Insurance and Risk Financing
Western Balkans

Investing in Disaster Risk Reduction in
South Eastern Europe Workshop

October 2022
Dr. Rom Aviv
Contents

• Intro: RHA & UNDP

• Western Balkans – Snapshot

• Solutions

• Examples
UNDP Insurance and Risk Financing Facility

- Integrating Insurance into Development
- Inclusive Insurance
- Sovereign Risk Finance
- Insuring Natural Capital
- Insurance & Investment
RHA Group

• Climate Risk Financing and Insurance.

• Transaction designing, structuring and placement.

• NGOs, Governments and Private Sector (Insurers, Reinsurers, Technology Companies, Banks and Asset Management)
Western Balkans – Historical Evidence

Source: UNDP
Risk & Insurance Landscape

• Natural Catastrophes: High Vulnerability.

• Limited financial ‘risk-transfer’ tools – insurance low penetration levels.

• Extreme events can impair the economy.

• Infrastructure dealing with Risk Reduction is not modernized.

• Preparedness is limited amplifying destruction and harming resilience.
Key Challenges

- Insurers: modeling & underwriting.

- No appropriate insurance/risk transfer products and lack of focus.

- Awareness of the benefits of Risk Transfer.

- Trust.

- Believe ‘it will not happen’ and if yes, then it is the “government’s problem”
Governmental Mechanisms & Support

Individuals -> Municipalities

Municipalities -> Ad-hoc Governmental Committee

Municipalities -> Ministry of Finance

Source: UNDP
Status Quo

• Private insurance is limited.

• Individuals do not want to buy risk transfer products.

• Government schemes demotivate creation of functioning markets.

• Subsidies (e.g. in Agriculture) did not help increasing penetration levels.

• Extreme Cat: impairment of economy & dependence on donors.
Way Forward: Insurance & Private Markets

• Mandatory.

• Subsidies by government.

• Awareness Campaigns of Benefits.

• Standardization and clear products.

• Incentivized and Embedded Distribution.
Way Forward: Governmental Risk Pools

• Mandatory

• Standardization and clear products

• Creating Nat Car Reserves

• Reinsurance / Cat Bonds / Contingent Cat (“Macro Hedge”)

Catastrophe Bonds

- Governmental Entity
- Premium Payment
- Reinsurance Agreement

- Special Purpose Reinsurance Vehicle
- Trust Account
- Investments
- Treasury Bonds
- Collateral
- Coupon payment

- Investors
Disaster Linked Contingent Credit

• Contingent Credit upon occurrence of a pre-defined set of events.

• Cat DDO by the WB: 0.5% of GDP to USD500mm.

• Supports liquidity.

• No need to prove damage but just declare a form of emergency situation.
Way Forward: Catastrophe Bonds or DLCC

• Quick Liquidity

• Capital Relief for Government (unlike Debt)

• Used for Pool or Critical Assets

• Flexible Use of Proceeds
Way Forward: Possible Implementation
Example: TCIP

- Mandatory Insurance via TCIP
- High Penetration Levels of 50%
- Charging methods include utility bills
- The TCIP accumulated much reserved capital
Example: KANAT

Farmers’ Unions -> KANAT (Agricultural Disaster Fund) -> Farmers

State of Israel

Premium -> Insurance/Claims

50% ownership

50% ownership

Subsidies
**Example: Governmental Catastrophe Bonds**

<table>
<thead>
<tr>
<th><strong>Issuance Date:</strong></th>
<th>February 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tenor</strong></td>
<td>3 Years</td>
</tr>
<tr>
<td><strong>Reinsurance structure</strong></td>
<td>Parametric Cat in a Box</td>
</tr>
<tr>
<td><strong>Trigger</strong></td>
<td>Magnitude of earthquake and depth in pre-defined polygons</td>
</tr>
<tr>
<td><strong>Covered Peril</strong></td>
<td>Earthquakes</td>
</tr>
<tr>
<td><strong>Geography</strong></td>
<td>Chile</td>
</tr>
<tr>
<td><strong>Issuance Size</strong></td>
<td>USD500mm</td>
</tr>
<tr>
<td><strong>Coupon</strong></td>
<td>2.50%</td>
</tr>
</tbody>
</table>
Dr. Rom Aviv
rom.aviv@rha-advisory.com
+972-58-5448948

Thank You!