SEADRIF

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DISASTER RISK INSURANCE FACILITY

Southeast Asia Disaster Risk Insurance Facility

PROTECT THE GREATEST HOME OF ALL:

OUR COUNTRIES

SEADRIF is a regional platform to provide ASEAN countries with and technical advice to increase their financial resilience to climate and disaster risks.

Developing and leveraging domestic and international markets

Facilitator: Benedikt Signer

Speakers

David Middleton | Greg Fowler

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Objective and structure of webinars

INTENDED OUTCOME:

Government officials to develop strong understanding of the steps required to design, develop, deliver and operate effective financial protection of public assets, particularly through risk transfer and insurance

90-minute webinar for each factsheet

Different guest speakers

Live polls: Please participate

Please share questions via Q&A function

Overview of the Knowledge Series

Operations and Management

- Roles and responsibilities for the government officials within an internal insurance program, the associated stakeholders, including auditing, compliance and governance, supervisory.
- Multi year aspects such as renewals and re-assessment of exposures.
- Review of procurement considerations
- Dealing with claims management
- Incorporating innovations and technologies

FACTSHEETS 7 and 8

Policy, Institutions and Regulations

- Development of an implementation roadmap for a public asset financial protection program
- How governments can agree objectives and build consensus around priorities
- How to develop internal governance and oversight functions, and ownership at each level of the insurance program
- How risks are allocated across asset owners and operators

FACTSHEETS 1 and 2

Access to domestic and international markets

- Roles and options available to construction of cost-effective insurance, including common insurance structures and case studies, their pros and cons against considerations of budgets, risk appetites, and government priorities
- Introduction of pooling and mutualization of large scale public assets insurance programs
- Insurance/reinsurance concepts of retention, deductible and exclusion

FACTSHEETS 5 and 6

Data, Information and Analytics

- The importance and development of Public Assets Registries, and associated Enterprise Asset Management systems.
- How to assess and quantify asset exposure, sources of data, requirements for insurance transactions
- Introductions to the use of catastrophe analytics, burning cost / technical and market rates, tariff structures, risk based pricing methods, and underwriting.

FACTSHEETS 3 and 4

Overview of the fact sheet

David Middleton

Greg Fowler

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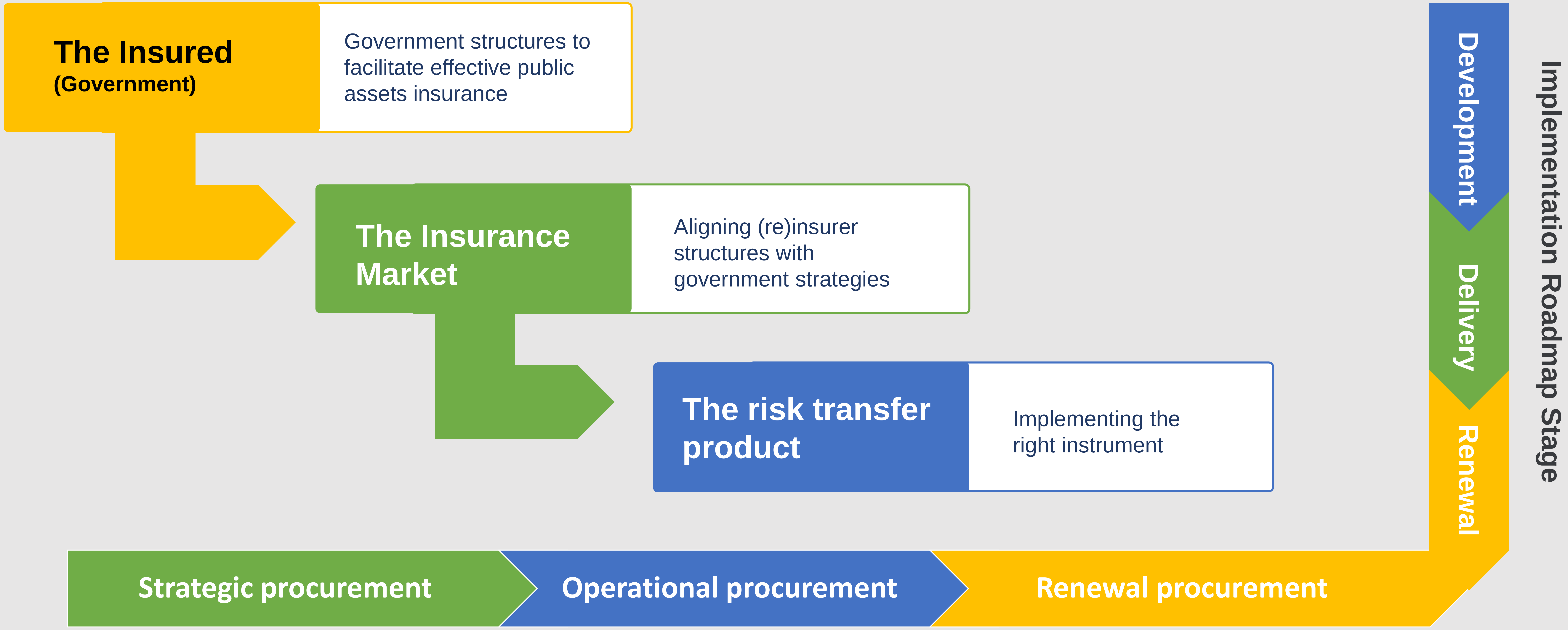
Positioning effective financial protection



