



Sustainable Insurance Facility (SIF): Solutions to Build Resilient Micro, Small and Medium Enterprises

SIF KICK-OFF SUMMARY



V20

SUSTAINABLE INSURANCE FACILITY SOLUTIONS TO BUILD RESILIENT AND SUSTAINABLE MICRO, SMALL AND MEDIUM ENTERPRISES

THE SIF KICK-OFF SUMMARY

The following document was prepared to capture the objectives of the SIF, the ecosystem needed to realize these objectives, and the proposal of the SIF Technical Support Team (MCII, UNEP FI PSI Initiative, V20 Finance Advisor) of how to build and operationalize the desired SIF Ecosystem.

The document will proceed as follows: First, the V20 Group and the key rationales and objectives of the SIF will be introduced. To illustrate these, a draft theory of change and an overview of the beneficiaries and target group will be presented. Subsequently, the needed ecosystem, including activities and actors implementing and supporting those will be introduced using the example of fictional MSMEs in vulnerable countries. The document will conclude in outlining the SIF Technical Support Team's interpretation of such ecosystem, given the current actors landscape and the activities needed. The latter consists of three major components:

- The Draft SIF Programmatic Areas, which build the framework for the kind of activities that should be financed and implemented in context of the SIF objectives.
- The Draft SIF Partners, identifying the relevant actors, which may work within this framework, given the current actor landscape and the focus on V20 members from Asia-Pacific.¹
- The Illustrative SIF Ecosystem, which demonstrates how the identified partners may work together within the framework specified by the programmatic focus areas.

I. THE VULNERABLE GROUP OF TWENTY (V20) MINISTERS OF FINANCE

The Vulnerable Group of Twenty (V20) Ministers of Finance from 48 countries is a dedicated dialogue and action platform that works on financial responses to maintain and strengthen fiscal stability and economic resilience in the face of climate change. This includes addressing investments to enable climate-proof growth, reduce exposure to transition and climate risk, carbon pricing, and tackling increasing cost of investment capital due to climate vulnerability. Complementary to these priorities, the final priority area of the V20 is to enhance systematic, climate-smart insurance for micro, small and medium enterprises (MSMEs) in vulnerable countries. This V20-led demand was first expressed in 2016 and culminated in the request for the Sustainable Insurance Facility (SIF) to support climate-proof growth and development.

¹ The SIF is proposed to be implemented in three phases starting with Asia-Pacific, then Africa and the Middle East, and Latin America and the Caribbean.

II. SUSTAINABLE INSURANCE FACILITY OBJECTIVES

In a quest for more protection against climate risk, the V20 has identified three key rationales that underpin the concept of the SIF:

- 1 Maintaining and enhancing socio-economic resilience and human development,** including through strong and consistent employment opportunities as well as social protection for the vulnerable,
- 2 Strengthening national productivity,** including by enabling better credit access, efficiency and investment security, and
- 3 Reducing pressure on public spending ex post disaster** to maintain fiscal and financial stability, including with regard to international capital markets, by ensuring fewer implicit contingent liabilities, continued tax revenue, and fewer negative effects to GDP.

