



# Insurance regulation for sustainable development

Protecting human rights against  
climate risk and natural hazards



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### Author and acknowledgements

The principal investigators and lead authors of the report are: Dr. Ana Gonzalez-Pelaez, CISL Fellow, and Dr. Sebastian von Dahlen, Chairman G-AWG, International Association of Insurance Supervisors, Basel, Switzerland.

The study design and editorial process were led by Dr. Jake Reynolds and Andrew Voysey at CISL, with input from James Cole.

See page 4 for a full list of acknowledgements.

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# Abstract

**This report analyses the role of insurance regulation in protecting the basic human rights of life, livelihood and shelter against natural hazards and climate risk. Effective insurance regulation facilitates access to insurance (both traditional and alternative) as a means to increase communities' resilience, fulfil related human rights duties of state and non-state actors and support the UN Sustainable Development Goals.**

As the UN Human Rights Council asserts: "Natural hazards are not disasters in and of themselves. Whether or not they become disasters depends on the exposure of a community, and its vulnerability and resilience, all factors that can be addressed by human (including State) action. A failure (by governments and other actors) to take reasonable preventative action to reduce exposure and vulnerability and to enhance resilience, as well as to provide mitigation, is therefore a human rights issue" (HRC, 2014a).

The input of insurance regulation to increasing resilience and reducing vulnerability of populations to these risks has been analysed by various official sources. This report takes those links a step further into the realm of human rights commitments already in place. It introduces the fundamental role of insurance regulation to protect life, livelihood and shelter by contributing to the fulfilment of existing human rights duties of both state and non-state actors.

Effective insurance regulation supports human rights by enabling financial inclusion, incentivising risk reduction behaviours and facilitating economic recovery after a disaster. Disruptive insurance regulation, or no regulation at all, deprives the poorest people in our world from protecting their own lives and assets. This report does not imply that regulation is a panacea, since access to insurance is determined by a combination of factors. It does, however, demonstrate that regulation is an essential part of increasing access to insurance around the world (public, private and mutual), in order to protect human dignity and advance the Sustainable Development Goals.

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# Forewords

July 2015

## Aniket Shah

Programme Leader, Financing for Sustainable Development, United Nations Sustainable Development Solutions Network

**Sustainable development – the interconnection between economic growth, social inclusion and environmental sustainability – is the central challenge and opportunity of our time. The path of sustainable development is, ultimately, a choice...**

Do we, as a collective society, decide to tackle these challenges, using the human, technological and moral resources at our disposal, or instead continue down our business-as-usual path of increasing climate risk, inequality and deepening pockets of poverty?

Dr. Ana Gonzalez-Pelaez and Dr. Sebastian von Dahlen have answered this question very clearly. In this historic and unprecedented volume, Gonzalez-Pelaez and von Dahlen have provided exceptional insight into a central element of sustainable development. Specifically, the authors show the need and opportunity for smart, comprehensive insurance regulation to spur the expansion of insurance coverage to communities that are currently underserved. By linking insurance regulation to existing human rights commitments, the authors delineate not just the practical legal architecture but also the moral foundation that is needed to tackle this problem.

The need for more comprehensive insurance coverage in an era of increasing climate risk is part of a broader question: how does our financial architecture need to be redesigned to support sustainable development?

A financial system that fosters sustainable development must achieve the following four purposes: 1) Channel the world's growing savings to the world's long-term investment needs, in business development and low-carbon infrastructure, 2) Adhere to financial regulation that balances stability and sustainability, 3) Provide for the world's poor that do not have market access and 4) Properly price risk for growing climate change risks.

Our current financial system is not achieving most of these goals. Investment is increasingly short-term and heavily focused on the developed world, leaving many

capital-starved economies without the necessary investment to support long-term development. Financial regulation is poor and not well executed, encouraging bubbles and tax evasion. There are still over one billion people who live in extreme poverty. Markets are not pricing the growing climate risks, and there remains no effective carbon pricing in most parts of the world.

This report constructs a bridge between the current design of our financial system and where it needs to be.

2015 is a watershed year for humanity's efforts around sustainable development. Three major international summits – in Addis Ababa for Financing, in New York City for Sustainable Development Goals, and in Paris for Climate – will decide the trajectory of how our collective shift to sustainable development may occur. Dr. Gonzalez-Pelaez and Dr. von Dahlen have made a remarkable contribution to these global efforts through this report.

**The need for more comprehensive insurance coverage in an era of increasing climate risk is part of a broader question:**

***How does our financial architecture need to be redesigned to support sustainable development?***

**Dr. Richard Wilcox**  
Interim Director General,  
African Risk Capacity  
(ARC)

**Dr. Aristotle Alip**  
Founder and  
Managing Director,  
CARD MBA

**As this key report shows, insurance and risk management have as much potential as banking and investment in realising the Sustainable Development Goals.**

The Post-2015 Development Agenda offers a once-in-a-generation opportunity to harness new financial tools for development. Until recently, the international development community largely addressed the losses and development reversals caused by natural disasters through ad hoc humanitarian emergency aid. Based on Nobel Laureates Amartya Sen's and Robert Shiller's insights on the role of governance and financial innovation respectively, well-regulated risk management and insurance, as documented in this report, can now provide more effective solutions.

Through African Risk Capacity's climate and viral risk financing enterprises, the African Union is leading this change. As one of this report's case studies, the ARC's climate and weather risk financing products demonstrate how to harness new approaches for achieving the Sustainable Development Goals. This is a challenge for the United Nations system in particular, but also governments and their private sector partners: to adopt new technologies, financial strategies and legal architectures to create greater value from scarce public resources.

**Through our CARD MBA microinsurance arm, CARD MRI has been insuring low-income individuals and their families since 1999, with the goal of providing them with a safety net.**

Our 11 million members, 80 per cent of whom live under the poverty line, are always at the centre of our vision for eradicating poverty in the Philippines. With this in mind, we are able to develop products and services that are financially inclusive.

As the two authors have maintained in this report, effective regulation promotes financial inclusion and supports the basic human rights to a livelihood and shelter against natural disasters. In the course of developing and providing responsive microinsurance products to our members, we have consistently followed the regulations set by the Philippine Insurance Commission.

I hope that the experience of CARD MBA discussed in this report will serve as an inspiration to the insurance community. As we continue to respond to the insurance needs of the economically challenged families of our country, we look forward to a stronger regulatory environment created by the government as a potent partner in our fight to eradicate poverty.

# Acknowledgements

**This report is an output of CISL's Fellowship Programme. Our Fellows bring a wealth of experience from their work with business leaders and policymakers. They engage in Cambridge research projects that bring insight to our business action, and make expert contributions to the design and delivery of our executive education programmes.**

The CISL Fellowship includes leading academics and expert practitioners who undertake substantive and extensive work with CISL in support of our mission and goals. Fellows are appointed by CISL's Management Board on the basis of their substantive contribution to our work in one of three areas:

- **Research:** conducting an applied research project, defined and developed in partnership with CISL
- **Education:** significant contribution to programme design and delivery
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The principal investigators and lead authors of the report are: Dr. Ana Gonzalez-Pelaez, CISL Fellow, and Dr. Sebastian von Dahlen, Chairman G-AWG, International Association of Insurance Supervisors, Basel, Switzerland.

The study design and editorial process were led by Dr. Jake Reynolds and Andrew Voysey at CISL, with input from James Cole.

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# Executive briefing

**Climate risks and natural hazards are a growing threat to the basic human rights of life, livelihood and shelter in communities worldwide. The overall level of economic losses and displacements from natural hazards has risen significantly in recent decades. Environmental trends, together with changing demography and asset growth, will increase future risk levels and projected losses.**

**Advances in our scientific knowledge and understanding of these risks create responsibilities on authorities to adequately protect populations and their assets against these perils in order to secure their human rights.**

Over the last twenty years, reforms in the regulation of insurance have produced effective risk-based frameworks to manage natural hazard exposures, leading to significant improvements in the sector's resilience. These techniques also provide mechanisms for identifying vulnerable communities and prioritising proportionate interventions to reduce risk, increase resilience and protect human rights.

This report analyses the role of insurance regulation in enabling access to insurance as an effective means to fulfil the related human rights duties of state and non-state actors, support economic growth and contribute to the UN Sustainable Development Goals.

**Natural hazard resilience, at the individual or collective level, cannot be achieved without access to insurance.**

## Core findings

Effective insurance regulation facilitates access to insurance as an intervention to increase communities' resilience against climate and natural hazard risks while advancing economic growth, sustainable development and human dignity.

Natural hazard resilience, at the individual or collective level, cannot be achieved without access to insurance. While access to insurance is determined by a combination of factors, it cannot be attained without adequate regulation to ensure the financial strength of insurance carriers, recognition of insurance contract terms and enforcement of standards. Unsupportive or non-existent regulation exacerbates underinsurance with devastating consequences for populations exposed to natural hazards.

Duties to protect human rights in the context of natural hazards have been highlighted by the UN General Assembly and other bodies. OECD guidelines (June 2014) and other instruments reinforce the responsibilities of business, private and financial sectors to respect and protect human rights.

In the context of natural hazard risk, insurance systems (operating via public, private or mutual sectors) have the capacity to protect the basic human rights to life, livelihood and shelter in the following ways:

- i) Providing policyholders (individuals, corporates and sovereigns) with financial protection against losses.
- ii) Influencing risk reduction and resilience through the conditions and incentives of insurance contracts.
- iii) Enabling financial inclusion, access to credit and creating deeper reserves of investment capital at individual and collective levels.

As the case studies featured in this report from the Philippines and Africa illustrate, countries and communities at all stages of development can put in place world-leading insurance systems to deliver these benefits, protecting populations against natural hazards and supporting the delivery of the Sustainable Development Goals.

## Executive briefing *continued*

### Recommendations

**1. Policymakers should further recognise that effective insurance systems deliver outcomes that are essential to societal resilience, sustainable development and the protection of human rights.**

The role of insurance should receive higher emphasis within legislative frameworks, interventions and implementation to deliver on various policy commitments. The insurance sector and financial regulators should engage more openly and actively with the policy community to support these developments.

**2. Insurance regulation should become a recognised mechanism for enabling human rights, and human rights should be a guiding principle for insurance regulation.**

Policymakers should recognise that the protection of individual and collective capital against climate risk and natural hazards through insurance regulation, and the protection of populations through human rights instruments, are mutually reinforcing.

**3. Insurance regulation should be prioritised as an essential policy instrument to protect populations and assets from climate risks and natural hazards via private, public and mutual mechanisms.**

This includes provisions, in the post-2015 processes and beyond, to optimise access to effective insurance and related capabilities for individuals, companies and local and national governments. Ineffective or non-existent regulation hinders both insurance access and sustainable development.

**4. There should be an emphasis on insurance-related risk education and awareness.**

Policymakers, educators and the insurance industry should develop partnerships and programmes to educate communities and companies on natural hazard risks and the role of insurance in enabling resilience, security and sustainable development and investment.

**5. Further research should be undertaken to understand the role and relationships between insurance regulation, human rights protections and sustainable development.**

This could include the development of complementary risk-based frameworks for human rights protections and sustainable development; the relationship between capital protection and human rights; and the role of insurance as an integrating framework to deliver consistent, compatible and tractable policy outcomes.

### Next steps

These findings and recommendations clearly have profound implications, and further research is necessary to assess the scope for implementation. A multidisciplinary and international process could and should be convened to this end.