The Insured Government Structures

What are they?

- Special purpose vehicles and/or arrangements set up *within* government
- Aligned with government's broader risk financing agenda and strategies
- Designed to formalize, centralize, coordinate and facilitate public asset financial protection

Why have them?

- Position considered and coordinated engagement and access with (re)insurance markets
- Present an administratively efficient interface with the (re)insurance market
- Can capture government's economies of scale
- Can be used to insulate government from volatile (re)insurance market pricing

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The Insured Government Structures

Government Structures

Self-insurance

Governments/agencies set aside a contingency budget to self fund insurable losses

Procurement Collective

Insurance availability and pricing is reserved with markets in advance and agencies use it based on individual agency need/appetite

Risk Pool

A cooperative group of government entities joining through written agreement to finance risk exposures. Can use risk transfer to protect financial exposure to large losses

Captive

Government, as a parent to agencies, creates a licensed insurance company to provide coverage for itself

Insurance Market Alignment

What does this mean?

- Government using its coordinated structures and institutions to position the (re)insurers into market structures that support its objectives

Why is it important?

- Helps secure (re)insurance availability through hard market cycles
- Can establish preferential pricing and coverage conditions
- Can position an allocation of administrative functions which suits governments capabilities and strategies (e.g. claims management)
- Can secure long term, loyal (re)insurer relationships

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Insurance Market Alignment
Domestic vs International market considerations

- Pricing
- Legislative, regulatory compliance
- Capacity and expertise
- Domestic market aspirations
- Risk transfer diversification
- (Re)insurer solvency

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Insurance Market Alignment

Market Interface Structures

Binder Facility

Government and one or more (re)insurers agree to preferential coverage and price conditions

Fronting

Government uses a licensed (re)insurer to issue and administer a policy. Claims are indemnified by government

Consortium

A group of (re)insurers are joined together to provide insurance coverage capacity

State Insurer

Government creates a licensed insurer to compete with or monopolize public asset coverage

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Insurance Market Alignment

State Insurers

Insurance providers owned by government to insure their own assets/liabilities and/or to assist vulnerable populations with insurance availability.

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How do they work?

