



Insurance &
Risk Finance
Facility

UNDP Insurance & Risk Finance Facility

Building resilience, protecting lives and driving inclusive economic growth

Development under threat

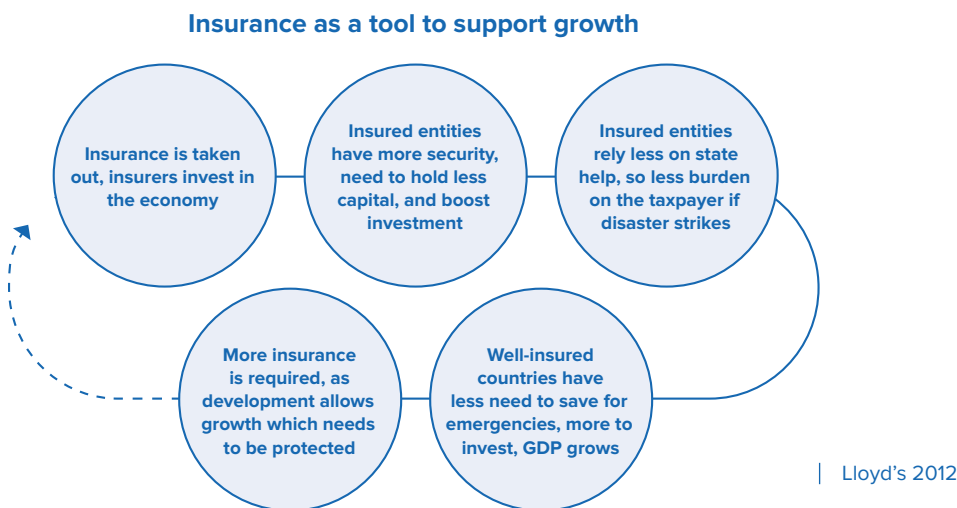
The challenge to ensure that no one is left behind in the drive to achieve the Sustainable Development Goals (SDGs) remains significant. Economic growth has not reduced poverty or inequality, nor created decent livelihoods, at sufficient scale. Population growth and increased urbanization, especially in low-income countries, are straining infrastructure and undermining the delivery of basic services. Our changing climate is exacerbating these inequalities and disproportionately impacting the countries and communities that are the least equipped to deal with its effects.

Disasters continue to deepen vulnerabilities, with the Haiti earthquake of 2010 costing 120 percent of the country's gross domestic product (GDP). In 2013, Typhoon Haiyan in the Philippines caused US\$5.8 billion in losses, impacted the livelihoods of 6 million workers and devastated the fishing, rice, corn and sugar industries. Often, the financial burden of these disasters falls directly on countries. Less than half of the US\$510 billion in losses from disasters in 2017 and 2018 were covered by insurance, meaning that a large proportion of recovery and reconstruction efforts had to be financed out of existing resources.

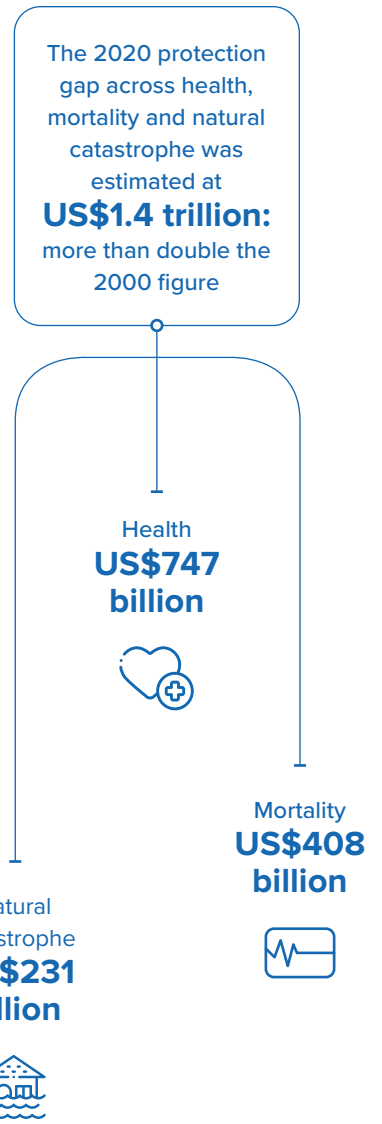
This protection gap extends well beyond the impact of disasters. [Swiss Re estimates](#) that in 2020, the global protection gap across health, mortality and natural catastrophe rose by 6.3% to US\$1.4 trillion, amid the COVID-19 crises. The ongoing pandemic has had devastating impacts on societal resilience and highlighted vulnerabilities across almost every aspect of life and living.