Such a process could explore the lessons learned from national authorities that have already taken these leadership steps as well as opportunities to work with market actors to establish the most appropriate roles for them to play.



# Introduction

## This report analyses the role of insurance regulation in protecting the basic human rights of life, livelihood and shelter against natural hazards and climate risk.

**Effective insurance regulation facilitates access to insurance (both traditional and alternative) as a means to increase communities' resilience, fulfil related human rights duties of state and non-state actors and support the UN Sustainable Development Goals.**

Both developed and developing countries are affected by natural hazards and associated disasters, of which approximately 70-80 per cent are driven by climate-related risks. Nonetheless, it is the world's poorest communities and regions that lack resilience and suffer the most as a consequence. Over the past twenty years, disasters induced by natural hazards have affected 4.4 billion people and claimed 1.3 million lives (UNISDR, 2013). In 2013 alone, three times as many people lost their homes to natural disasters than to war, despite it being a devastating year of conflict yet unexceptional for natural disasters (NRC). The Royal Society report, "Resilience to Extreme Weather" (November 2014), highlighted that between 1980 and 2004, the total cost of extreme weather came to around \$1.4 trillion, of which just one quarter was insured. As the UN Secretary General, Ban Ki-moon has said: "Economic losses from disasters are out of control" (UN Secretary General, 2013).

Advances in science, engineering and modelling are improving our understanding of the behaviour and probability of natural hazards as well as how to build resilience. As such, there is a growing realisation that the impacts of these events can no longer lie beyond the scope of the duties and responsibilities of relevant authorities, including the protection of human rights. In 2014, these principles reached the

UN General Assembly, which addressed them in a session of the UN Human Rights Council: "Natural hazards are not disasters in and of themselves. Whether or not they become disasters depends on the exposure of a community, and its vulnerability and resilience, all factors that can be addressed by human (including State) action. A failure (by governments and other actors) to take reasonable preventative action to reduce exposure and vulnerability and to enhance resilience, as well as to provide mitigation, is therefore a human rights issue" (HRC, 2014a).

Whether through public, private, mutual or cooperative mechanisms, insurance systems have a central role to play delivering the responsibilities implied in the HRC's statement, at both state and non-state levels. Disaster risk insurance also allows risk to be transferred onto national and international markets, protecting communities that would not be able to share the risk amongst themselves. In direct relation to a changing climate, this also allows risks to be shared globally and compensate between the most and least affected by natural hazards and climate risks.

Although access to insurance is multi-faceted, our focus is specifically on the regulatory dimension as a fundamental piece in the jigsaw. Regulation does not guarantee access to insurance, but the distinctive characteristics of insurance contracts mean that sustainable access to insurance cannot prosper without adequate regulation. Regulation allows the protection of counter parties and the security and sustainability of the overall risk-sharing system.

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—

**3x**

In 2013, three times as many people lost their homes to natural disasters than to war.

## Introduction *continued*

By insurance this report refers to all types of risk transfer contracts that exhibit the essential principles and attributes of insurance: consumers purchase an option to receive a payment up to a specified amount in case of a defined event occurring within a specified future period. We do not undervalue the technical distinctions amongst practitioners between insurance and insurance-linked securities, but we also recognise that the wider community accepts as insurance the essential function that they perform, regardless of the exact contract type. This also includes the newly introduced terminology of “direct and indirect insurance”. In a direct approach, an insured beneficiary transfers the risk to a risk-taking entity (such as an insurer), and receives the insurance payout should the specified event occur. In indirect approaches, the final beneficiary receives payments intermediated by an insured government or institution (GIZ, 2015).

There is, therefore, an important role for insurance as a powerful agent for reducing excess risk that tracks back through the history and practice of insurance.

Well-regulated insurance decreases people’s excessive exposures to risk through the conditions of the insurance contracts themselves.

### **In depth: Traditional insurance and new risk-sharing instruments**

**Traditional insurance requires proof of financial loss, and indemnification of that loss through assessed claims payments, which are governed by specific insurance laws and regulations. This insurance is typically available in retail markets to members of the general public, business and corporations. It is also available in the wholesale markets as reinsurance for insurance companies to manage their peak and accumulated risks.**

Over the last two decades, new breeds of insurance-type instruments that employ different techniques have emerged. In most cases, they relate payments to an independent proxy measure of an insured loss experience, such as rainfall records (for protection against drought) or tide gauges (for protection against storm surges). Examples include index-based insurance, catastrophe bonds and weather derivatives commonly referred to as alternative risk transfer (ART). Many of these new instruments take the legal form of insurance linked securities (ILS), which enable new sources of capital, outside of traditional insurance markets, to underwrite these products. This new type of insurance is mostly confined to the wholesale markets, i.e. for insurance companies to manage their accumulated risk, and to the largest corporations, such as energy and food producers. It is not usually specifically available to the general public in retail markets, though this is changing.

To overcome this technical distinction, the term ‘risk transfer’ was introduced as an umbrella encompassing all instruments that perform insurance-type functions. A refinement of this concept is the term ‘risk sharing’. This report favours this term, as it points to the fact that most insurance-type contracts involve a consumer only transferring their excess risk but retaining a proportion, perhaps via a deductible. This is an important element to align the interests of the insurer and insured, and reduce moral hazard. It also highlights that by participating in insurance systems, policyholders will be supporting the losses of other consumers within this system via their premiums.

There is a commonly held view that the benefit of insurance is purely risk transfer and indemnification, if events resulting in loss occur and claims are paid. Indeed some go further, suggesting that the presence of insurance may actually increase detrimental risk taking, or act as a bandage without addressing underlying problems. This obscures the wider impact of risk-based insurance systems and the financial effects of risk on consumers and insurers. In order to function sustainably, insurance systems must manage societies' overall risk within tolerable limits and share risk fairly; otherwise insurance cannot be economically or socially sustainable. There is, therefore, an important role for insurance as a powerful agent for reducing excess risk that tracks back through the history and practice of insurance.

Well-regulated insurance decreases people's excessive exposures to risk through the conditions of the insurance contracts themselves. This is a view held by the insurance industry group, ClimateWise<sup>1</sup>, which advocates for risk reduction, as well as risk transfer, in the context of a changing climate and increased risks.

There is a limit to how far insurance can and, indeed, may wish to reduce risks. There are examples where the industry has not driven risk reduction policies as strongly as many might desire. Nonetheless, the general role and influence of risk-based insurance systems for highlighting and reducing individual and overall risk is widely recognised. Insurance systems also bring wider benefits, including providing pools

of long-term investment capital that has been essential to economic growth in the history of most developed economies. These additional roles for insurance in social and economic development, beyond risk sharing, are identified in Part 2 of this report.

The insurance sector's contribution to increasing resilience and reducing the vulnerability of populations to these risks has been analysed by various official sources, including the World Bank's Global Facility for Disaster Reduction and Recovery (GFDRR, 2012 and 2014), the World Economic Forum (WEF, 2011), and the Organisation for Economic Cooperation and Development (OECD, 2013). The official definition of Disaster Risk Reduction, by the United Nations Office for Disaster Risk Reduction itself, resembles some of the undertakings of insurance: "Disaster Risk Reduction is the concept and practice of reducing risks by systematically analysing and managing the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and environment, and improved preparedness for adverse events" (UNISDR, 2009: 10, 11).

None of these missions can be fulfilled without adequate regulation. The following graph illustrates the effect chain of insurance market development and highlights a point made by this report that policymakers affect directly the priorities that regulators work on, which in turn kicks off the rest of the chain.

### Effect chain of insurance market development

Source: Adapted by the authors from Churchill and McCord (2012), page 38.



<sup>1</sup> ClimateWise is the global insurance industry's leadership group driving action on climate change risk, convened by the University of Cambridge Institute for Sustainability Leadership. Its international membership covers Asia, Europe, North America and Southern Africa. The group leverages the insurance industry's expertise to better understand, communicate and act on climate risks. Members commit to action against the ClimateWise Principles and are independently reviewed against these annually. They also undertake collaborations to support the Principles where action needs to be taken at the industry or system level. Collaborations may involve insurers, other businesses, policy-makers and academics.

## Introduction *continued*

Adequate insurance regulation provides an enabling environment for the promotion and protection of human rights through access to insurance. This report uses the terms ‘adequate, supportive or effective insurance regulation’ to refer to beneficial levels of regulation.

Regulation is, of course, a balancing act, and by using these qualifiers we acknowledge that regulation does not always behave in a constructive way. Under certain circumstances, burdensome insurance regulation can obstruct insurance access or development, by imposing excessive risk rating and capital standards on insurers. This can lead to levels of compliance and other administrative processes that add to costs and discourage consumers and suppliers. In other instances, regulators may be slow to recognise new forms of distribution, risk transfer instruments or limit market access for new sources of innovation and competition. While building the strength of the argument for beneficial levels of regulation, an account on how regulation can be obstructive to human rights and sustainable development is also provided in Part 3, Section 2.

We choose the triad of life, livelihood and shelter not as a way of implying any kind of hierarchy amongst human rights, but as a way to focus on the three basic human needs threatened most directly and immediately when natural hazards strike and resilience is insufficient. The analysis interprets livelihood as the vehicle to subsistence, in many instances directly connected to it, as in the case of the millions of small holding producers in poor areas of the world. Catastrophes related to natural hazards can touch on many other human rights, from gender vulnerabilities to the exacerbation of underlying structural weaknesses related to sanitation or health. It is beyond the scope of this report to consider the wider list of affected human rights.

Under certain circumstances, burdensome insurance regulation can obstruct insurance access or development.

## Rationale for timing of the study

**Our analysis joins together and responds to several calls for action. The following landmarks took place, coincidentally in parallel, in June 2014:**

- The General Assembly statement from the Human Rights Council, quoted above, linking natural disaster risk exposure and vulnerability to human rights.
- A report published by the International Federation of Red Cross and Red Crescent Societies (IFRC) and UNDP entitled “Effective Law and Regulation for Disaster Risk Reduction” that identified four cross-cutting themes where further research should be undertaken, including legal scopes of human rights (Recommendation 1) and the legal basis on insurance and other risk-sharing mechanisms (Recommendation 3).
- A detailed statement published by the OECD’s Working Party for Responsible Business Conduct that specifically applied the human rights duties of the 2011 “Guidelines for Multinational Enterprises” to the entire financial system. The Guidelines are recommendations addressed by governments to multinational enterprises.
- The first joint conference between the International Insurance Society and the United Nations Office for Disaster Risk Reduction, where the authors of this report introduced the themes expanded here in a panel entitled “Integrating Disaster Risk in the Financial System” (London).

Previously, in March 2014, OCHA released its study “Saving Lives Today and Tomorrow: Managing the Risk of Humanitarian Crises”, where increasing the use of risk-transfer mechanisms features as a recommendation.

This report comes almost a year after the University of Cambridge Institute for Sustainability Leadership published a report entitled “Stability and Sustainability in Banking Reform” (2014), which was also developed in the context of the global efforts to establish a set of Sustainable Development Goals and the means of implementing and financing them.



## Structure and methodology

**The report is structured into five parts. The first two parts establish the connection, for the first time in a publication, between insurance regulation and human rights, both in general and in the context of exposure to natural hazards.**

**Part 1** documents the often overlooked, but clearly identified by various institutions, link between insurance and sustainable development.

**Part 2** starts by acknowledging the multifaceted nature of people's access to insurance and introduces regulation as an essential component. The rest of the section synthesises the functions of insurance regulation in facilitating access to insurance.

