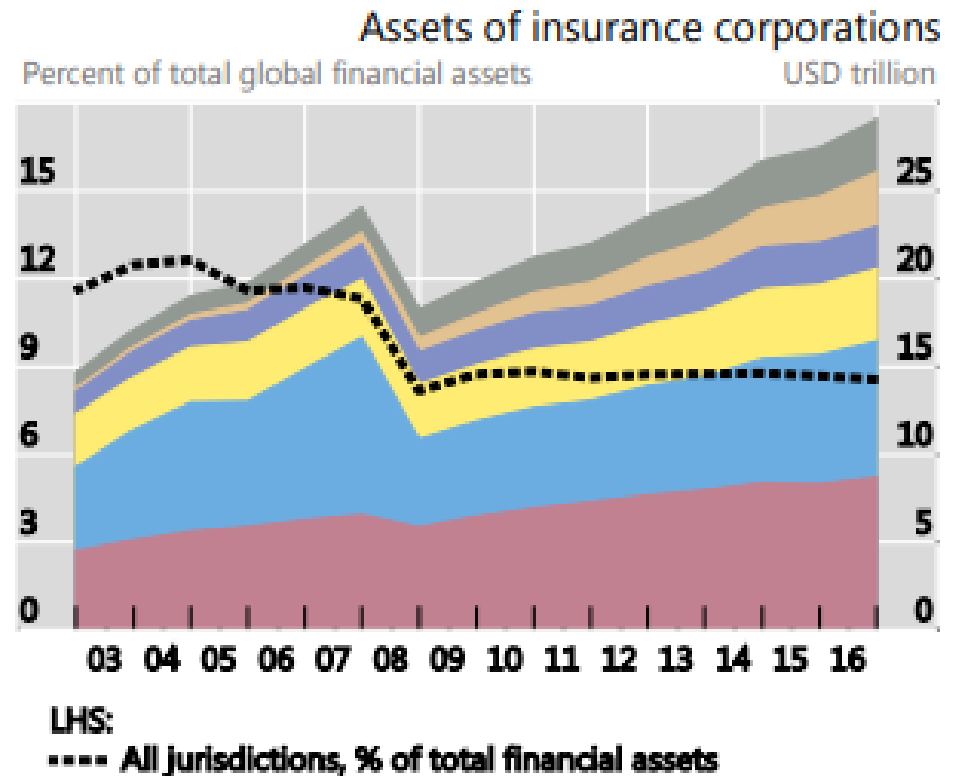
1. When the **loss is random** (i.e. sudden and unexpected). Otherwise the insured may only insure assets they know will be impacted.
 - e.g. Sea-level rise.
2. When a **loss is definite and financially measurable**. It should be clear whether or not payment is due and how much.
 - e.g. 'climate change'
3. When premiums are **high enough to cover claims and costs**. The risk cannot be so large that there might be no hope of covering a loss.
 - e.g. nuclear disasters

What are an insurer's primary activities?



The importance of insurance

- \$5.5 trillion in gross written premiums (GWP) in 2016 which **accounts for 6.2% of global GDP**.
- The **third largest institutional investor** (after pension's and mutual funds) with >\$30 trillion.



The 'insurance protection gap'