Protecting people, driving growth

Insurance and risk financing have a critical role to play in delivering the SDGs and building resilience by reducing vulnerabilities to socio-economic, climate, health and disaster risks. Insurance and risk financing provide a critical safety net, protecting assets, lives and livelihoods from the impact of crises. [Research into disaster risk financing](#) suggests that increased insurance coverage could reduce losses in the poorest countries by as much as 25 percent through a range of instruments, including parametric insurance, insurance-backed social protection and indemnity-based products.



At the same time, scaling insurance coverage can also create a virtuous cycle of economic benefits, including increased investment in the economy, reduced pressure on government budgets in the event of a disaster and increased socio-economic security for citizens. When more of society and the economy are protected through insurance coverage, insurers collect more premium payments which are in turn invested into local economies. Scaling the [US\\$33 trillion of assets that insurers currently manage](#) offers a powerful opportunity to pivot more investment towards the SDGs via green bonds, sustainable infrastructure and resilience finance.



Protection gaps: A challenge and opportunity

Reasons for protection gaps are numerous and interconnected. They include:

Weak demand

- **Awareness:** Limited awareness of how insurance and risk finance can protect assets, lives and livelihoods, as well as limited awareness of new risks such as cyber-threats.
- **Affordability:** Paying for coverage can be a challenge for people and communities in developing countries, especially the poorest and most vulnerable.
- **Trust:** While insurance products may be available, countries, people and communities may not trust their value-for-money and their likelihood of payout in the event of a claim.
- **Culture:** Many countries still focus on crisis-financing as a response to disaster. This approach is a barrier to the adoption of insurance and risk finance as a long-term solution to financing.

Limited supply

- **Enabling environment:** Inadequate or absent legislation and regulation coupled with weak institutions can inhibit the widespread adoption and growth of insurance.
- **Transaction costs:** The costs of doing business in certain environments, such as Small Island Developing States (SIDS) spread across hundreds of miles, can be prohibitively expensive for building insurance markets.
- **Insurability:** As climate-change risks intensify, insurers may be unwilling to insure certain assets and populations.
- **Distribution networks:** In some countries where insurance is a relatively new tool, the suppliers of insurance products and tools may be too few and underdeveloped to create a sustainable marketplace.

These issues are not only hurdles, but also opportunities. For example, limited coverage represents an opportunity to grow the sector. New risk finance tools – such as insurance for mangroves and coral reefs to protect coastal assets, livelihoods and biodiversity – are entering the market. Mobile and digital technologies are gateways to expanding insurance and related services, streamlining claims and payouts and improving access to critical services such as telemedicine, which could prove instrumental in containing and treating current and future pandemics. Therefore, countries are increasingly being encouraged to include insurance and risk finance in their long-term development plans.

Opportunities ahead for inclusive insurance

1

Estimated market for inclusive insurance =

4 billion
people



2

By 2025,
475 million
people in sub-Saharan Africa will use mobile internet.

The protection and peace of mind provided by insurance allows people and communities to make bolder choices, such as opening businesses and pursuing educational opportunities, knowing that critical assets are protected. Governments too can do much more, knowing that public assets are protected from the rise of disaster risk.