Government legislates into existence a (re)insurance company to either compete with the commercial market to influence pricing and coverage, or act as a monopoly provider of specific types of insurance (e.g. state asset insurance)

Best suited for:

When direct access to the reinsurance market is desired. Also for exercising controls in the local market, ensuring affordable insurance is available, and limiting overseas payment of premiums

Benefits:

- Enables direct access to the reinsurance market
- Coverage can be specially tailored
- Control of premiums, profit margins, and pricing stability

Disadvantages:

- Exposes government to losses (unless legislation caps the State Insurer's liability and/or an excess layer of risk transfer protects the State Insurer's balance sheet

Examples

- Earthquake Commission (New Zealand)
- Government Service Insurance System (GSIS) (Republic of the Philippines)

The Role of Procurement

The broker/ intermediary Evaluation

Program design and placement strategy

- Delivery of or contribution to risk retention or risk transfer strategies
- Market management strategies for achieving best coverage and price outcomes

Program service and support

- Delivering a robust annual service cycle
- Delivering value add services (continuous improvement)
- Delivery of specific outsourced functions (e.g. claims management)

Price

- Fee for service and/or commissions received from (re)insurers upon placement of the program
- Actual or indicative premium costs for risk transfer

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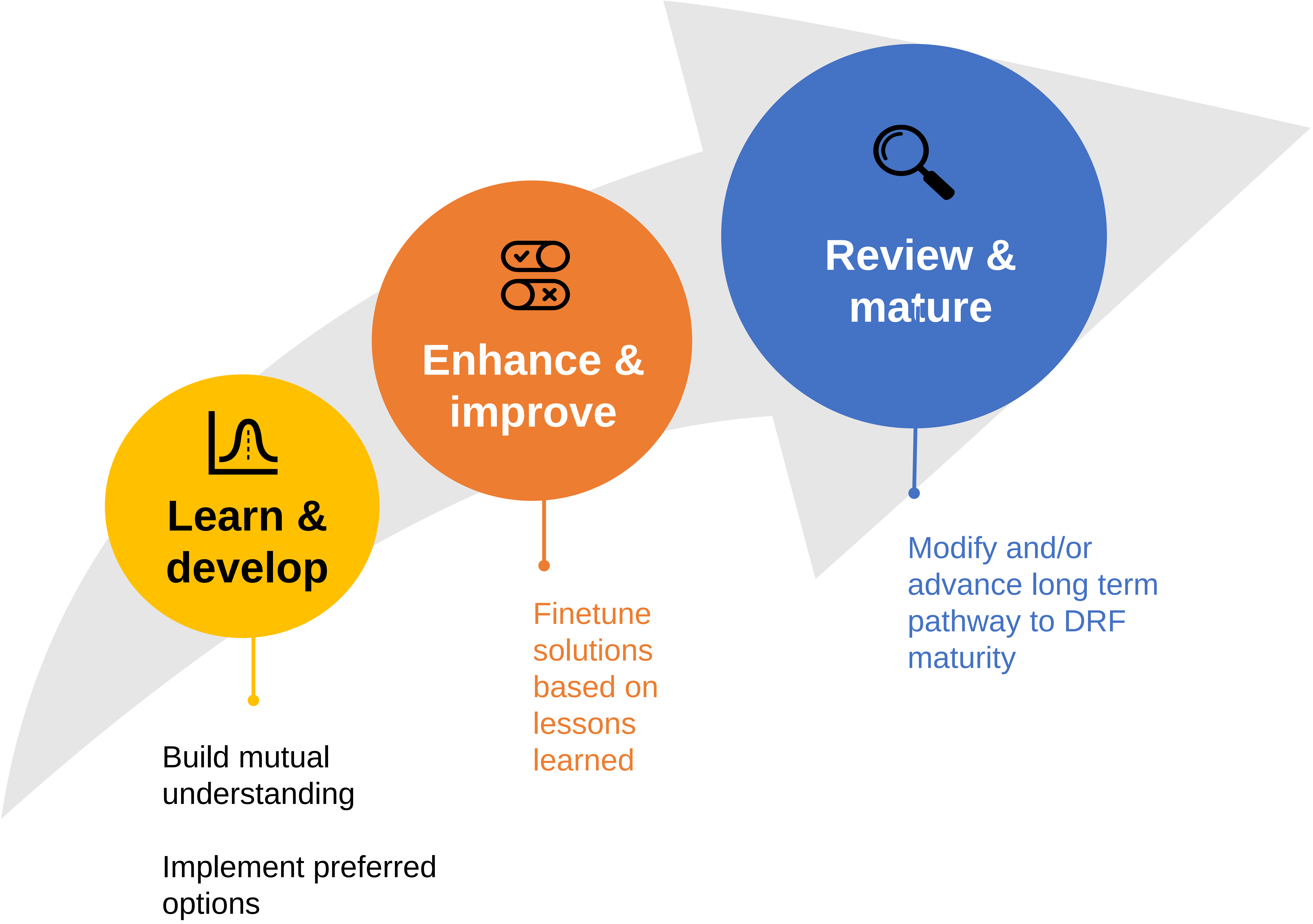
The Role of Procurement
The broker/ intermediary Maturing opportunities