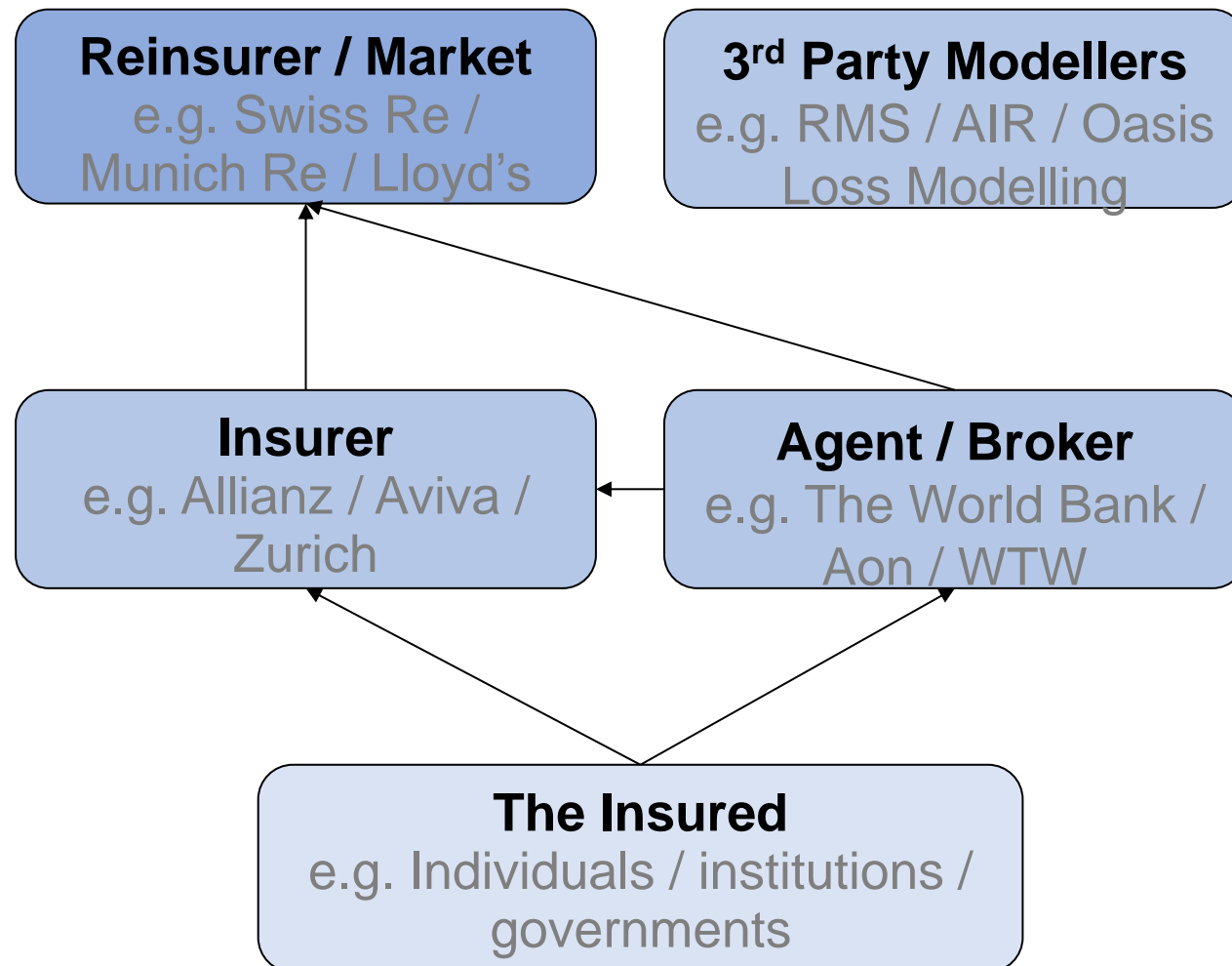
Region	Economic losses	Insured losses		Protection Gap	
	in USD bn	in USD bn	% of economic losses	in USD bn	% of economic losses
Latin America & Caribbean	31.6	5.1	16.1%	26.5	83.9%
Africa	2.9	0.8	27.6%	2.1	72.4%
Asia	31.2	5.0	16.0%	26.2	84.0%
North America	244.2	119.1	48.8%	125.1	51.2%
Europe	23.7	12.0	50.6%	11.7	49.4%

The Protection Gap in developing and developed economies, 2017

- **Increasing exposure and low insurance penetration**
- **70% of disasters globally are uninsured (\$1.3 trillion over the past decade)**

= appetite to develop **new risk transfer solutions**

The insurance value chain



Agent or Broker: Designs and negotiates insurance solutions on behalf of the client. They receive commission from the insurer.

Insurer: The company that actively underwrites (i.e. insurers) a risk. They therefore undertake to pay compensation in the event of a loss.

Reinsurer: Insurers other insurers. The reinsurer is ultimately responsible for all insurance policies that fall within their reinsurance contract.



**UNIVERSITY OF
CAMBRIDGE**
INSTITUTE FOR
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**Disaster Risk Financing
& Insurance Program**



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**GLOBAL
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GFDRR
Global Facility for Disaster Reduction and Recovery