**Part 3** introduces the fundamental role of insurance regulation to protect human rights by contributing to the fulfilment of commitments to which both state and non-state actors are already accountable. Although the emphasis of this report is on how insurance regulation can be supportive of human rights, this section also offers examples on how unsupportive regulation can damage access to insurance and therefore human rights.

Parts 1-3 include a review of the growing body of literature and related policy initiatives by most leading international institutions that explore the supporting role that insurance can play towards managing natural disaster risk. This literature review has been underpinned by access to documents, institutions and experts as part of our active participation with the formal Consultations and Conferences on the UN Post-2015 Frameworks in Geneva, New York and Sendai. Our IAIS engagement provided access to insurance regulatory expertise and personnel worldwide.

**Part 4** features two case studies that show how supportive regulation can help achieve the Sustainable Development Goals by enhancing people's access to insurance and thus protecting their human rights to life, livelihood and shelter in the face of natural hazards. This part is based on detailed exchanges with personnel involved with the two case studies, African Risk Capacity and the Philippines' largest micro-insurer, CARD MBA, as well as expert assessment from wider stakeholder groups and members of the advisory panel.

**Part 5** offers policy recommendations for the current intergovernmental processes, and recommendations for further research. This section was produced in consultation with the industry Co-Chair of the Insurance Development Forum, Washington, DC.<sup>2</sup>

The data in this report has been selected from official sources to illustrate and expand upon points and observations on human rights and financial regulation in the context of natural disasters and climate risks. However, the use of particular sources should not be interpreted as indicating a preference over alternatives that may offer similar evidence.<sup>3</sup>

<sup>2</sup> The Insurance Development Forum (IDF) was formed in 2015 under the auspices of the Political Champions Group for Disaster Resilience. It brings together national and regional Governments, the global insurance sector, UN Agencies and other international institutions to enable the growth of insurance related capabilities and capacity to support disaster risk reduction and the wider objectives of the UN Post-2015 Agenda. The IDF is co-chaired by a senior member of the public sector and the insurance industry. The IDF meets on the margins of IMF-World Bank Spring Meetings and the UN General Assembly in September, the IDF secretariat is provided by the World Bank GFDRR in Washington DC with support from the IIS.

<sup>3</sup> A comprehensive study on the nature of data collection and availability, the techniques to study it, and recommendations on specific numerical targets that could be applied post-2015 can be found in "Setting, Measuring and Monitoring Targets for Reducing Disaster Risk: Recommendation for Post-2015 International Policy Frameworks" (ODI, 2014).

# Part 1

# Insurance and sustainable development

**This section explains the role of insurance in underpinning basic human rights of life, livelihood and shelter by supporting and protecting sustainable development in the face of natural hazards.**

**The World Bank has undertaken several studies exploring the link between insurance activity and economic growth. A study across 56 high-, middle- and low-income countries (World Bank, 2006) documents a cause-effect of insurance activity on economic growth.**

The contribution of insurance activity, both as a provider of risk management and indemnification, and as an institutional investor in sustainable development, can be monitored through different outcomes, for instance:

- Promoting financial stability
- Facilitating trade and commerce
- Mobilising domestic savings by fostering a more efficient allocation of domestic capital, thus reducing the burden on governments' finances when disaster strikes
- Managing different risks more efficiently, which allows insured businesses to hold less preventative capital, and therefore boost investment and consumption

- Narrowing the gap between development imbalances and providing complementary social safety nets
- Helping to reduce or mitigate losses, which, in the case of disaster-related payouts, can rebuild shelter and livelihoods
- Increasing resilience by incentivising, for example, building codes, flood defences or advanced planning.

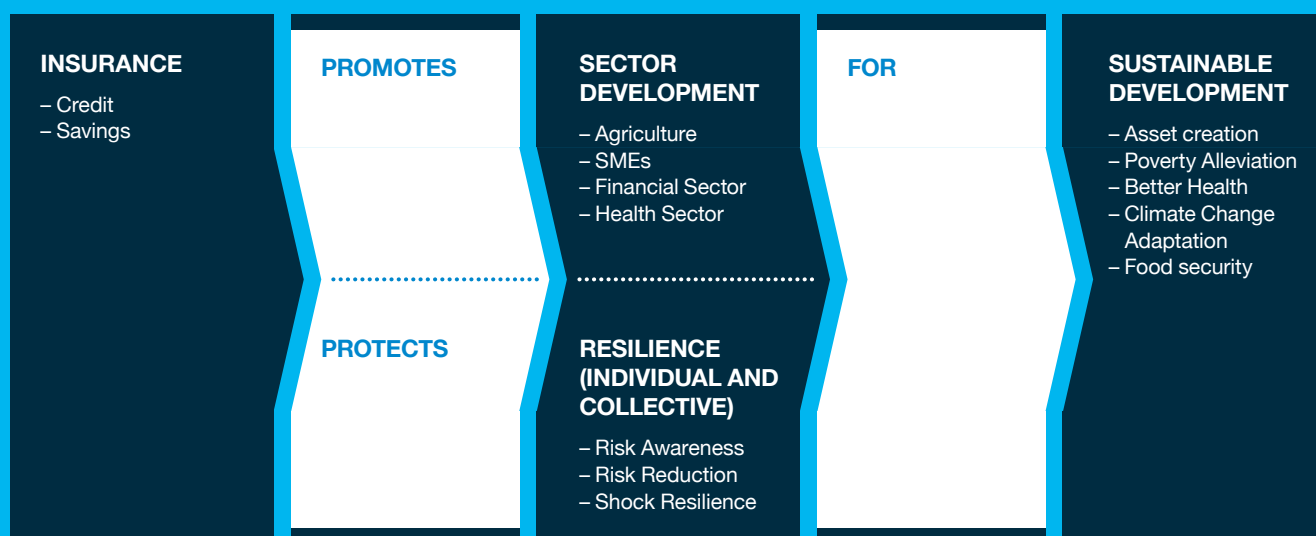
Uninsured risk inhibits sustainable development due to:

- Capital not being released because of precautionary saving, which leads to under-utilisation of capital and under-investment
- Post-disaster losses
- Failed, reduced or delayed recovery.

Twin pillars have been identified on the role of insurance to support sustainable development, called the 'promotion' and 'protection' pathways (A2ii: 2014d), as outlined below.

### Promotion and protection pathways from insurance to sustainable development

Source: Adapted from A2ii, 2014d, figure 1, "Promotion and Protection of Pathways from Insurance to Outcomes"



## Part 1: Insurance and sustainable development *continued*

### 1. Protection pathway

**This pathway from insurance to sustainable development protects people in three ways: risk awareness, risk reduction and management, and shock resilience.**

#### a) Risk awareness

Risk-based insurance systems employ science, engineering and actuarial techniques to evaluate risk. This risk is communicated via the price signal and conditions within insurance contracts, providing a powerful and influential means of risk awareness. Under extreme circumstances, risk levels may be so high that they send the ultimate risk awareness signal, that risks are uninsurable or unaffordable.

Insurers have become more widely involved in risk educational initiatives (both in schools and for the general public), public dissemination of scientific and government advice on extreme hazards, disaster preparedness planning, and emergency rehearsals (e.g. Great California ShakeOut, West Coast New Zealand ShakeOut).

#### b) Risk reduction and management

Insurance not only makes the insured aware of risks, but also puts in place risk-reducing measures to keep claims low, which in turn introduces behaviours that protect lives, livelihoods and assets. Insurance related to natural hazards can enforce building codes when new buildings are constructed, thereby adapting property to cope better with future shocks. In this case, strict supervision and controls on the planning, architecture and construction industries is required, so that mechanisms such as discounts on the cost of insurance for compliance with codes can work effectively.

In rural areas, insurance policies raise awareness of exposure to climate and natural hazard risks, requiring farmers to adopt climate-smart solutions, from new technologies to different crops and resistant seeds.

In overall terms, insurance supports risk management across four elements: identifying exposures that can lead to loss, evaluating techniques for treating each exposure, choosing the best alternative, and monitoring results to refine approaches. The insurance market sends signals to the entire economy by identifying and measuring risk, by pricing the cost of risk and by helping to allocate resources (Brainard, 2008: 2).

#### c) Shock resilience

Insurance provides immediate access to cash or services, protecting people against severe losses and enhancing resilience to shocks. Among the poor, this aspect of insurance prevents people falling back into poverty once they have managed to escape it. Individual resilience to shocks, through insurance, empowers people to invest in building a better life, rather than stockpiling emergency reserves.

When shocks occur, without insurance, poor and low-income households often resort to selling their assets, in many cases their livelihood assets. Insurance prevents people from utilising negative coping strategies, which range from the sale of productive assets, often undervalued and sold at a loss, to human consequences, such as taking children out of school.

This was the experience in the Philippines, which was struck in 2009 by tropical storm Ondoy and Typhoon Pepeng. Rizal, one of the provinces hit the hardest, saw the poverty incidence almost double, from 5.5 per cent in 2006 to 9.5 per cent in 2009. Six years later, recovery was still far off, with 7.6 per cent of families still under the poverty line (Shepherd et al, 2013: 8 and Oxfam, 2013: 1). Another thoroughly researched example is the Ethiopian droughts from 1999 to 2004. Studies have estimated that, if those shocks had been insured, poverty consequences would have been lower by about one third (a2ii, 2014d: 1 and Dercon, 2006).

Insurance prevents people from  
utilising negative coping strategies.



## 2. Promotion pathway

**Upon this platform of greater resilience, insurance promotes access to markets and entrepreneurial activity, which contribute to both lifting people out of poverty and propelling economic prosperity.**

### a) Access to investment and credit

Improved levels of risk understanding and resilience through insurance enable individuals, businesses and, in some cases, governments to take larger risks and liberate funds to invest in development. The greater security afforded by insurance protections makes bank loans or mortgages viable, and enables access to credit markets. This principle is applicable both at small and large scale, from agricultural and small- and medium-sized businesses to large companies or public entities.

With particular relevance to the Sustainable Development Goals, three quarters of the world's poor live in rural areas. Insurance can contribute to agricultural development in two ways. Directly, for example when poor communities participate in a contracted farming scheme because of the insurance coverage that it offers. Indirectly, as part of wider financial inclusion efforts in combination with other financial products (e.g. loans) or by encouraging farmers, in many cases as small as subsistence producers, to take bigger risks in more profitable farming activities. These could range from planting higher-yield crops to investment in new technologies, on the basis that insurance will protect them if, for example, crops fail due to the effects of droughts or floods. These measures empower farmers not only to feel confident in their own subsistence, but also to enter the marketplace, in many cases for the first time, or to continue prospering there.

Credit entities that supply loans to small farmers or to small- and medium-sized businesses also gain confidence and are able to support the loan application of customers who otherwise would not qualify for credit due to their lack of assets and insufficient income. Rapid increases in population and urbanisation – with 70 per cent of the world's population expected to live in cities by 2050, compared with 49 per cent today (FAO, 2009:2) – mean that millions of livelihoods will depend on this sector of the world's economy. Small businesses represent 45 per cent of employment in developing countries (DfID, 2013).

### b) Institutional investment

Globally, insurers hold approximately one third of assets under management, around US\$35 trillion. Consequently, insurers have an important function as institutional investors providing capital for infrastructure and other long-term investments. Insurance activity generates an accumulation of new capital,

which allows the mobility of preventative domestic savings into investments. There is a strong synergy between insurance, banking and investment at the macro and micro levels.