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POLL

(1)

When it comes to selecting the right (re)insurers for your public assets financial protection program, pick up to three selection priorities from the following criteria:

- Pricing
- Capacity and expertise
- Domestic market growth aspirations
- Legislative/regulatory compliance
- Risk transfer diversity
- (Re)insurer solvency

Insurance Market Management
Selling Risk

What does this mean?

- Successful risk transfer is not about buying insurance, it is about selling your risk profile
- It involves a considered and coordinated means to differentiate your organization in the eyes of the market through approaching the right markets, the right way with the right information
- Selling risk underpins insurance market management strategies

Why is it important?

Market attraction
A (re)insurer has a positive perception of your risk profile and chooses to accept some/all of the risk transfer opportunity

Market competition
Multiple (re)insurers are attracted to the point they compete via premium discounts/ improved policy conditions

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Insurance Market Management Strategies

- Selling risk
- Options development
- Market selection
- Data management
- Presentations & Negotiations
- Policy wordings
- Mudmaps

- Continuous improvement
- Risk management maturity

- Managing market cycles

Sustain fit for purpose risk financing

Maintain fit for purpose risk financing

Obtain fit for purpose risk financing

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Insurance Market Management
Presentations & Negotiations

Market facing deliverables

Presentations (Customer driven/ intermediary facilitated)

Underwriting Submission

- Organizational overview
- Risk profile data
- Proposed coverage terms and conditions
- Options for pricing consideration

Pre-negotiation actions

(Re)insurer reviews submission

Technical clarification discussions

Coverage/ capacity and pricing negotiations

Insurance Market Management

Managing market cycles

A hard market may mean the cost of risk capital swings in favor of retaining more risk. In this instance, it may make financial sense to temporarily increase self-insured retentions within the program.

Time

SOFT MARKET (Cheap)

HARD MARKET (Expensive)

A soft market may mean the cost of risk capital swings in favor of transferring more risk. In this instance, it may make financial sense to temporarily reduce self-insured retentions within the program.

When indications are that market pricing has ‘bottomed out’, and that prices are soon expected to rise, it may be prudent to seek a long-term agreement (LTA) with (re)insurers. This may lock in cheap rates for a period up to three years at a time when annualized premium rates are increasing.

POLL

(1) Results

When it comes to selecting the right (re)insurers for your public assets financial protection program, pick up to three selection priorities from the following criteria:

- Pricing
- Capacity and expertise
- Domestic market growth aspirations
- Legislative/regulatory compliance
- Risk transfer diversity
- (Re)insurer solvency

Insurance should be part of a broad risk management strategy

AVOID

by removing the exposure to the hazard

REDUCE

by affirmative actions to increase resilience

RETAIN

accept the consequences of the risk

SHARE/INSURE

transferring or sharing a portion of the risk, through finance

- The choice of approach will reflect ***risk appetite***
- Risk is not certain
- Insurance provides finance to compensate ***potential*** losses – at a price