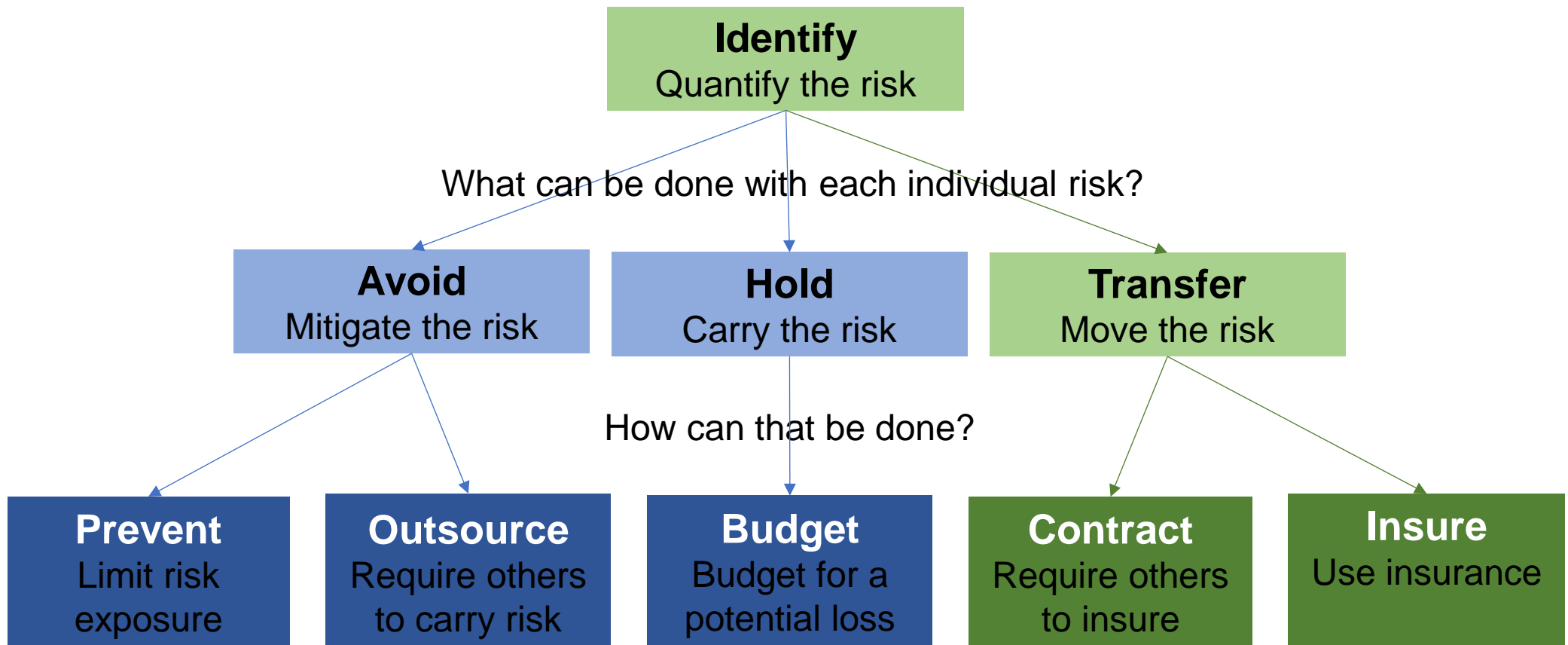


1. What's the **biggest unanswered question you have** that prevents you from promoting private sector engagement in DRF?
2. What **question or concern are you most often asked** by key stakeholders on engaging the private insurance sector in DRF?
3. What **question do you wish the private sector asked you** more?

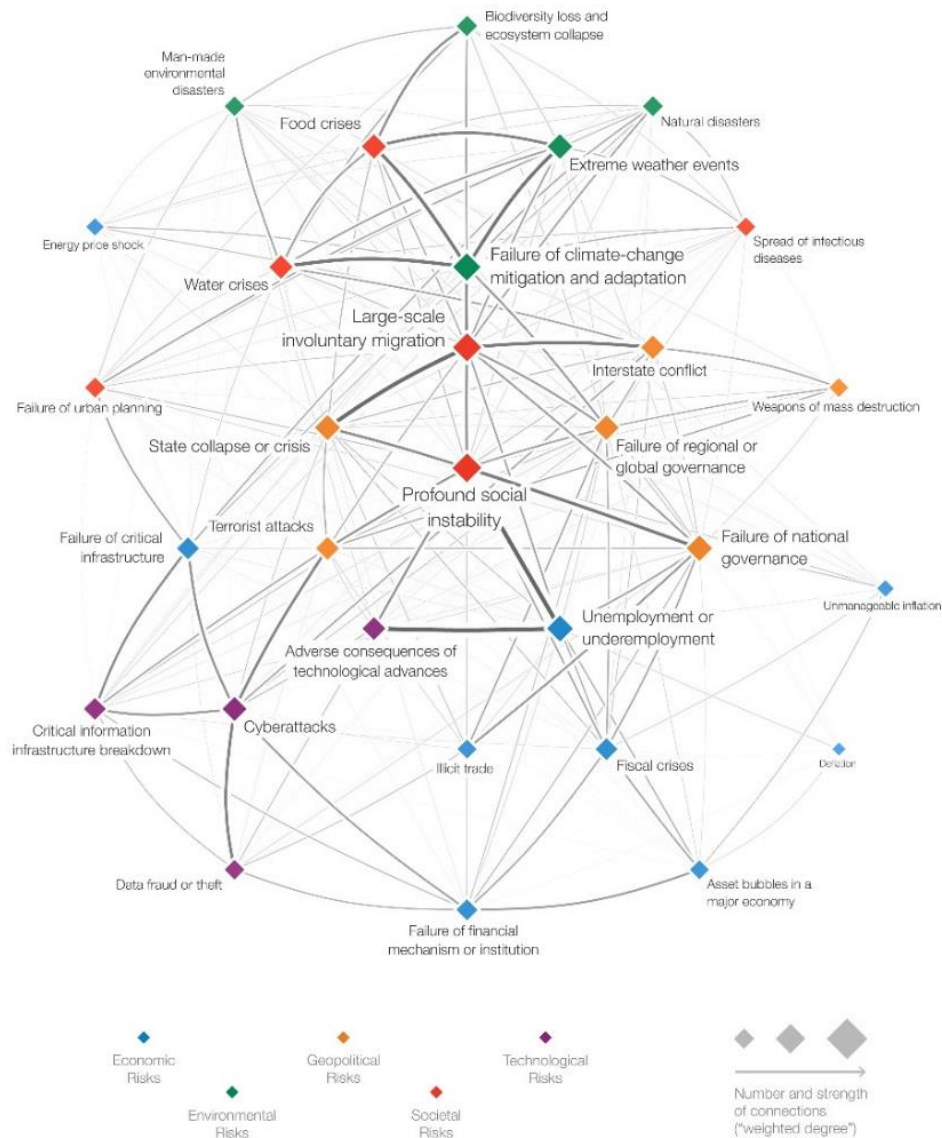
What types of insurance are there?