### c) Financial Inclusion

The social and economic benefits of insurance both at the individual and collective level have raised its priority within the wider financial inclusion agenda. Financial inclusion has different nuances depending on the context in which it is used. Amongst these views, the common denominator is the ability of an individual, household or business to acquire appropriate financial services and products, mainly credit and savings.

Financial inclusion is now embedded in the global development agenda through the G20, the United Nations, the World Bank and the five Global Standard Setting Bodies, of which the International Association of Insurance Supervisors (IAIS) is one. Formed in 1994, the IAIS represents insurance regulators and supervisors from 140 countries across developed, developing and emerging economies. An associate organisation to the IAIS, the Access to Insurance Initiative (A2ii), was created in 2009 as a global partnership to advance more effective regulation and promote financial inclusion through inclusive insurance markets that reach all strata of societies.

## 3. Insurance and the UN Sustainable Development Goals (SDGs)

**The Sustainable Development Goals build upon the Millennium Development Goals in force between 2000 and 2015. The SDGs set a framework for public policy and related investment for industrialised, emerging and developing economies through to 2030.**

The goals comprise integrated priorities across a comprehensive spectrum including: poverty reduction, inclusive and sustainable economic growth, human health and wellbeing, stewardship of terrestrial and marine environments, safe cities and human settlements, and peaceful societies with access to justice and effective and capable institutions.

There is a growing recognition that the overall role and functions of insurance, as outlined above in the protection and promotion pathways, is closely aligned with the Sustainable Development Goals and the related Financing for Development process. This report draws out some of these synergies to illustrate the opportunities for collaboration in meeting these mutual objectives.

## Part 2

# Improving access to insurance through regulation

### **1. Access to insurance is multi-faceted**

**Access to insurance is determined by a combination of factors, in the same way that social attitudes and institutional obstacles to resilience vary across communities (OECD, 2014a: 87-88). The aim of this section is to introduce insurance regulation as part of a wider mix. It is not within this report's competence to address in depth the different factors that intervene in promoting access to insurance.**

**Most of the following points are equally applicable to developed and developing countries:**

#### **a) Cultural attitudes to insurance**

The cultural value of insurance is underpinned by a spectrum where individuals and governments range from being risk averse to risk tolerant. Such a spectrum manifests itself in different ways. For example:

- Religious beliefs, which vary from a general reliance on fate to specific concerns, as is the case for many Muslims, which has led to the concept of Takaful insurance. The basic fundamentals of Takaful insurance are very similar to cooperative and mutual insurance. For the purposes of this report, Takaful will be implied when making references to the mutual-cooperative category.
- Lack of trust in the system, which could be due to the novelty of the concept when insurance enters a community for the first time, or to negative experiences of insurance providers where customers were not adequately protected by regulation. In other cases, if a government previously provided compensation post-disaster, then the introduction of insurance can be seen as a new form of taxation.
- Expectations on third parties, whereby, at an individual level, people might expect compensation from the government in case of a loss, and at the state level, some governments rely heavily on the international system.

#### **b) Fear**

In some cases people do not apply for insurance in fear that the consequent detailed risk assessment will be used by local authorities to expel them from their dwellings, due to high exposure to risk (such as landslide risk in informal settlements) and/or lack of property rights.

#### **c) Affordability**

Insurance may be too expensive for people to afford, which can be driven by two factors:

- High risk, where either the consumers live in very high-risk areas, or the assets themselves are too vulnerable. Assuming that the pricing of insurance has had a fair risk evaluation, this lack of affordability signals an unsustainable risk environment and the potential need for risk reduction measures that increase resilience. In some cases, governments subsidise the premiums in highly exposed areas.
- Poverty, where the resources for protecting people's assets and livelihoods, or even basic needs of food and water, are simply not available. In many cases, this lack

of affordability of insurance perpetuates the struggle for food and water. This is when insurance needs to be considered a developmental need, with either governments or donors subsidising the premium, and sometimes even the conditions of resilience required to access the insurance policy.

#### **d) Ability of insurers to price risk**

Insurers have a unique role in conveying risk information through pricing signals, for which they use several sources in combination:

- Scientific and engineering knowledge collected through risk modelling
- Wider studies of social behaviour
- Available data of past claims and losses.

Sometimes, for instance in areas of emerging and changing risks, the ability of insurers to price risk is limited, especially after a sequence of unprecedented events. For example, floods and tropical cyclone events in Queensland since 2010 have dislocated the local supply of insurance, particularly in high-risk townships across the north of the state.

#### **e) Profit margins**

Certain markets are not attractive to private insurers due to high costs and low profit margins. This issue, and possible solutions, are explored in more detail in the microinsurance section in part 3.

#### **f) Adequate regulation**

Access to insurance needs adequate regulation for common standards to be defined and contracts to be formed and legally enforced. This is particularly significant given the inverted production cycle of insurance, where the payment made upfront exacerbates the need to protect the product that consumers buy.

In 2012, the UN Environment Programme (UNEP) launched the five UNEP Principles for Sustainable Insurance (PSI) with an international group of re/insurance company signatories. Principle 3 highlights the importance of regulation: "We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social and governance issues including: i) support prudential policy, regulatory and legal frameworks that enable risk reduction; ii) dialogue with governments and regulators to develop integrated risk management approaches and risk transfer solutions" (PSI, 2012). The following section explains the role and functions of insurance regulation in providing access to insurance.

## Part 2: Improving access to insurance through regulation *continued*

### 2. How insurance regulation works

**As a regulated activity, the regulatory environment has a fundamental influence on the provision and performance of insurance in regions around the world.**

#### a) Role of insurance regulators

Insurance regulators' primary duty is to protect the interests of consumers (policyholders). Whether dealing with microinsurance or the largest insurance programmes for governments and corporates, insurance regulation is driven by three key themes:

- Prudential. The central question is whether the (re)insurer or risk 'carrier' has access to sufficient funds to pay individual claims, even in the event of very large losses. In summary, is an insurer making a clear promise, and does it have the sufficient resources to back up that promise? Regulators refer to this as 'reliability', which, in regulatory terms, is the basis for stability, resilience and sustainability of the overall financial market.
- Market conduct. Is the coverage clearly defined? In the event of a loss, will the policy trigger payment in line with a claimant's reasonable expectations? Market conduct also addresses the performance of institutions and practitioners in the execution of their duties to consumers and other stakeholders.
- Development. In order to serve policyholders and wider society, regulators have increasingly supported the development of the insurance industry and enhanced access to financial inclusion, whether through public, private, mutual or hybrid mechanisms.

Those regulatory roles are grouped under two perspectives: micro-prudential regulatory perspective (individual insurance companies and the protection of their customers) and macro-prudential regulatory perspective (i.e. overall market stability and development on a country basis and its possible failures).<sup>4</sup>

The insurance industry follows the IAIS' Insurance Core Principles (ICPs) and related standards and guidance. Insurance regulation is enabled by national laws and national administrative frameworks. If adequately set up, these need to be consistent with global standards, so that national insurers can gain access to reinsurance and other forms of risk transfer mechanisms, such as insurance-linked securities, including catastrophe bonds.

#### b) Functions of insurance regulation

To fulfil their roles and responsibilities, insurance regulators cultivate a range of functions that support the protection of human rights against natural hazards:

##### *Risk assessment and evaluation*

The regulators' focus on insurers and reinsurers' solvency means underwriters are required to display an understanding and evaluation of the individual and collective exposures in their portfolio to natural hazards. Since the 1990s, the requirement for insurers to demonstrate solvency at extremes of one-in-200-year return periods has, in turn, increased the resilience of communities.

The so-called data revolution is at the centre of risk assessment and evaluation. Data describes the location and inherent vulnerability of buildings, industrial facilities and infrastructure, and is an essential component for the understanding of the likely impact of natural hazards. Data also raises concerns on privacy and vulnerabilities, so it is becoming increasingly necessary to invest in people-driven systems to manage and understand it.

##### *Risk-based pricing and incentivising resilience*

The regulators' focus on insurers and reinsurers' solvency also drives the requirement for underwriters to demonstrate that they are receiving adequate premiums to fulfil the conditions of the coverage. This provides pricing signals to consumers of their true level of risk. Where risks are too high to allow affordable premiums, there is a need to reduce risk to tolerable parameters to ensure the sustainability of insurance systems.

The golden rule is risk-based pricing. If insurance premiums are not underwritten on risk-based pricing, the mechanism breaks down, essential risk signals are not transmitted, moral hazard is generated and the insurance system becomes financially unsustainable at a micro and ultimately a macro level.

##### *Regulation of coverage and risk carriers*

Ultimately insurance is a promise to pay claims and other services for agreed losses against defined events and conditions. Regulators aim to ensure that coverage is clear and, where appropriate, standardised. This includes the definition of minimum policy covers that protect consumers and facilitate fair price comparison and competition.

<sup>4</sup> Credit ratings serve similar purposes but their primary duty is to investors in insurance companies. Corporate counterparties to insurers and reinsurers often employ credit ratings as an indication of financial strength and their quality as a counterparty.



Regulators also authorise insurance providers and regulate the conduct standards of insurance personnel, to provide consumers with the security that only licensed providers can supply insurance. If suitable entities are unable to receive regulatory recognition, this can severely hamper the delivery of protections. For example, mutual and cooperative insurance organisations face the challenge of operating under unclear regulation in many developing markets.

#### **Regulation of insurers' investment reserves**

Insurance regulators have a significant influence over the range and balance of assets held within insurance companies' reserves. Regulators are required to ensure that reserves are secure enough to meet an insurer's contingent liabilities, and that they are sufficiently liquid to meet claims and other demands as and when they are due. Within regulatory solvency frameworks, assets are risk weighted by their type or geography. The relative risk weighting of assets by regulators may have a significant influence on the direction of investment. For example, it is widely held that the shared desire, by Governments and European insurers, to direct resources towards infrastructure investment is obstructed by the risk weighting applied to such allocations under the application of EU solvency regimes.

#### **c) Categories of insurance and their regulation**

Insurance is divided into three different categories, the definitions of which can acquire various nuances. In general terms, and for the purposes of this report, these are:

- Macro-insurance: country level. This includes protections of countries (sovereign risks) via national or multinational schemes.
- Meso-insurance: traditional insurance that individuals, companies and cities buy.
- Micro-insurance: small premium insurance usually tailored for low-income or poor citizens in developing countries.

The same regulatory responsibilities and functions outlined in the previous section apply to macro-, meso- and micro-insurance, if well regulated, and all can be delivered through the following mechanisms:

- Private Sector: Insurance carriers that are stock companies, privately held entities or listed on exchanges. This represents well in excess of fifty per cent of the global insurance.
- Public: In many countries, natural hazard insurance coverage is provided via state owned systems.

- Mutual-cooperative mechanisms: Cooperative and mutual organisations are owned by their customers (also known as members). Approximately 25-30 per cent of the world's insurance carriers are cooperatives or mutuals. They range from the largest insurance companies in the USA and Japan to microinsurance enterprises in rural parts of developing economies.
- Hybrid mechanisms: Many insurance systems may be hybrids. One example of this would be a private sector insurer that distributes policies, but the natural catastrophe portion is underwritten and 'ceded' to a government programme, which may be reinsured by the global market place.