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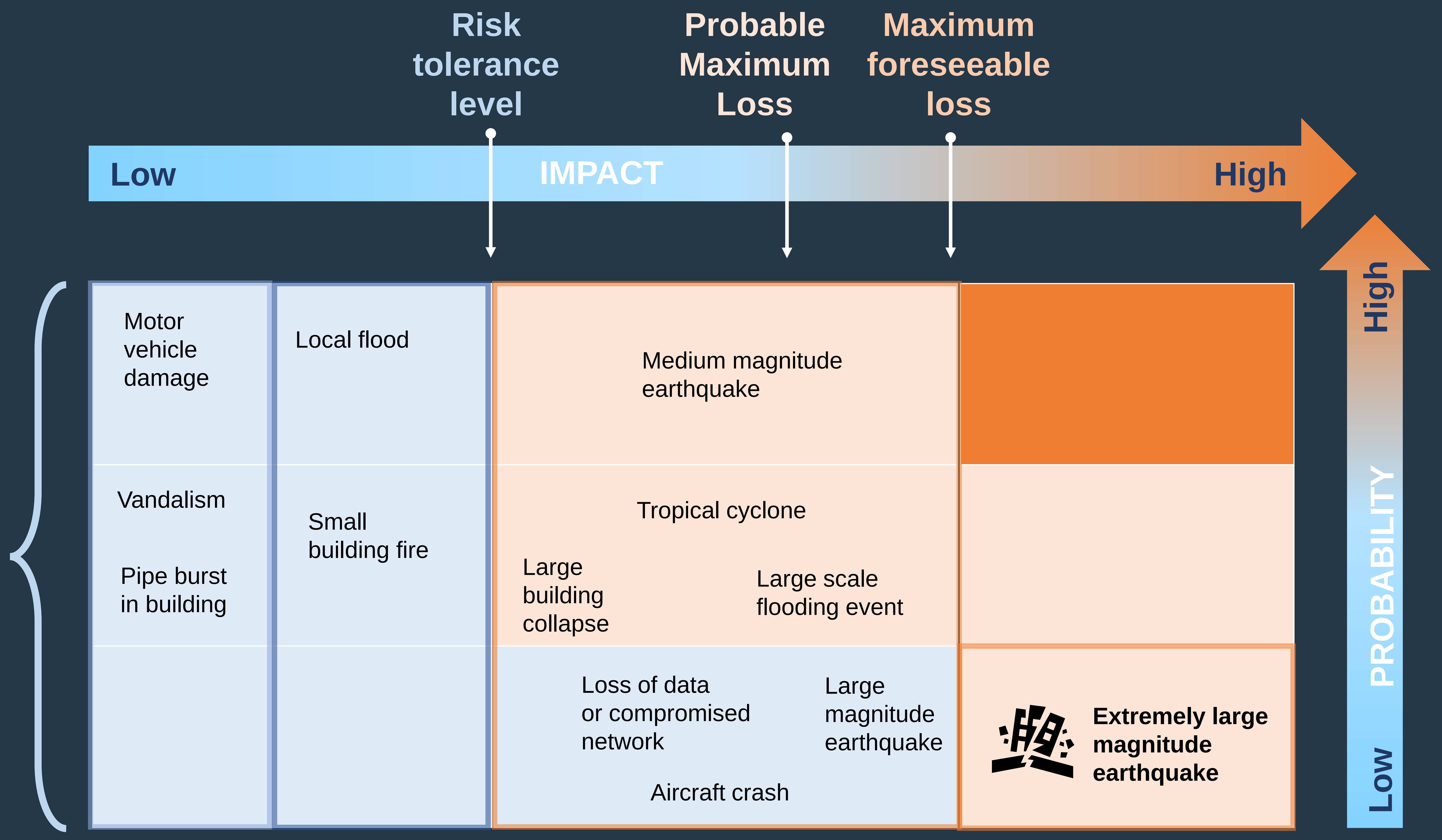
Step 1:

Identify risk tolerance levels and potential losses, based on identified hazards, their likelihood and potential impacts

Example of risk tolerance level:
The financial loss from an identified hazard must not exceed a stated percentage of departmental operating expenses



Step 2:

Decide on risk retention and risk transfer approach.