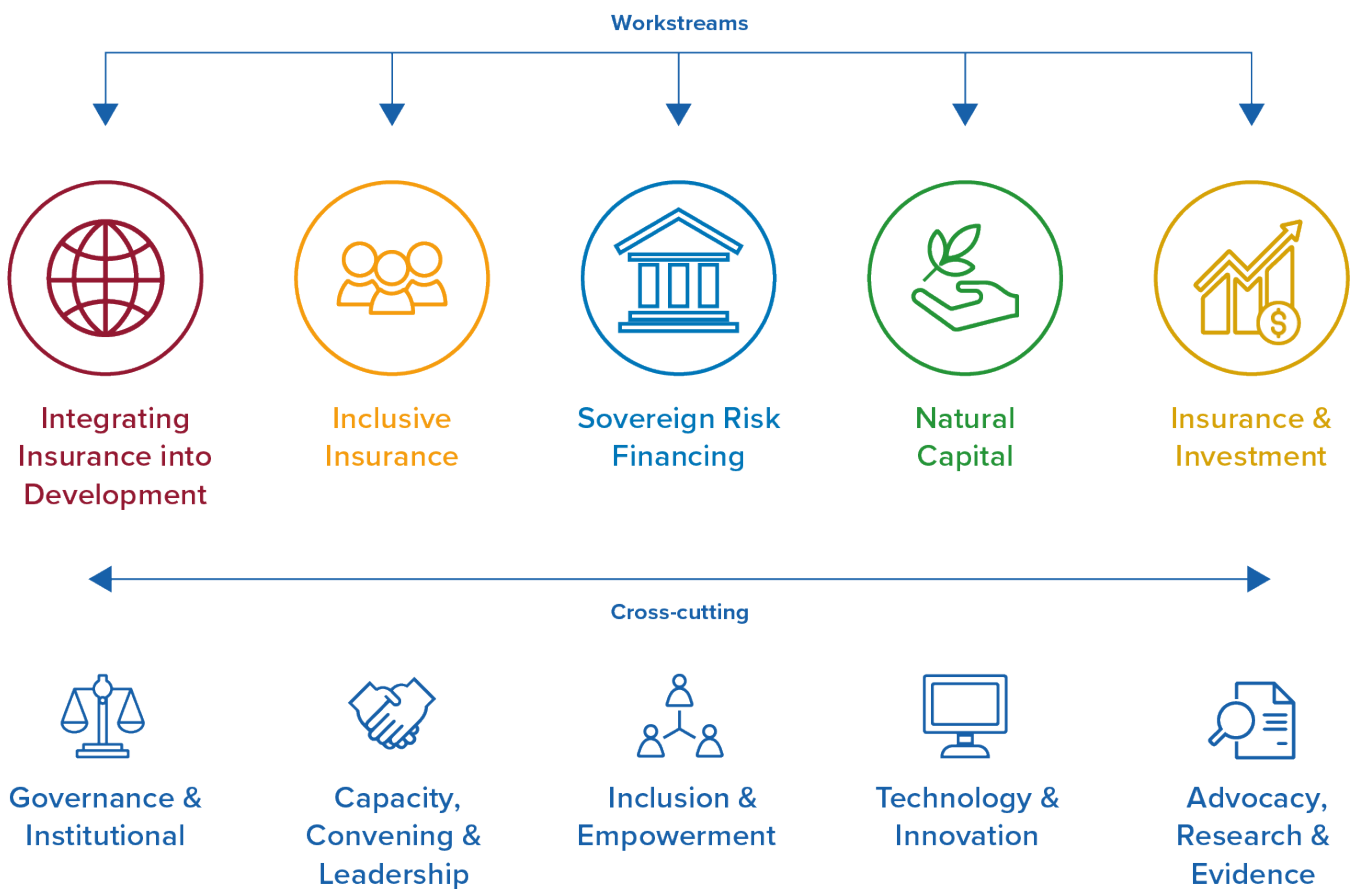
How does the Insurance and Risk Finance Facility protect communities and build resilience?

The [United Nations Development Programme's](#) (UNDP) work is targeted towards directly combating insurance supply and demand challenges and working side-by-side with the insurance industry to seize opportunities to scale protection and build long-term resilience. The Insurance and Risk Finance Facility is a flagship initiative of [UNDP's SDG Finance Sector Hub](#) and part of the wider Global Policy Network. It is the heart of UNDP's insurance and risk finance support UNDP country offices, programme countries and partners in terms of policy and guidance, tools and methodologies, and networks and partnerships. It will act as a catalyst for the development and delivery of new insurance products, tools and services, while also investing in the long-term transformation of insurance markets, with the goal of strengthening country and community resilience to socio-economic, health, climate and other shocks. Beyond transferring risk, the facility will leverage the expertise and capacity of the insurance industry to reduce risks, by focusing on integrating this expertise into development frameworks and financing.

UNDP will work to build insurance markets in developing countries through legislative and regulatory reform alongside institutional capacity development. This work will be supported by investment in advocacy, training and education, as well as collaboration with industry partners on the development of insurance products tailored to new markets and new clients. UNDP's five focus areas are broken down into a set of interlinked workstreams.

UNDP Insurance and Risk Finance Facility

- **Impacts:**
Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.
- **Outcomes:**
Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services through to market transformation.