Regardless of who owns the insurers, governments get involved by outlining the regulatory mandates. In combining the prudential, market conduct and development roles, regulators need to establish a balance, to respond to financial inclusion, between well-tested techniques codified in standards, rules and codes of practice; and innovative, untested rules. This responsibility is underpinned by the principle of proportionality, which gives regulators the flexibility to adapt the application of the principles to the characteristics of the market.

Since the 1990s, the requirement for insurers to demonstrate solvency at extremes of one-in-200-year return periods has, in turn, increased the resilience of communities.

# 25%-30%

25-30 per cent of the world's insurance carriers are mutuals and cooperatives.

## Part 3

# Insurance regulation, human rights and natural hazards

Climate risk, expressed mainly in the shape of natural hazards, means a higher frequency of extreme weather events, droughts, increased water shortages and rising sea levels.

**This affects people's human rights in two ways: a direct threat of immediate impact (e.g. typhoons), or a gradual erosion of something basic (e.g. prolonged droughts that eventually lead to displacement and migration for survival).**

Respect of human rights is at the heart of the UN's sustainable development agenda: "The Millennium Development Goals, in particular Goal 8, on the global partnership for development, speak to the importance of our common humanity and the values of equity, solidarity and human rights. The post-2015 development agenda will need to be supported by a renewed global partnership grounded on such values" (UN Secretary General, 2013: 15).

## 1. Rationale: Insurance regulation in support of basic human rights

In this context, and as explained in the introduction, insurance regulation provides an enabling environment for the promotion and protection of human rights through access to insurance. Why should insurance regulation support human rights against natural hazards? The following section addresses the ways in which insurance regulation can make a contribution:

### a) Fulfilment of existing human rights commitments

There are lengthy pieces of international law, already agreed by states in different ways and intensities, that have institutionalised the existence and presence of Human Rights. This report does not advance the creation of new human rights frameworks that add more complexity of choices to the political landscape. Instead, it documents the capacity and duty of insurance, and in particular of adequate insurance regulation, to contribute to the fulfilment of existing human rights commitments. Insurance does this by i) making risk more visible and incentivising risk reduction policies and behaviours and ii) risk-transfer payouts if a loss event occurs.

While post-event financing is, of course, an essential aspect of insurance schemes, the wider benefits of disaster risk reduction and resilience building are also key. The conditions that insurance policies include to provide access to the products (e.g. building codes) can be potentially as useful as the insurance itself in protecting lives, livelihoods and shelter.

### b) Fulfilment of duty to support access to human rights

Different actors, such as states and the financial system, have a duty (registered in international law and standards) to support access to human rights. This ranges from the fact that every state in the world has signed some commitment to protecting the right to life of their citizens, to the new OECD guidelines that ask all actors in the financial system to support existing human rights agreements (OECD 2014).

These human rights responsibilities have been reinforced by the international agreement on Disaster Risk Reduction renewed in March 2015: "Managing the risk of disasters is aimed at protecting persons and their property, health, livelihoods and productive assets, as well as cultural and environmental assets, while promoting and protecting all human rights, including the right to development" (Sendai Framework for Disaster Risk Reduction, 2015: paragraph 19c).

States have a duty to put in place legislative and administrative frameworks to protect the right to life both directly (e.g. preventing citizens from dying from a typhoon) and indirectly (e.g. through the right to subsistence and shelter). States also set the legislative and administrative frameworks for rules around capital, including insurance. In addition, insurance regulation relates to the duties of governments to put in place social protection programmes that look after people's basic rights associated to vulnerability and exposure.

Given the government-led nature of insurance regulation, states have the decisive function of determining how non-state actors are able to operate. Non-state actors, however, also have a degree of responsibility in feeding back into the regulatory process for increasing access to insurance, as well as implementing operationally the advancements introduced by regulatory frameworks.

The OECD guidelines (2014) extend human rights duties to the entire financial system and will likely have repercussions for insurance/reinsurance companies. The elements of Corporate and Social Responsibility that motivate insurance-reinsurance companies to offer products to the low-income market may no longer be an option, but the requirement to comply with new expectations for fulfilling human rights commitments.

## Part 3: Insurance regulation, human rights and natural hazards *continued*

### c) Legal utilisation of improved information on climate risk

The implications of those human rights commitments range from soft good will at one end of the spectrum all the way to legal cases between entities in both national and international courts.

The basic human rights of life, livelihood and shelter have become increasingly protected against natural hazards through significant improvements in science, forecasting and engineering in recent decades. These advancements have reduced the unpredictability of natural hazards and increased the effective identification of climate risks, with direct implications on the duty to take preventative measures. Some of the most important trends over the last four decades include forecasting, risk assessments, modelling and data collection.

These scientific advances have generated a steady evolution of public opinion and legal developments that make authorities increasingly accountable for the protection of populations and assets to a reasonable level of resilience. In parallel, financial regulators have employed these scientific advances to support major reforms to insurance practice over the last two decades to drive greater understanding and resilience to natural hazards.

The upshot of all these developments, coupled with the public reaction when events occur, is that authorities and leaders can no longer say ‘we did not know’ when it comes to natural disaster risk.

### d) Creation of an enabling environment for protecting basic human rights against natural hazards and climate risk

This means capital looking after people and being connected to duties of care, such as the right to life, that governments have already signed up to in an isolated or abstract manner. Governments set the priorities for regulators to work on, and even if regulation is not the panacea, it plays a key role in people’s access to insurance.

The key in this relationship between insurance and human rights is that access to basic human rights can and should inform new capital rules, including insurance regulation, which in turn become new legal means for protecting people. As the UN Secretary-General has put it: “We have a shared responsibility to embark on a path to inclusive and shared prosperity in a peaceful and resilient world, where human rights and the rule of law are upheld” (UN Secretary-General, 2014: 3).

Together, these points emphasise the link between insurance regulation and human rights and how this can complement the economic, financial and political interventions that sustainable development requires.

**We have a shared responsibility to embark on a path to inclusive and shared prosperity in a peaceful and resilient world, where human rights and the rule of law are upheld.**

UN Secretary-General



## 2. Insurance regulation and human rights

**This section illustrates, with examples, the connection between insurance regulation and human rights.**

### a) Supportive regulation

There are a growing number of examples of ways in which governments already fulfil their duties of care through insurance programmes, supported by favourable regulation.

#### *Development mandates*

Some governments and governmental platforms (such as the G20) specifically give regulators development mandates. Those mandates transfer onto regulators the authority to work on measures that encourage public, private and mutual insurers to reach underserved populations. Government mandates to regulators can also give insurance regulators the power to change practices that are disruptive to financial inclusion. In some rare cases, like India and South Africa, governments have instructed regulators to incorporate compulsory targets for private sector insurers to reach out to the low-income market.

#### *Transparent subsidies*

This is a controversial area of government intervention, as it can disrupt and politicise the health and liberalisation of a market. However, in the case of poor and low-income populations, it can be a necessary transitional state of development. Subsidies must be transparent and thoroughly explained, so that they do not impair individual and collective risk awareness and risk management.

#### *Enabling environments*

Human rights-supportive regulatory policy sometimes does not require specific financial commitments of governments or donors, but favourable decisions that “remove barriers and create incentives for insurers to go down-market, while creating pathways for informal insurers to participate in the formal market” (Churchill, 2012: 17).

### *Public-private partnerships*

These can be done at the national level, where insurance initiatives complement national government schemes of coverage, or to the international level, where public donors and the private sector work with national governments. In this space, insurance is seen as a social protection mechanism and an engine for sustainable development.

An example of this is WINnERS, a partnership formed in April 2015 between academia, the European Union, the World Food Programme, the World Bank, NGOs and private insurance companies (Chavez, 2015). The aim is to lift subsistence producers in Africa out of poverty through weather insurance mechanisms embedded within secure agricultural supply contracts. For an initial transition period, donors transparently subsidise the smallholders’ insurance premiums and also support the resilience conditions required in the insurance contracts (such as drought-resistant seeds). Once people reach a more affluent status, including participation in the marketplace with the surplus of their production, they could enter a self-financing insurance system.

### *Natural hazards programmes*

Some of these schemes, such as the New Zealand Earthquake Commission (EQC) or the Nat Cat Scheme in France, have been in place for several decades. Others such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), Turkish Catastrophe Insurance Pool (TCIP) and the Taiwanese Residential Earthquake Insurance Fund (TREIF) have been established more recently following specific events.

These schemes are specifically designed for protecting people against the immediate impact of natural hazards. For example, CRIFT aims to prevent Government Account Shortfall in the event of a disaster, and therefore keep government departments functioning during the disaster response. Part 4 and the related annex will explain in detail, through African Risk Capacity (ARC), how a scheme like this protects human rights.

Another programme, specifically anchored in the post-2015 policy context, is the G7 Initiative on Climate Risk Insurance, which aims to lift, by 2020, into direct or indirect insurance protection the lives, assets and livelihoods of 400 million low-income people around the world affected by extreme weather events (GIZ, 2015).

# 400 million

The G7 Initiative on Climate Risk Insurance aims to lift, by 2020, 400 million low-income people into direct or indirect insurance protection.

## Part 3: Insurance regulation, human rights and natural hazards *continued*

### *Microinsurance*

A new development in insurance regulation, microinsurance, is particularly geared to offering access to insurance to low-income people, mainly in developing countries, through public, private or mutual-cooperative mechanisms. Since it works under the same principles of consumer protection and solvency, there is increasingly a preference for calling it ‘inclusive insurance’.

Given the nature of this category of insurance, tailored specifically to reach the poor, the rest of this section will use it as a prism for documenting regulation that is supportive of human rights. Microinsurance is a fast changing space delivered by three types of channels:

- Mutual insurers, who are community-based, and share the risk amongst their members. They are the initial innovators in the space of microinsurance.
- Commercial insurers, who are the new presence in the microinsurance space, in rare cases driven by requirements of regulation (such as in India), and mostly by Corporate and Social Responsibility (CSR) motives or the desire to enter new markets. Recently microinsurance has moved further into the mainstream strategy of major commercial insurers. In January 2015, a consortium of eight global insurance institutions announced the creation of Microinsurance Venture Incubator (MVI), an entity formed to open markets and deliver risk protection in underserved developing countries.
- Social protection schemes, which use microinsurance models to cover the low-income population, and range from fully government subsidised insurance programmes, including public-sector insurers, to public-private partnerships. In these types of partnership, private microinsurance programmes complement the government’s initiatives to protect vulnerable households.

There are approximately half a billion microinsurance customers worldwide: 85 per cent in Asia, 10 per cent in Latin America and 5 per cent in Africa (Churchill and McCord, 2012: 12 and 36). The scope and need for growth is vast. Together with the global Access to Insurance Initiative (A2ii), other regional programmes address this need, notably RFPI Asia (Regulatory Framework Promotion of Pro-poor Markets in Asia). It operates in accordance with the methodology of the A2ii and the global standards of the IAIS, aligning individual country needs with international standards and best practices. This initiative is a newly created programme to enhance insurance access across Asia as part of financial inclusion policies to alleviate poverty by combating risks and vulnerability in low-income individuals: “Weakness in the political, regulatory and supervisory conditions are a major reason why inclusive insurance markets are poorly developed” (RFPIa, 2015: 1).

### **b) Unsupportive regulation**

Insurance regulation can exhibit characteristics that impose challenges on developing effective insurance services. Insurance often confronts the legacy of existing legislation and regulatory practices that may not align well with emerging frameworks of best practice. The social role of insurance also requires sensitive adjustment to the cultural and commercial institutional context in different jurisdictions. Examples of two different regulatory challenges are outlined here.