Retain
Insurance not economic

Can transfer
Insurance to control volatility in finances

Should transfer
Revenue and capital are sensitive to costs

Residual risks
Uncertainty leads to excessive insurance premiums

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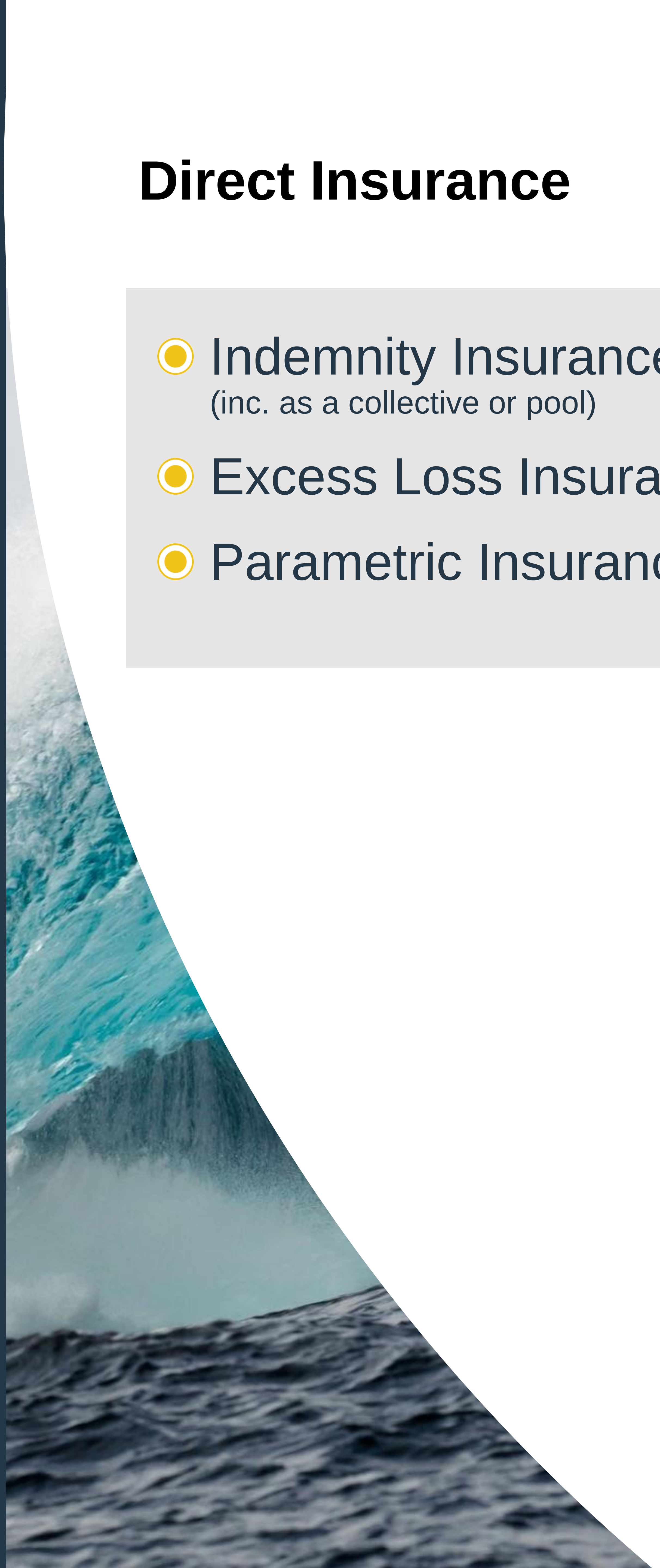
Categories of risk transfer instruments



Direct Insurance

- Indemnity Insurance
  (inc. as a collective or pool)
- Excess Loss Insurance
- Parametric Insurance

Other Risk Transfer Options

- Catastrophe Bonds
- Risk Swaps
- Contingent Capital
- Contingent Cover
- Finite Risk

- State-owned Insurer
- Captive or Mutual Structure

Reinsurance Market

- Facultative/Treaty
- Proportional
- Excess Loss

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Insurance contract features

Excess/deductible/franchise

- Small losses borne by asset owner

Underinsurance and “Average”

- Asset owner bears some of risk

Reinstatement

- Claims erode the insurance limit

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Indemnity Insurance

Traditional Insurance
(Replacement value for property)

How the market works

Insurance companies issue policies and pay claims

Best suited for:

Assets susceptible to damage insured by standard policies

- Ready availability
- Transactions completed swiftly
- Local availability of expertise to deal with market

