The future of insurance in the BRICS – climate change and beyond, how can the industry prepare and what is the role of multilateral development banks?

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The roles of multilateral development banks in the development of catastrophe insurance solutions in the BRICs

1. Convening power
2. Promoter of public/club goods that permit the development of risk market infrastructure
3. Provider of technical assistance for innovative disaster risk financing and insurance (DRFI) solutions
4. Financier

Cummins and Mahul (2008)

1. Convening power

- In-depth knowledge of client countries
- Relationship with donors
- Reputation for impartiality

⇒ catalytic role in the development of efficient partnerships among countries, donors, and private markets for the financing of catastrophe risks.

2. Promoter of Public Goods

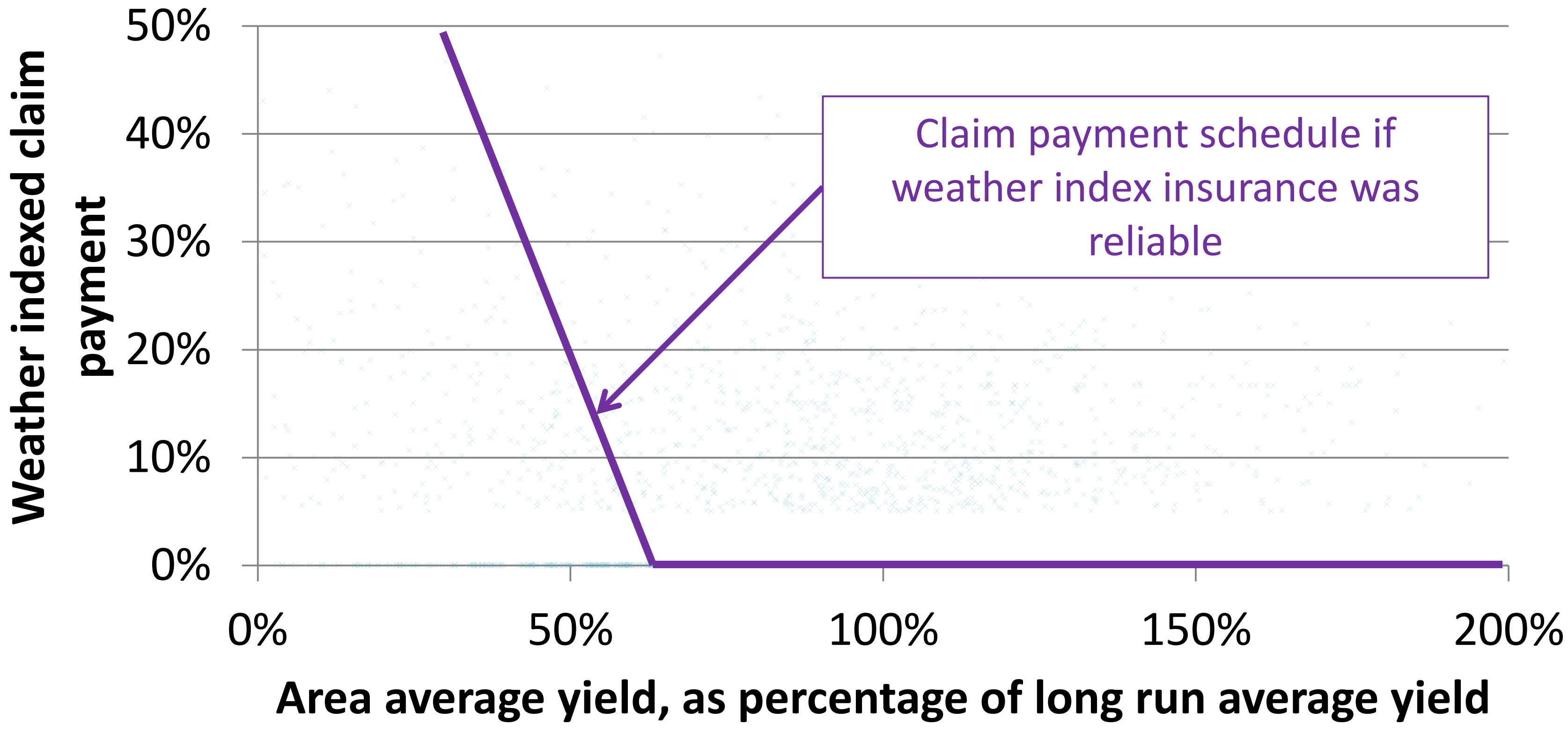
- Donors can play a major role in financing public goods that contribute to the creation of a risk market infrastructure, which facilitates the development of market-based risk financing solutions.

Public goods include

- Information collection and management systems
- Catastrophe risk assessment programs
- Risk modeling development programs
- Awareness and education campaigns
- Institutional capacity building

For example, are agricultural insurance indices a natural monopoly?