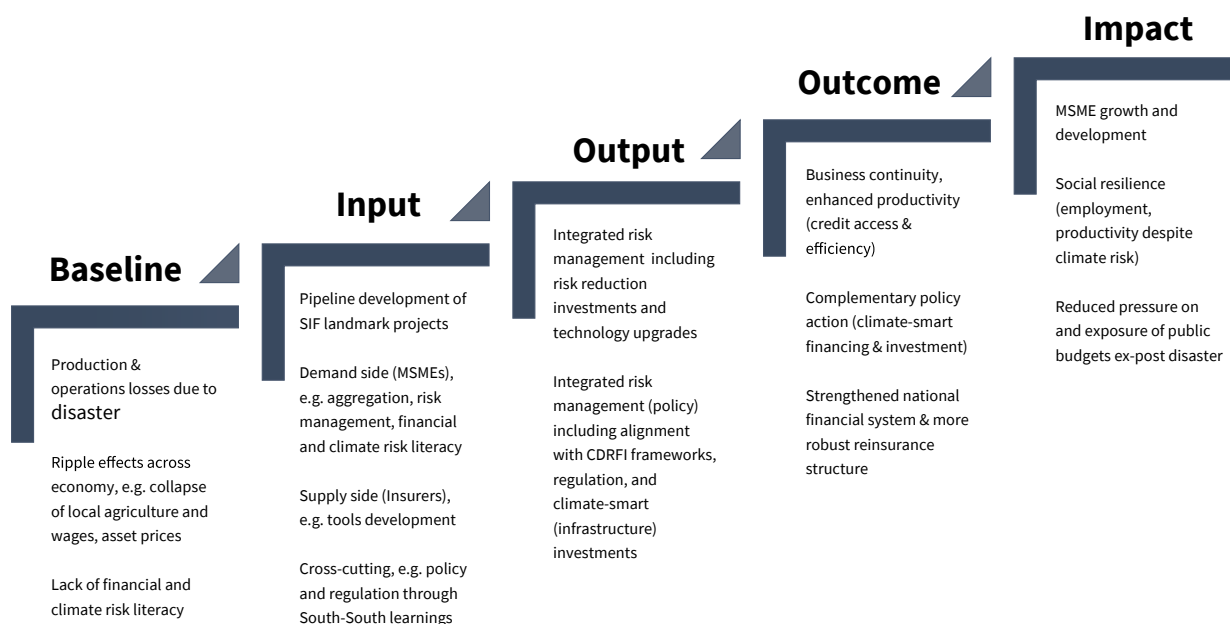
The target group selected by the V20 – MSMEs – was identified due to their often times substantial contributions to employment, GDP, tax revenue, exports, and thereby to strengthened fiscal health, financial stability, and socio-economic development. At the same time, many MSMEs are highly vulnerable to climate change and increasingly threatened in their productivity, leading to severe ripple effects for those dependent on MSMEs and knock-on effects to the wider economy. Specifically, during a shock, MSMEs may deplete savings, sell productive assets or be forced to borrow at high interest rates to bridge the funding gap. In the absence of financial protection measures such as insurance, it is often only the public budget that can be utilized. This additional pressure in combination with losses to employment and GDP can squeeze public resources further. As such, MSME insurance at the micro- and meso-level may help to reduce strain on public budgets ex-post disaster and help to free-up or maintain government resources planned for other investment.

Climate-smart insurance solutions can help to ensure financial protection and enable productivity. The term ‘climate-smart’ is meant to capture a dual need, namely for (a) insurance products which enable low carbon investments, and thereby contribute to increased efficiencies through cost savings and CO₂-mitigation, as well as (b) climate risk insurance, enhancing protection and productivity. In order to enhance such solutions sustainably, the V20 furthermore highlighted the need for stronger private sector engagement on both ends, the demand and the supply side of insurance