- Unusual risks not well understood by insurers is expensive
- Homogeneous pricing penalises low-claims policyholders

Examples	Non-specialised assets, motor vehicles, personal accident

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Excess Loss Insurance

Pays only for severe damage that exceeds a high excess

- **Working X/L** – for individual assets
- **Aggregate** (“Stop Loss”) – for all losses occurring in a single period
- **Catastrophe X/L** – all damage caused by same event

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How the market works

- Excess point is main pricing factor
- Catastrophe X/L has a limit of the probable maximum loss cause by an event, not the maximum value of any single asset

Best suited for:

- **Working X/L** – high value assets
- **Aggregate X/L** – control volatility where many small losses occur
- **Catastrophe X/L** – where several different properties could be affected by the same disaster event

- **Working X/L** – premium savings
- **Aggregate X/L** – controls large variances where many small losses occur
- **Catastrophe X/L** – added protection for multiple asset owners at different sites

- Pricing volatility is worse than indemnity insurance, especially for catastrophe X/L.
- Definitions are very important – which particular damage can be included in an aggregate X/L or catastrophe X/L

Examples

- **Working X/L** – the headquarters building of a government ministry
- **Aggregate X/L** – a motor vehicle fleet
- **Catastrophe X/L** – Ministry of Education schools throughout the country

Parametric Insurance

Pays out on the policy on happening of an event, irrespective of any damage that has been caused

How the market works

- Premium based on the probability of the "triggering event"

Best suited for:

- Speedy claims settlements preferred over precision
- When possible losses may not be easily identified before the event
- When discretion on where to spend proceeds is required

- Speed of settlement, discretion over payments

- "Basis Risk" - pay-outs are not related to actual damage or loss, so there could be uncompensated losses or windfall gains.
- Definition of what comprises the "triggering event"

Examples

- PCIF (Philippines) home insurance
- SEADRIF Catastrophe Insurance Pool

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Catastrophe Bonds

Capital market investments based on probability of a particular natural disaster happening

How the market works

- Bond proceeds held in independent entity – “Special Purpose Vehicle”
- If event happens, issuer receives proceeds; if not, investors get repaid

Best suited for:

- Similar to Parametric Insurance
- Large amounts at risk

- Speed of settlement, discretion over payments, large amounts at risk

- As for Parametric Insurance, especially “Basis Risk”
- Length of time and expense of negotiating

Examples

- California Earthquake Authority
- Taiwanese Residential Earthquake Insurance Fund

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The Reinsurance Market

Provides additional capacity to back insurance companies' liabilities to their policyholders

Important for catastrophe reinsurance

State-owned insurers, captives and mutuals can access

Categories:

- Facultative and Treaty
- Proportional and Excess Loss

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Perspectives from the Philippines

Attorney Beng Palanca

Former Senior Insurance Executive, Philippines & Senior Consultant, World Bank Group

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Philippine context

GSIS

Insurer of government properties and interests

R.A. 656 Property Insurance Law

Established a Property Insurance Fund (now known as the General Insurance Fund), administered by the Government Service Insurance System (GSIS), in order to indemnify or compensate

Section 3*. For the effectuation of the purpose of this Act, the administration of the Fund is hereby placed under the Government Service Insurance System with powers and authority to reinsure with private insurance companies under such terms and conditions that may be mutually agreed upon any excess risk*

Insured	Government – national government agencies, local government units and government corporations
Properties insured	Properties and assets where government has insurable interest
Perils	Fire, Earthquake, Storm and other casualty
Insurance lines offered	Property, Motor, Marine, Engineering, Surety, Personal Accident, Aviation, Liability

GSIS risk management

Php 2B Retention

- Maximum retention of GSIS as approved by the GSIS board

Risk transfer

- Facultative Reinsurance
- Excess of Loss (XOL) Treaty

Counterparties

- Local Insurance Companies
- International Reinsurance Companies
- Local and International Reinsurance Brokers
- National Reinsurance Corporation

Challenges

Local market capacity

Counterparty constraints

Procurement

Questions and Answers

USE THE Q&A FUNCTION

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Thank you

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