#### *Under-regulation*

Insurance is a distinctive business activity and many of its core functions and operating practices are not addressed within mainstream commercial and trading laws and regulations. Without specific insurance regulation, many of the elements of insurance contracts and the nature of insurance institutions cannot be recognised and enforced by law, including the right to issue insurance policies or to claim on insurance contracts in the event of a loss.

Lack of reliable regulatory structures poses a strong disincentive for insurers to operate and grow. In the most underdeveloped jurisdictions, these challenges can affect all types of insurance but in others, particular types of insurance carriers (e.g. public, private or mutual) or certain classes of insurance (e.g. health, agricultural or earthquake) are specifically affected.

For example, in some countries, mutual insurers are not recognised in regulatory systems, which leads to three possibilities: i) they do not exist at all, ii) they exist in a legal vacuum ignored by the system or iii) they operate illegally. In each case, the ability of mutual insurers to serve their customers is significantly hindered. Meanwhile, policyholders are not protected by the wider benefits of prudential supervision, customer protection and contract law, depending only on the quality of governance of the particular cooperative to which they belong.

Such regulatory deficiencies also hinder the expansion of mutual enterprises, depriving larger numbers of access to insurance, as well as decreasing consumer choice and competition. These challenges obstruct, for example, the growth of Uplift Mutuals, a pioneering and respected mutual microinsurer in India, where insurance regulation does not recognise mutual insurers. Established in 2004, Uplift has grouped together over two hundred thousand policyholders in urban slums and poor rural villages, most living under the poverty line. The degree of poverty of many of the mutual’s members means that they would not be reached by the mandatory regulatory conditions on private insurers to cover a percentage of the low-income market in their operations. Despite this positive track record, lack of regulation limits their operations to a defined community,

impeding their expansion because of both regulatory technical obstacles and wider reputational damage from mutuals that lack good governance (Kumar, 2015).

#### **Over-regulation**

While adequate insurance regulation creates a healthy environment of corporate governance, accounting and public disclosure, over-regulation can have a detrimental effect on access to insurance, leaving people vulnerable to the effects of natural hazards in exposed areas.

Over-regulation can impose excessive costs and complexity in bringing underwriting capital to protect exposed communities. For example, strengthening prudential regulation may hold insurers to excessive and disproportionate capital requirements and management, as well as unnecessary reporting and supervision for the sake of financial stability. This has a detrimental effect on the capacity of insurers to enter new markets and to take risks in developmental investments. At other times, over-regulation imposes restrictions on international participation as a national protectionist barrier, which may reduce the scope of insurance coverage.

#### **c) Further regulatory and legislative obstacles**

##### ***Frequently changing regulations***

This is especially the case in countries without a long-standing tradition of insurance, where the regulator is trying to understand its precise role while defining the direction of the market. It imposes significant complexities and disincentives for international investors and domestic entities.

##### ***Legislative obstacles***

In some cases, legislators, and not the regulatory authorities, interfere with making insurance accessible. This could take the form of, for example, taxes on insurance premiums, which in some countries can be as high as 25 per cent. In other cases, existing laws do not allow governments to buy insurance.

#### ***Lack of recognition of new forms of distribution***

This is particularly significant to the low-income market, which might not be of interest to traditional insurance providers due to the costs of building and running new networks of customers who pay very small premiums. This type of insurance market appeals to alternative distribution channels, such as loan providers, agricultural product distributors, supermarkets or mobile phone operators who already have existing platforms of customers. However, lack of regulation and prudential supervision of these channels endangers customer protection.

#### ***Claims payments***

One area of emerging focus has been on the claims payment process following a natural disaster. The scale of events and general dislocation of infrastructure can overwhelm companies' claims payment process to assess losses and adjust claims. In other cases, specific uncertainties around the classification of trigger events on the terms of insurance contracts can lead to ambiguity and delay. Such has been the case in the Christchurch earthquakes in New Zealand (2011), Hurricane Katrina in the USA (2005) or the Thai floods (2011). Regulation needs to further address claims payment protocols across the entire insurance and reinsurance chain.

In conclusion, the range of examples in this section documents the fundamental impact that regulatory conditions have on the provision of insurance services to exposed populations. It also demonstrates the influence that this area of financial regulation has on the ability of communities to attain adequate levels of individual and collective resilience and to protect their human rights against natural hazards and other perils.

# 500 million

There are approximately half a billion microinsurance customers worldwide.

Regulatory conditions have a fundamental impact on the provision of insurance services to exposed populations.

# Part 4

# Case studies

# from Africa

# and Asia

## African Risk Capacity

**ARC is a specialised agency of the African Union, formed in 2012, to improve member states' capacities to plan, prepare for and respond to extreme weather events and natural disasters. The initial focus has been immediate food security and related livelihood threats from drought. In future, ARC coverage is planned for flood, tropical cyclone and pandemic risks.**

The Agency established ARC Insurance Company Limited (ARC Insurance), with an initial capital of approximately US \$200 million, with investments from donors (United Kingdom, DfID, and Germany, GIZ) returnable over a 20-year period. ARC Insurance is a mutual company registered and regulated in Bermuda, "until such time that an equally favourable legal and regulatory regime exists in an AU Member State" (ARC, 2012: 6). In 2014, ARC covered the first African risk pool comprising Kenya, Mauritania, Niger and Senegal. In May 2015, the risk pool doubled with four additional countries expected to complete policies: Burkina Faso, the Gambia, Malawi and Mali (ARC, 2015a).

ARC Insurance issues index-based parametric risk transfer contracts to sovereign customers, protecting them

against defined levels of (reduced) rainfall occurring in specified regions during defined periods. These correspond to drought risk during growing seasons in priority agricultural and rangeland areas. The defining characteristic of ARC coverage is the speed of payments and the requirement for detailed operational disbursement and utilisation plans.

As an international arrangement with sovereign counterparties, ARC contracts are deemed exempt from domestic insurance regulation. This assisted the adoption of ARC, allowing it to avoid domestic legislative shortfalls, especially on the provision of index-based insurance. ARC has effectively simplified the operating model to provide a conducive regulatory environment that enables the operation of these protections.

ARC Insurance was established with an initial capital of approximately US

**\$200 million**

returnable over a 20-year period.

**1. Overview** This section integrates the elements of access to insurance, regulation, development and human rights through the framework of the Sustainable Development Goals and Financing for Development priorities. The two cases below offer contrasting characteristics, yet both involve insurance coverage that shares a common attribute: adequate insurance regulation that, by enabling access to insurance, supports people's basic human rights of life, livelihood and shelter, and contributes to the realisation of the Sustainable Development Goals.

### Centre for Agriculture and Rural Development Mutual Benefit Association (CARD MBA) in the Philippines

CARD Mutual Benefit Association started as an informal insurance-like activity until its formalisation in 1999 as an independent entity run by its own members. The initial challenges that CARD MBA faced reflected a generalised problem of overall lack of regulation for microinsurers in the country. Realising the need for effective regulation, the mutual has actively contributed to the negotiations for the several regulatory landmarks that have transformed insurance access in the Philippines.

The Regulatory Framework for Microinsurance sets out the regulations for the private sector distributing microinsurance products and states clear rights for the policyholders. In January 2010, a memorandum issued by the Insurance Commission, the Cooperative Development Authority and the Exchange Commission announced tighter regulation around microinsurance by terminating 'informal insurance' or 'insurance-like schemes'. Within a year those entities had to partner with registered insurers, set up their own mutual company or become a distribution channel for commercial insurers (Chatterjee, 2012: 563).

Since 2010, a series of memorandums and issuances have reinforced different areas of regulation for the protection of

the policyholders, including: product development and approval, provisions on transparency, product distribution, marketing, and industry performance monitoring. One of the consumer protection requirements is that the insurance contract is kept short and clear, with simple documentation. An important step has been lower capitalisation requirements for providers that are fully involved in the microinsurance market, as well as relaxed licensing requirements for those providers.

This enabling environment transformed CARD MBA's operational capabilities such that it has now over two million microinsurance policyholders, covering around 11 million people in the low-income segment, of which 80 per cent are below the poverty line.

CARD MBA now covers around 11 million people in the low-income segment, of which

**80%**  
are below the poverty line.



## Part 4: Case studies from Africa and Asia *continued*

### 2. Summary of the Case Studies in relation to the SDGs

The following summary is supplemented by an appendix that provides detailed mapping and assessment of CARD MBA and ARC performance in relation to each of the prospective Sustainable Development Goals relevant to insurance.

In this summary, the SDGs are clustered around four key groups: a) Poverty alleviation and food security, b) Education, social equality and inclusion, c) Environmental stewardship, climate risk and resilience, and d) Public-private partnerships, accountable institutions and international cooperation.

#### a) Poverty alleviation, food security, sustainable economic growth (Sustainable Development Goals 1, 2, 8)

ARC supports poverty alleviation and food security by enabling countries to purchase up to \$30m of coverage against failed harvests due to insufficient rainfall at one-in-five-year to one-in-25-year extremes. Using pre-planned interventions refined to reflect specific event conditions, exposed communities are provided with food, direct payments and cash for work within three months of the drought metric thresholds being triggered. These interventions, and the knowledge that these support facilities exist, have a significant bearing on direct poverty alleviation, food security and employment. They enable exposed communities to avoid short-term coping mechanisms with longer-term consequences. In February 2015, ARC paid its first claim in the Sahel. Its technical software, Africa RiskView, was able to predict drought conditions that enabled countries to undertake contingency actions for a likely claim. ARC payments were received by countries within one month of the rainfall trigger and before applications for aid had been made to relief agencies through traditional mechanisms.

CARD MBA captured international attention in the aftermath of Typhoon Haiyan in October 2013 when it began distributing emergency money within hours of the event, and had paid claims to almost 300,000 customers affected by the catastrophe within five days of the event. These household policies were augmented by payments for coverage against death and disability. CARD MBA has also developed a product called the Crop Assistance Programme, which insures crops such as grains, fruit, vegetables and soy against natural hazard risk.

#### b) Education, social equality and inclusion (Sustainable Development Goals 4, 5)

ARC's role in supporting the maintenance of community education services features significantly in its objectives. At an individual level, access to ARC-related protection enables families to maintain income levels such that failed school attendance is reduced. At a village level, this also limits the risk of the breakdown of community schooling at times of acute agricultural stress. ARC enables communities to avoid short-term coping mechanisms, such as reducing necessary food intake, which significantly hampers the ability for children to attend or perform at school. ARC's operational plans are developed and monitored to ensure the provision of food or other interventions are received by all vulnerable members of targeted regions, including marginalised women and girls. Consistent and comprehensive coverage to ensure food security of exposed populations and communities is a primary focus of ARC's operational accountability.

As is common practice across microinsurance, especially in the mutual and co-operative sector, policies are owned by women, and the rest of the family is covered through them. The insurance protection provides similar opportunities to maintain educational attendance. CARD MBA has undertaken extensive programmes of insurance education, including the Government-founded National Microinsurance Month in 2007.

#### c) Environmental stewardship, climate risk management, and resilient cities and settlements (Sustainable Development Goals 11, 13, 15)

Through ARC's risk modelling, operational plans and peer review process, countries develop a state-of-the-art view of climate risk, which results in a greater understanding and provisioning of immediate and longer-term structural resilience to these threats. Before ARC insurance contracts can be established, member countries spend approximately 12 months with a local specialist ensuring that risk models and outputs are optimised to reflect national experience. This process integrates information to understand the local effects of weather and climate risk, including the quality of soils, water and other critical ecosystem services. The results are then communicated in ways that can be understood and employed by policymakers, financial communities and businesses as well as the wider public. The ARC facility, from Africa RiskView to the development of operational plans and financial support, is focused precisely on Sustainable Development Goal 13, taking urgent action to combat climate change and its impacts.