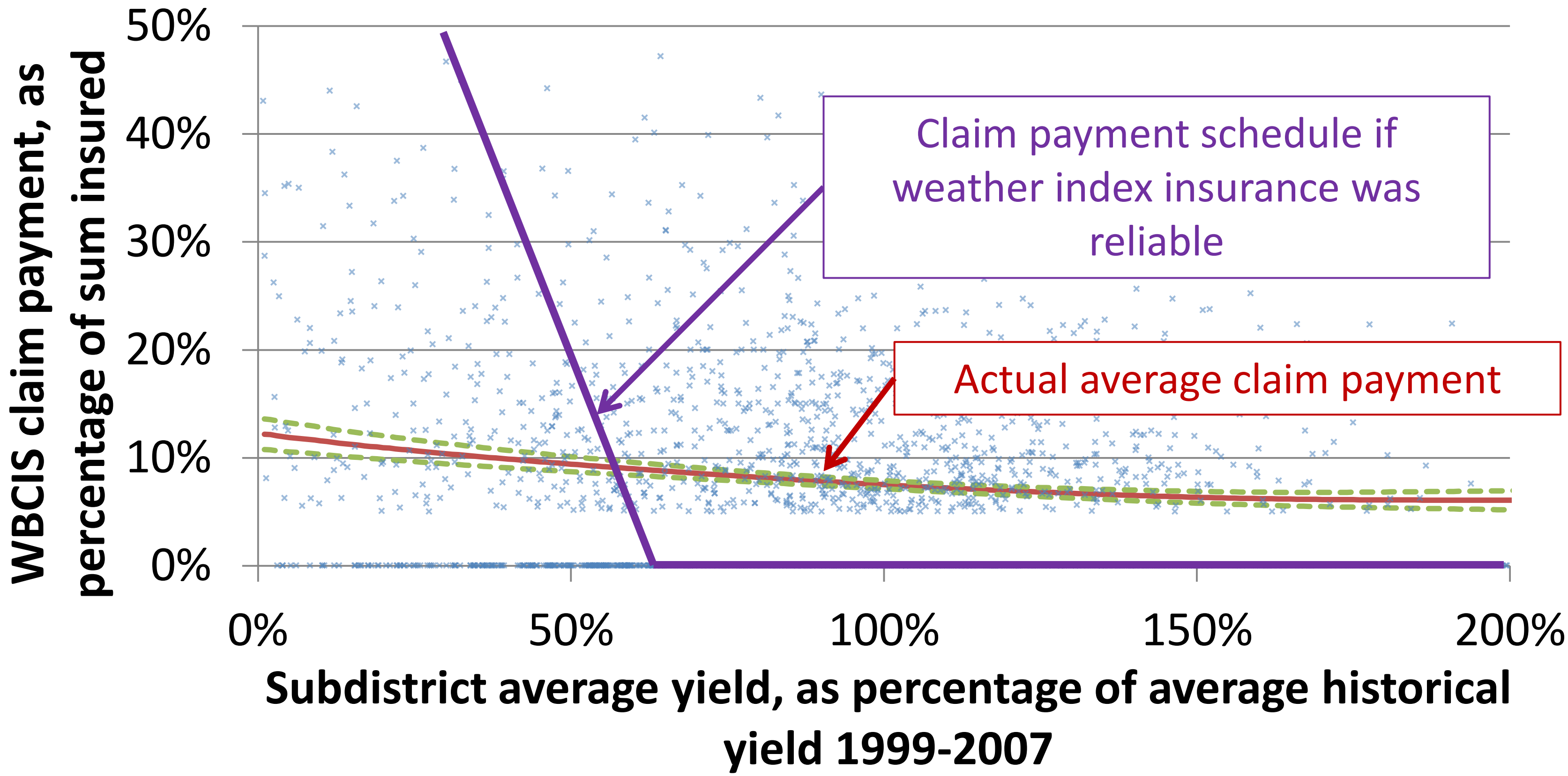
(Is a single, coordinated investment needed?)



Weather index insurance may not offer reliable protection for farmers ⇒ more substantial, coordinated investments in data may be required.

For example, across an Indian state:

- Correlation between yield and claim payment only -13%



9 years of data, 318 products sold across one state in India. Source: Clarke et al. (2012)

3. Provider of technical assistance for innovative disaster risk financing and insurance (DRFI) solutions

- Support governments in making sound sovereign DRFI decisions
  - E.g. World Bank's DRFIP tools
  - Links to:
    - Public debt management
    - Fiscal risk management
    - Disaster risk management
- Risk retention
  - Budget allocation/reserve fund
  - Line of credit/contingent credit
- Risk transfer
  - National and regional catastrophe insurance pools (for example, TCIP, CCRIF) or joint mechanisms (for example PDRFI)
  - Reinsurance
  - Catastrophe bonds
  - Index insurance
- (Risk transfer versus risk retention see Gollier (2003))

4. Financier

- Risk financing line for risk retention
  - Initial capital/reserves
  - Contingent credit (e.g. CAT DDO)
  - Economic motivation: low cost risk retention versus commitment device
- Temporary premium finance
  - E.g. IDA grants and concessionary loans

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References

1. Cummins, J.D. and O. Mahul, "Catastrophe risk financing in developing countries: Principles for Public Intervention," The World Bank, Washington, D.C., 2008.
2. Gollier, C., "To Insure or Not to Insure?: An Insurance Puzzle," The GENEVA Papers on Risk and Insurance-Theory, 2003, 28 (1), 5–24.