



NORDIC INNOVATIVE FINANCE FORUM

SUMMARY NOTE: DISASTER RISK INSURANCE SOLUTIONS

The first inspirational seminar of the Nordic Innovative Finance Forum focused on disaster risk finance and insurance. The session was attended by more than 60 participants representing a diverse mix of insurance companies, pension funds, public entities, foundations along with humanitarian and development actors from five Nordic countries. The aim of the seminar was to inspire Nordic stakeholders to better understand and potentially engage in this agenda either as risk takers, premium funders, technology providers or with analytical skills to help close the protection gap where it really matters.

Below please find some key take-aways and resources from the presenters in the forum.

Kent Damsgaard, Insurance and Pension, Denmark: Welcomed the forum and highlighted the increasing number of disasters and resulting economic losses – mainly in other parts of the World. We all have a role to play in mitigating disaster risk and building resilience to climate change. By joining forces across sectors – with risk takers, donors, investors, public and private sector – we can find stronger solutions together.

The world's first humanitarian catastrophe bond – by Adam Bornstein, Danish Red Cross, Hubert Bast, Mitiga Solutions, Cedric Edwards, RePlexus and Daniel Ineichen from Schroders: Danish Red Cross has together with Mitiga Solutions (calculation agent) and RePlexus Insure-tech (re-insurance agent) issued the world's first humanitarian volcano catastrophe bond. A 3 year, USD 3M issuance, based on parametric triggers for volcano ash plume height and wind direction, covering 10 of the world's most active volcanos. The bond secures funding to Red Cross humanitarian assistance in case of a significant volcano eruption that meets the triggers. The bond is issued, cleared and settled via a private blockchain and traded on the international stock exchange. Key benefits:

- Pre-arranged funding readily available for humanitarian assistance in case of disaster
- Increases speed – money released from collateral account via blockchain and transferred immediately.
- Forecast model predicts where ash cloud most likely will fall down to focus assistance/evacuation on most affected areas.
- Blockchain solution increases speed and lowers costs significantly.
- Investor benefits: diversification benefit, ESG fit and fair pricing

For more information: [Volcano Catastrophe Bond \(Dunant Re\) - YouTube](#)

Or [Volcano Catastrophe Bond – World's First Humanitarian Sponsored Insurance Linked Security \(Placed 19 March 2021\) \(catbond.org\)](#)

Drought insurance in Senegal by Anna Farina and Amadou Diallo, Start Network/ARC Replica: Start Network highlighted the need for better disaster risk finance for the humanitarian system – it is too slow, too centralized and too reactive. With better disaster risk finance we can forecast events, release funds earlier, thereby mitigating the impact of the crisis and saving lives. A solution was developed together with The African Risk Capacity (ARC), who provides financial tools and infrastructure to help African Union Member States manage disaster risks that affect their populations. They simply established a replica-model for NGOs that replicate the insurance policies purchased by ARC Member States. Under this model NGOs can buy a replica insurance with the same coverage as member governments to fund early action interventions: <https://www.africanriskcapacity.org/product/arc-replica/>

This type of replica insurance was established for drought in Senegal where approx. a million people were at risk of drought. It released a \$10,6 mio. payout in 2019 to Start Network along side 12,5M to the Senegalese government. Early action interventions were rolled out throughout the country by Start Network member organizations, significantly reducing the severe impacts of drought, saving lives and improving livelihoods.

InsuResilience Global Partnerships by Kay Tuschen: The InsuResilience Global Partnership was established in 2017 with the purpose of scaling up financing and insurance solutions for climate and disaster risks in developing countries to strengthen their resilience and protect lives and livelihoods of poor and vulnerable people. They work with these solutions at three different levels:

- Macro: Sovereign risk pools, contingency budgets, contingent credit with partners such as ARC, ARC Replica, World Bank and others
- Meso: Corporate or institutional risk transfer, MSME insurance (Insuresilience Solutions Fund)
- Micro: Microinsurance, indemnity or parametric (InsuResilience Investment Fund and Global Index Insurance Facility)

Kay highlighted the example of an insurance programme for public schools in Peru, where more than 1000 schools had been damaged by the 2017 Coastal Niño and not yet repaired. The programme would strengthen resilience of more than 50.000 public schools in Peru to natural disasters with a faster reconstruction process and resumption of schooling.

For more info: <https://www.insuresilience.org/>

Or join the risk talk here: <https://insuresilience.org/risktalk/register/>

World Bank Disaster Risk Financing and Insurance Program by Cathy Ansell: Cathy presented how the World Bank is working with developing country governments to better manage potentially high costs from disasters and climate shocks. The key principles are:

- Timeliness of funding: speed matters – but not all resources are needed at once
- Disbursement of funds: how money reaches beneficiaries is very important
- Disaster Risk Layering: no single financial instrument can address all risk
- Data analytics: need for reliable data and right information

An example is a risk pool for flood risk in Lao, Myanmar and Cambodia, where the pooling of risk across countries brings down the cost of insurance as all countries are unlikely to be hit by flooding at the same time. The pooling of risk and size of the transaction also brings down transaction costs for each country.

Joanne Meusz from Center for Disaster Protection briefly highlighted that the world is not prepared for disasters, but it could be. For the pandemic only two percent of funding was in place when needed. The center is working on improving our ability to predict disasters earlier, prepare response better, prearrange financing and coordinate better to protect vulnerable people.

More info: <https://www.crisislookout.org>

Ekhosuehi Iyahan from Insurance Development Forum (IDF) briefly mentioned the enormous insurance protection gap in developing countries making it extremely hard for poor and vulnerable communities to recover after disasters. IDF was born out of this understanding and focuses on 5 main issues: risk modeling, law and regulation, sovereign and humanitarian solutions, inclusive insurance and investments.

More info: www.insdevforum.org. You may also be interested in joining the upcoming IDF Summit on June 7 and 8: [IDF Summit 2021 \(insdevforum.org\)](http://insdevforum.org)

Discussion: The session was rounded by a brief discussion about how the Nordic stakeholders could engage and their appetite to engage. The private insurance company, Tryg encouraged stakeholders to get together across sectors and discuss how to fund solutions like cat bonds and disaster risk insurance. There is a role for all stakeholders – premium payers, risktakers/investors, knowledge partners - in this type of solution. Danida also expressed a clear interest in exploring opportunities in this field and was open for such a discussion.

Finally, Tom Vile Jensen from Insurance and Pension thanked presenters and participants for an inspiring afternoon and mentioned the importance of remembering the S in ESG.

Next steps for Nordic Innovative Finance Forum: This is only the beginning. As we dig into the instruments, solutions and challenges, it is our hope that more stakeholders will join the forum to learn, get inspired, contribute and co-develop new solutions.

In August, we plan to host the second deep dive session *into impact first investments and bankable solutions*. Later, we will dig into frontloading and other solutions, and after that host challenge workshops, where we co-develop solutions and financing mechanisms to specific global challenges.