CARD MBA, in partnership with Pioneer Insurance Group, created the first non-life microinsurance company to specifically address climate risks and natural hazards, covering residential property against flood, typhoon, fire and earthquake. In terms of encouraging risk-reducing measures in their policies, CARD MBA is currently considering the introduction of 'no-build zone areas' (identified by the government) as a condition for newly built property to qualify in their insurance schemes.

**d) Public-private partnerships, accountable institutions, international cooperation (Sustainable Development Goals 10, 16, 17)**

ARC relates directly to Goal 10, reducing inequality within and among countries. Within countries, ARC addresses the inequality of life chances between those who are exposed to natural hazards and the communities less affected by the direct impacts of drought on life and livelihood. As an inter-state insurer, ARC reduces inequalities between nations across the continent. The sharing of risk brings costs down and the sharing of knowledge reduces risk overall. ARC also addresses Goal 16, the promotion of peaceful and inclusive societies for sustainable development while building effective, accountable and inclusive institutions. The African Union ARC agreement, and subsequent operation, is seen as an exemplary institution founded on transparency, peer review and international collaboration. It combines regulatory, scientific communities with private, public and mutual sectors within Africa and across international reinsurance markets and policy communities.

The Philippines is commended internationally for its efforts in financial inclusion. The Economist Intelligence Unit rated it first in the world for policy and regulatory frameworks for microinsurance for four consecutive years (2009–2012). CARD MBA has been an active partner in this national process of change. At corporate level, the mutual has developed its own Corporate Governance Manual for its members and in-house personnel that aims to institutionalise the principles of good corporate governance in the entire organisation, in order to enhance the accountability of the Association's Trustees, management and employees. CARD MBA participates in ASEAN financial integration, as recommended by the Insurance Commission, and is a founding member of Rimansi, an Asia Pacific network resource centre for member owned microinsurers that contributes to the development of national standards. Both organisations are members of the International Cooperative and Mutual Insurance Federation.

### 3. Role and Implications for Insurance Regulation

**These cases represent two distinct regulatory environments and policy contexts in very different parts of the world, and they also highlight the current contrasts and challenges in regulation for different types of insurance in the same jurisdiction.**

The Philippines has become an acknowledged international leader in its legal recognition and regulation of microfinance services, including microinsurance. It displays a well functioning and fast growing market of private sector and mutual-cooperative insurance providers, which is changing the attitudes to personal financial management and insurance in the country.

Despite this growing and sophisticated insurance culture within policymakers, the Philippines has been unable to implement sovereign-level protections to reduce the financial impacts of severe natural catastrophes to exposed communities and public sector and local authorities. This is in spite of focused and sustained efforts, since Typhoon Haiyan, by Filipino authorities, donors, multilateral institutions and the international markets. Legal, regulatory and public accounting issues have played a significant part in these obstacles.

Lessons could be learned and applied from the approaches employed by the African Union and member states to apply and interpret international and local insurance legislation to advance these public policy priorities. ASEAN, of which the Philippines is a member, aims at developing a regional scheme across its member countries.

Meanwhile, the African Union has successfully established, through ARC, a sovereign facility that protects member states against the cost of humanitarian relief, due to drought-induced harvest failures, using parametric insurance contracts in a supporting regulatory framework and operation. However, the recognition and regulation of microinsurance is underdeveloped, and, in most of these ARC-protected states, microinsurance market development is impeded.

One overarching theme between these two case studies is the need to share experiences and techniques between countries and leaders to optimise potential regulatory outcomes. In very different ways, ARC and CARD MBA illustrate that countries at different stages of development can foster, with adequate regulation, world-leading insurance systems to protect populations against natural hazards and promote sustainable development.

# Conclusion and recommendations

## Insurance systems cannot develop, operate and flourish without adequate and supportive regulation.

**Individuals, institutions and communities cannot attain sufficient resilience to climate risks and natural hazards and achieve sustainable development without access to adequate levels of effective insurance protection.**

Access to insurance via supportive regulation is essential to manage the growing exposure of populations, both by rapid urbanisation and a changing climate, to areas affected by increasing natural hazards. For the first time, disaster losses globally have amounted to over \$100bn in three consecutive years (2010 to 2012), far surpassing humanitarian aid. As well as the major disasters that hit the international news headlines, “for poor people, it is the relentless attrition of frequent small-scale disasters, such as localized floods, landslides and storms, that damage livelihoods, houses and assets, and drive people further into poverty. They are responsible for a very significant proportion of total disaster impact: 54 per cent of houses damaged, 80 per cent of people affected, 83 per cent of people injured, yet people received little or no government support or external assistance” (GAR, 2011).

On the basis that risks can increasingly be identified, evaluated, managed and shared, countries have a duty to develop and maintain effective insurance regulation to enable the protection of basic human rights.

The awareness that insurance regulation is fundamental in delivering human rights obligations, as well as providing a range of socioeconomic benefits, should raise its prioritisation, among national and international policy making, as a pathway for the realisation of the Sustainable Development Goals.

### Recommendations

These are general recommendations for the role of insurance regulation to support resilience to climate risks and natural hazards, for sustainable development and the protection of human rights, in the context of the post-2015 policy landscape. Detailed recommendations related to the development and implementation of the Financing for Development and Sustainable Development Goals are listed in Appendix 2 of this report.

These recommendations are made to support policymakers developing post-2015 Frameworks and those who will implement them at regional, national and local levels in the coming years and decades. They are also directed towards the insurance sector, both practitioners and regulators, to highlight the opportunities for the sector’s own development. Insurance investments and overall strategy can benefit from alignment with these goals to ensure that public, private and mutual systems coordinate for optimum outcomes at a structural and operational level.

# \$100bn

For the first time, disaster losses globally have amounted to over \$100bn in three consecutive years (2010-2012).

**1. Policymakers should further recognise that effective insurance systems deliver outcomes that are essential to societal resilience, sustainable development and the protection of human rights.**

The role of insurance should receive higher emphasis within legislative frameworks, interventions and implementation to deliver on various policy commitments. The insurance sector and financial regulators should engage more openly and actively with the policy community to support these developments.

**2. Insurance regulation should become a recognised mechanism for enabling human rights, and human rights should be a guiding principle for insurance regulation.**

Policymakers should recognise that the protection of individual and collective capital against climate risk and natural hazards through insurance regulation, and the protection of populations through human rights instruments, are mutually reinforcing.

**3. Insurance regulation should be prioritised as an essential policy instrument to protect populations and assets from climate risks and natural hazards via private, public and mutual mechanisms.**

This includes provisions, in the post-2015 processes and beyond, to optimise access to effective insurance and related capabilities for individuals, companies and local and national governments. Ineffective or non-existent regulation hinders both insurance access and sustainable development.

**4. There should be an emphasis on insurance-related risk education and awareness.**

Policymakers, educators and the industry should develop partnerships and programmes to educate communities and companies on natural hazard risks and the role of insurance in enabling resilience, security and sustainable growth and investment.

**5. Further research should be undertaken to understand the role and relationships between insurance regulation, human rights protections and inclusive sustainable economic development.**

This could include the development of complementary risk-based frameworks for human rights protections and sustainable development; the relationship between capital protection and human rights; and the role of insurance as an integrating framework to deliver consistent, compatible and tractable policy outcomes.

# Appendices

## Appendix 1: ARC and CARD MBA in relation to the SDGs

	Africa Risk Capacity	CARD MBA (Philippines)
<b>Goal 1</b> <b>Ending poverty in all its forms everywhere.</b>	<p>ARC responds to a critical humanitarian and development challenge in Africa. In 2012, the World Food Programme (WFP) spent US\$2.7 billion, some 66 per cent of its global expenditures, assisting 54.2 million people in Africa. Nearly 50 per cent of all emergency multilateral food assistance in Africa is due to natural hazards.</p> <p>ARC facilitates a rapid mobilisation of food, resources and payments to families and communities affected by failed harvests. This speed and predictability enables communities to lessen immediate hardship and avoid short-term coping actions, such as selling assets and reducing food intake, that have long-term negative economic and social impacts. Countries can purchase up to US\$30 million of coverage to provide assistance with drought conditions expected at a frequency of one in five years to one in 25 years, depending on their specific conditions and needs. The objective is for funds to be received, and interventions to commence, within 120 days of a defined drought event. Funds received from the ARC risk pool must be employed within six months of receipt. (ARC, 2015 a).</p>	<p>CARD MBA particularly targets the low-income/poor sector of population; 80 per cent of customers live below the poverty line. Its focus is to “promote the welfare of marginalised sectors of the Philippine society” (CARD, 2015a). A mutual, non-profit organisation, CARD MBA is owned and managed by its members. It covers more than two million low-income households (almost 11 million people) via 45 provincial offices. It reaches out to 13 per cent of the total microinsurance market in the Philippines (CARD, 2015b).</p> <p>CARD MBA captured international attention in the aftermath of Typhoon Haiyan when, within hours of the typhoon, the mutual was distributing emergency money, and had paid claims to almost 300,000 customers affected by the catastrophe within five days. This achievement was made possible through well-established community-based networks. The mutual relocated customers whose homes had been destroyed.</p>
<b>Goal 2</b> <b>End Hunger, achieve food security and improved nutrition and promote sustainable agriculture.</b>	<p>In 2014/2015, ARC completed its first payouts to combat hunger. Following drought conditions in the Sahel (Niger, Mauritania and Senegal), the affected countries received combined payments of US\$25 million in February 2015 through ARC. These countries had paid a collective premium of approximately US\$8m for this protection.</p> <p>When rainfall triggers were met, those countries received payments through ARC within a month. Implementation of this payout commenced before an application for assistance had been made to relief agencies through traditional mechanisms (ARC, 2015b).</p>	<p>CARD MBA has developed a product called the Crop Assistance Programme, which insures crops such as grains, fruit, vegetables, tobacco, soy and mung beans against natural hazard risk, as well as personal accidents.</p> <p>These insurance programmes can prevent people from being forced to sell their assets, and falling back into poverty, in order to relieve immediate needs. CARD MBA also offers low-income and poor segments of society insurance programmes for both death and disability.</p>