Property & Casualty Covers financial losses when things are damaged or destroyed and as a result of the insured's interactions with others or their property	Health & Life Covers medical and surgical expenses. It also pays out before or after the death of the insured
Property insurance	Health insurance
Liability insurance	Life insurance
Third party insurance	Funeral insurance

The risk management approach

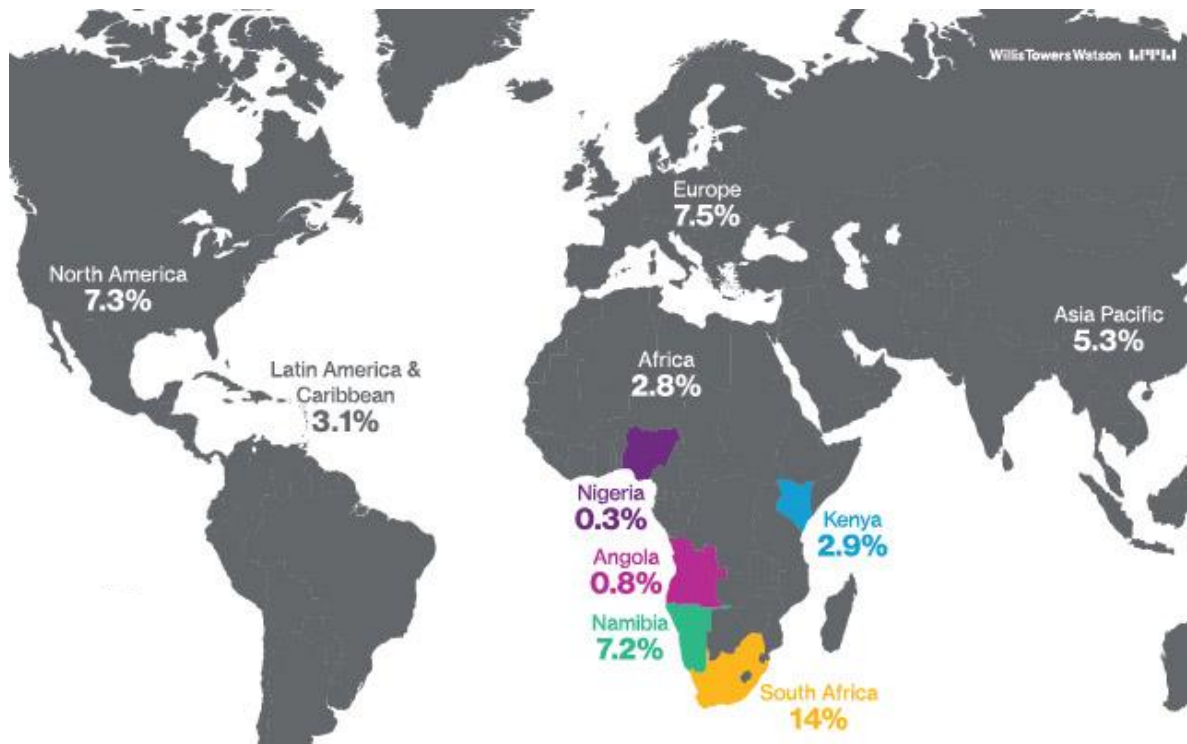


There are many emerging risks



- **Natural:** e.g. hurricanes, floods, earthquakes, volcanoes.
- **Man-made:** e.g. cyber-crime, interstate conflicts, market crashes
- **Cities vulnerable to a \$320 billion / annum loss in GDP alone**

Low insurance penetration in emerging economies



World Insurance Penetration % GDP

- Global insurance penetration 6.2% GDP
- High income penetration > 6% GDP
- Low-middle income penetration < 3% GDP