UNDP Insurance and Risk Finance Facility

The five workstreams in action

The **Integrating Insurance into Development** workstream focuses on integrating the industry's intimate understanding of risk and its analytical capacity and expertise into development. Key activities include:



- integrating risk modelling, scenarios and related options into government decision-making on financing, as well as into country development frameworks such as their Paris commitments or National Adaptation Plans

Inclusive Insurance is a critical pathway to protect communities and broaden financial inclusion, including by opening up opportunities for banking and related financial services. Many of these services leverage mobile and digital platforms which can also improve access to critical services such as telemedicine. UNDP's work includes:



- legislative and regulatory reform along with institutional capacity development
- identifying and assessing market demand for insurance, followed by market transformation, including training and education of insurance distribution partners and beneficiary advocacy
- developing and delivering new inclusive insurance products, tools and services

Research into multi-aspect risk financing of disasters suggests that a range of risk-finance insurance schemes could **reduce losses from disaster** in the poorest countries by as much as **25 percent**.

The **Sovereign Risk Financing** workstream builds on UNDP's decades of work to help countries manage and reduce risks and vulnerabilities. The work focuses on partnering with governments and other stakeholders to provide technical assistance to deliver risk finance solutions across development, recovery and humanitarian settings. UNDP's activities include:



- supporting country modelling efforts across all relevant risks
- legislative and regulatory reform alongside institutional capacity development for sovereign risk
- collaborating with the private sector and government to provide long-term risk financing solutions

The **Natural Capital** workstream matches the protective value of nature, such as coral reefs and mangroves, with investments in risk and resilience that protect assets and livelihoods, while decreasing community vulnerability. Key UNDP work includes:



- global, regional and country mapping of natural capital/risk solutions, methodologies and examples
- piloting insurance initiatives that leverage the protective value of nature, such as the Reef2Resilience initiative

UNDP is working with partners to construct insurance initiatives built on natural capital, starting with the flagship **Reef2Resilience** initiative, **targeting 10 countries by 2022**.

The **Insurance and Investment workstream** has two interrelated elements: i) developing and scaling opportunities for insurance investors to finance more SDG-focused projects in developing countries and ii) blending insurance and investment to pilot innovative resilience investment vehicles, such as resilience bonds and insurance-linked loan packages. Key UNDP activities include:



- advocating for legislative and regulatory reform to incentivize sustainable infrastructure investment
- facilitating insurance investment in low-carbon and climate-resilient infrastructure
- developing innovative resilience finance tools and using insurance as a de-risking instrument

The **insurance industry** manages **US\$33 trillion** but only **US\$57 billion** of this capital is invested in developing country infrastructure.

UNDP Insurance and Risk Finance Facility: Global commitments and partnerships

UNDP's work delivers on both the Sustainable Development Goals and the InsuResilience Global Partnership Vision 2025.



Vision 2025 major commitments:

1. 500 million poor and vulnerable people covered against disaster and climate shocks
2. 150 million people covered by microinsurance
3. 80 Vulnerable Twenty (V20) Group and vulnerable countries with comprehensive disaster risk finance strategies

Partnership in action: The Tripartite Agreement

With significant financial support from the German Government, UNDP, the Insurance Development Forum and 10 major insurance companies have committed to...



How does UNDP add value?



Country presence: UNDP's presence in all developing countries and strong connections with local governments make it ideally suited to navigating the interconnected complexities of policy development, market transformation and multi-stakeholder management.



Trusted partner and global leader: With worldwide authority and credibility, along with its strategic role in supporting the 2030 Agenda, UNDP is well-placed to match global advocacy for insurance with country-level implementation.



Partnership and leadership: UNDP has been at the heart of developing some of the most critical insurance/development partnerships – the Insurance Development Forum, the InsuResilience Global Partnership and most recently the Ocean Risk and Resilience Action Alliance – and plays a leadership role in each, at both the senior and technical levels.



A focus on governance: The development of long-term sustainable markets for insurance and risk finance is dependent on having the right country-specific legislation, regulation and institutional capacity. Developing such governance instruments is a central aspect of all of UNDP's work at the country level.



Pro-poor policies: UNDP's pro-poor policies ensure that insurance products, policies and investments are designed to protect and support poor, marginalized and vulnerable populations.



Technical expertise: UNDP's Insurance and Risk Financing Facility is building global, regional and country capacity to work with countries to deliver long-term resilience, through the provision of dedicated technical assistance across a wide range of issues.



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