	Africa Risk Capacity	CARD MBA (Philippines)
<b>Goal 4</b> <b>Ensure inclusive and equitable quality education and promote life-long learning opportunities for all.</b>	<p>Through the provision of immediate and predictable assistance after failed harvests, ARC enables families and rural communities to maintain income levels, as well as core local infrastructures and services. This way, the risks of asset depletion at the household level and failed school attendance are reduced, including the breakdown of the local provision of community schooling at times of acute agricultural stress. ARC also enables communities to avoid short-term coping mechanisms, such as reducing necessary food intake, which significantly hamper children's ability to attend or perform at school.</p>	<p>Microinsurance protection increases the likelihood of pupils and school staff maintaining school attendance after loss events.</p> <p>Financial education and literacy is incorporated in the development mission of the microinsurance regulatory changes that both the Philippines government and CARD MBA in particular have introduced. In 2007 the Government founded the "National Microinsurance Month", which has incorporated television programmes and road shows nationwide to teach people about the role of insurance.</p>
<b>Goal 5</b> <b>Achieve gender equality and empower all women and girls.</b>	<p>ARC operational plans are developed and monitored to ensure that the provision of food and other interventions are received by all vulnerable members of the targeted regions, including marginalised women, girls and members of other vulnerable groups. Consistent and comprehensive coverage to ensure food security of exposed populations and communities is a primary focus of ARC's operational accountability.</p>	<p>As a common practice across microinsurance, especially in the mutual and cooperative sector, policies are owned by women who protect the rest of the family. CARD MBA defines itself as specifically orientated to women: "community-based social development that improves the quality of life of socially-and-economically challenged women and families towards nation building" (CARD MBA, 2015c). Women are also encouraged to participate as owners and to ensure continued access to benefits and resources. CARD MBA involves its members in the direct management of the association (CARD MBA, 2015a).</p>
<b>Goal 10</b> <b>Reduce inequality within and among countries.</b>  <b>5.1: Improve regulation of global financial markets and institutions and strengthen implementation of such regulations.</b>	<p>ARC reduces the inequality of life chances between areas that are exposed to the impact of natural hazards and those communities less exposed to direct impacts of droughts on life and livelihood. As an interstate mutual insurer, ARC shares risk and reduces inequalities between nations across the region. The sharing of risk across nations brings costs down, and the sharing of knowledge reduces risk overall.</p> <p>Internationally, ARC is reinsured via the international markets, so African drought risk is shared across communities globally. Without being aware, most insurance consumers around the globe are contributing, in a small way, to the protection of ARC via the international insurance and reinsurance architecture and global risk pool.</p>	<p>A key reform in Philippines' regulatory infrastructure gave the regulators the mandate to provide an enabling environment for private sector involvement in reaching the poorest sectors of the country: "The Philippines Insurance Commission believes that its role is mainly to provide the appropriate policy and regulatory environment for encouraging the private sector to participate in the provision of insurance products and services to the low-income sector. Furthermore, the regulator believes that its role is to ensure the financial stability of insurance providers and make sure that consumers are appropriately protected. Thus, licensed private insurance providers were encouraged to consider the low-income market and cater to their specific insurance needs" (Portula and Vergara, 2013: 9).</p>

## Appendix 1: ARC and CARD MBA in relation to the SDGs *continued*

	Africa Risk Capacity	CARD MBA (Philippines)
<b>Goal 11</b> <b>Make cities and human settlements inclusive, safe, resilient and sustainable.</b>	<p>Through risk modelling, operational plans and a peer review process, countries can develop a state –of-the-art view of their risks. This greater understanding allows more immediate and longer-term structural resilience to be built.</p> <p>ARC strengthens the Ministry of Finance’s capacity to account for climate-related risk within its planning, budgeting and investment.</p>	<p>CARD MBA, in partnership with Pioneer Insurance Group, created the first non-life microinsurance company to specifically address climate risks and natural hazards. This covers residential property against flood, typhoon, fire and earthquake. In terms of encouraging risk-reducing measures in their policies, CARD MBA is currently considering the introduction of “no build zone area” (as identified by the government) as a condition for newly built property to qualify for their insurance schemes.</p>
<b>Goal 13</b> <b>Take urgent action to combat climate change and its impacts.</b>  <b>7.1: Strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries.</b>	<p>The Sahel region has been amongst the first regions of the world to exhibit clear and unequivocal evidence of climate change, which is having a major impact on the performance and predictability of agricultural production and wider economic and social activity. The ARC facility, from African RiskView to the operational plans and financial support, is focused precisely on contributing to Goal 7.</p>	<p>The microinsurance regulatory environment in the Philippines is adapting itself to the country’s increasing exposure to climate risks and natural hazards. In collaboration with several national and international partners, the Insurance Commission has developed a one-page prototype policy contract for a product that provides a basic cash cover to protect livelihoods in case of perils such as flood, fire or earthquake. It is then within the realm of insurers to compete among themselves on pricing, benefits, distribution channels and pre/post-sale services (Portula and Vergara, 2015: 10).</p>
<b>Goal 15</b> <b>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.</b>	<p>Africa RiskView is providing a comprehensive view on African climatic hazard, exposure and risk. It enables countries to evaluate the pace and costs related to the decline of terrestrial ecosystems on their economies and human well-being. Healthy ecosystems can provide resilience to selected natural hazard risk, and as a programme initially focused on agricultural protections, ARC has a focus on understanding the quality of soils, water and other critical ecosystem services.</p>	

	Africa Risk Capacity	CARD MBA (Philippines)
<b>Goal 16</b> <b>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions.</b>	The African Union ARC agreement, and subsequent operation, is seen as a positive international example on how to create effective, accountable and inclusive institutions, founded upon transparency, peer review and international collaboration.	In accordance with changes introduced in the national regulatory framework to build accountable and sustainable insurance institutions, CARD MBA has developed its own Corporate Governance Manual to protect the interests of the policyholders (CARD MBA, 2015e).
<b>Goal 17</b> <b>Strengthen the means of implementation and revitalise the global partnership for sustainable development.</b>	<p>ARC combines scientific communities with public, private and mutual sectors. It provides a clear example of practical integration and global partnership to deliver outcomes to support people's basic human rights through sustainable development.</p> <p>ARC Insurance was capitalised with investments from donors (UK-DfID and Germany-GIZ). Those investments are returnable equity over a 20-year period. This provides an example of how public funds within OECD countries have been employed, through ARC, to reduce inequality. ARC, via the African Union and international market, is improving regulation of global financial markets and institutions and strengthening implementation of such regulations.</p>	<p>The Philippines Government has worked closely with ASEAN Insurance Training and Research Institute, the German Enterprise for International Cooperation, in association with the global and regional initiatives quoted throughout this report (A2ii and RFPI) and the Rimansi Organisation for Asia and the Pacific. CARD MBA is the main founding member of Rimansi, an Asia Pacific network resource centre for member-owned microinsurers.</p> <p>The Cebu Declaration on Inclusive insurance was signed by insurance regulators and supervisors from Indonesia, Mongolia, Nepal, Philippines, Thailand and Vietnam in May 2013. It underlines the instrumental role that regulation has in fostering inclusive insurance as a mechanism for poverty reduction and economic and social development.</p>

# 50%

Nearly 50 per cent of all emergency multilateral food assistance in Africa is due to natural hazards.

# 11 million

CARD MBA covers almost 11 million people in more than two million low-income households.

## Appendix 2: Recommendations for Financing for Development: Addis Ababa Accord and Plan of Action

### Overview

In Spring 2015, the President of the General Assembly distributed the 'Zero Draft' of the Outcome Document for the Third International Conference on Financing for Development, which provides the financial framework for supporting the objectives of the Sustainable Development Goals from 2015 onwards.

Following dialogue with UN Agencies and responding to the input of wider stakeholders from insurance institutions and beyond, these recommendations are presented as a contribution to the Financing for Development process and future dialogue.

View the Zero Draft text here (PDF): <http://www.un.org/esa/ffd/wp-content/uploads/2015/03/1ds-zero-draft-outcome.pdf>

The Zero Draft is split into two sections: the Addis Ababa Accord and the Addis Ababa Action Plan.

The Accord provides a global framework for financing sustainable development and mobilising the means to support the Post-2015 Development Agenda. The Action Plan elaborates on an agenda in eight sub-areas:

- a) Domestic public finance
- b) Domestic and international private business and finance
- c) International public finance
- d) International trade for sustainable development
- e) Debt and debt sustainability
- f) Systemic issues
- g) Technology innovation and capacity building
- h) Data monitoring and follow up

The **overall observation** is that references to insurance, and its related institutions and functions, are almost entirely absent from the Zero Draft. This does not represent the scale of the sector, nor its potential contributions to sustainable development. Insurance and related regulation have great relevance to both the Accord and selected elements of the Action Plan, including public and private finance, systemic issues and specific aspects of technology, innovation and data monitoring.

The Zero Draft highlights the importance of tackling environmental challenges, including natural disasters and climate change, within a coherent agenda. This will not be achieved if access to insurance, and its related regulation, is left behind.

### Recommendations

1. **Access to insurance, via its relevant regulation, should be made explicit in the commitments of Financing for Development post-2015.** Insurance regulation should be included in the Addis Ababa documents as a specific policy instrument to protect populations and assets from climate risks and natural hazards via private, public and mutual mechanisms.
2. Noting the success of CARD MBA and similar approaches, insurance policy and regulation should be incorporated into commitments to ensure access to **formal financial services for all**, including the poor, women, rural and marginalised communities and persons with disabilities.
3. Noting the success of ARC and related facilities, access to insurance must be inserted into **development programmes** to ensure that investments are sustainable and people protected. Insurance regulation should be included as a mechanism to improve the resilience of the least developed countries to further increase their attractiveness as recipients of foreign direct investments.
4. Insurance regulation, by enabling access to insurance, should be identified as an effective means to fulfil the human rights duties of state and non-state actors. The Zero Draft directly refers to the need to align business practices with human rights.

The Zero Draft highlights the importance of tackling environmental challenges, including natural disasters and climate change, within a coherent agenda.

# Table of acronyms

**A2ii** – Access to Insurance Initiative

**AITRI** – ASEAN Insurance Training and Research Institute

**ARC** – African Risk Capacity

**ART** – Alternative Risk Transfer

**CARD** – Centre for Agriculture and Rural Development

**CARD MBA** – Centre for Agriculture and Rural Development Mutual Benefit Association

**CEBR** – Centre for Economic and Business Research

**CRED** – Centre for Research on the Epidemiology of Disasters

**CCRIF** – Caribbean Catastrophe Risk Insurance Facility

**CSR** – Corporate and Social Responsibility

**DfID** – Department for International Development

**DRR** – Disaster Risk Reduction

**EQC** – Earthquake Commission

**FAO** – Food and Agriculture Organisation

**G20** – Group of Twenty major economies

**GIZ** – German Enterprise for International Cooperation

**GFDRR** – Global Facility for Disaster Reduction and Recovery

**HRC** – Human Rights Council

**IAIS** – International Association of Insurance Supervisors

**ICPs** – Insurance Core Principles

**IDF** – Insurance Development Forum

**IFRC** – International Federation of Red Cross and Red Crescent Societies

**IIS** – International Insurance Society

**ILS** – Insurance Linked Securities

**IMF** – International Monetary Fund

**MBA** – Mutual Benefit Association

**MVI** – Microinsurance Venture Incubator

**NFIP** – National Flood Insurance Programme

**NRC** – Norwegian Refugee Centre

**OCHA** – United Nations Office for the Coordination of Humanitarian Affairs

**ODI** – Overseas Development Institute

**OECD** – Organisation for Economic Cooperation and Development

**PPP** – Public Private Partnership

**PSI** – Principles for Sustainable Insurance

**RFPI** – Regulatory Framework Promotion of Insurance Markets in Asia

**SDGs** – UN Sustainable Development Goals

**TCIP** – Turkish Catastrophe Insurance Pool

**TREIF** – Taiwanese Residential Earthquake Insurance Fund

**UN** – United Nations

**UNDP** – United Nations Development Programme

**UNEP** – United Nations Environment Programme

**UNGPs** – United Nations Guiding Principles

**UNISDR** – United Nations Office for Disaster Risk Reduction

**UNSDSN** – United Nations Sustainable Development Solutions Network

**WEF** – World Economic Forum

**WINnERS** – Weather Index-based and weather-driven Risk Services



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