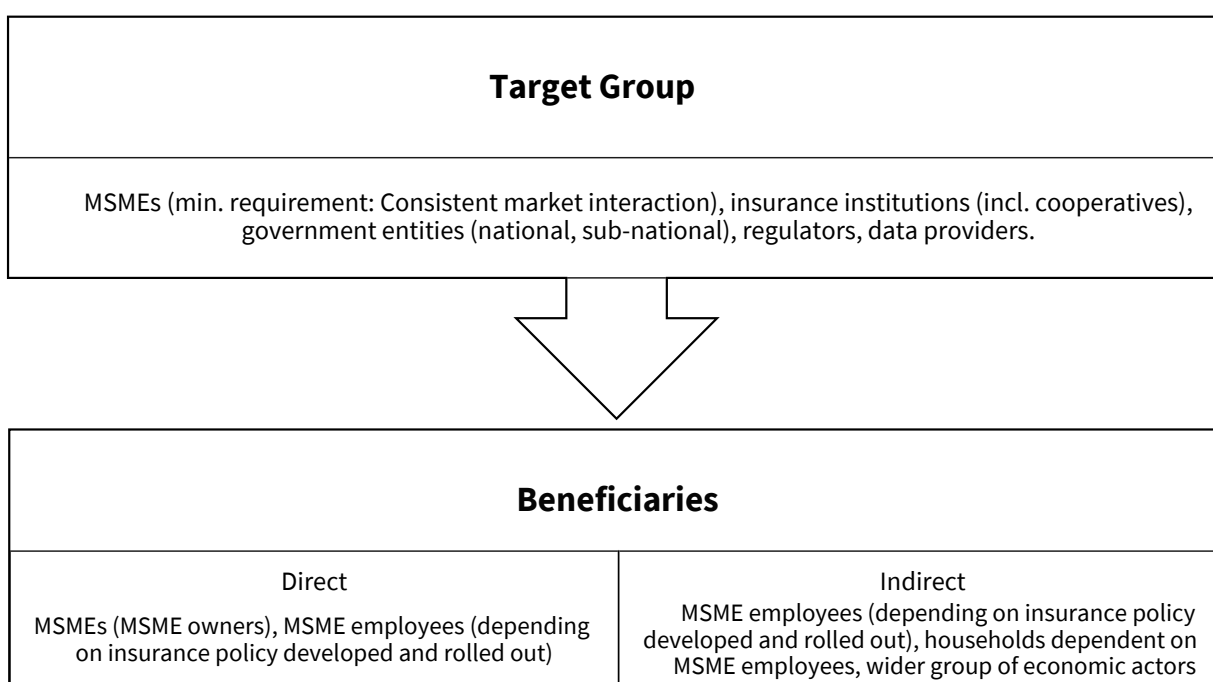
For this reason, the SIF intends to promote the development of sustainable solutions in two ways:

- 1 Product design:** By aiming for the development of tailored, needs-responsive insurance coverage, which drives pro-active risk management and risk reduction activities as part of the risk transfer transaction, and is aligned with broader country-led climate and disaster risk financing and insurance (CDRFI) efforts and frameworks;
- 2 Implementation:** By building capacities on both ends, the insured and the insurer. This also entails stronger engagement with the national insurance as well as the international re-insurance industry.

III. DRAFT THEORY OF CHANGE



IV. TARGET GROUP AND BENEFICIARIES



V. THE ECOSYSTEM NEEDED: ACTIVITIES AND ACTORS

To illustrate the kind of activities and actors needed to achieve the build-up of sustainable, climate-smart insurance solutions, considering the following example might be of help. It was developed based on the findings of the V20 Needs and Support Assessment², as well as two stakeholder roundtables with private insurers, researchers and civil society organizations and four in-country consultations. For ease of understanding, it is divided in two parts. Part I will begin from the bottom-up, taking the perspective of the insured (beneficiary). Part II will build on Part I and illustrate the overarching support structure that would be needed to facilitate the activities and outcomes stated in Part II. In both parts, the Finance Ministries of vulnerable countries have substantial roles to play, showing their focal role for inking country-led demand and international support.

Imagine a woman, who is the owner of a small convenience store in the Philippines. Or one who runs a manufacturing business in St Lucia. Or a man, owning and managing a small food processing plant in Morocco. All three businesses, are subjected to climate risks, be it typhoon-related flooding, heavy rains and winds-torms during hurricane season, or severe drought and flooding in the semi-arid industrial zones around the region of Sous-Massa in Morocco. For all three of them, climate impacts translate into damages that may be grouped into direct damages, e.g. to business assets or labor force, and indirect damages arising from climate-related logistics or market disruptions. They also seek for opportunities to reduce their operational costs through energy savings. To achieve cost savings, they could invest in low-carbon technology (e.g. renewable energy or energy efficiency), such as a solar rooftop. However, their lack of savings and access to affordable credit to finance such investments hinder them from realizing these opportunities.

Part I: Building the Implementation Ecosystem

STAGE 1: Understanding and developing responses to climate-related business risks

Yet, as observations from the V20 Needs and Support Assessment show, affected MSMEs often do not fully understand the particular climate risks they face and how these translate into impacts for their operations and balance sheets. This can be due to several reasons - the lack of necessary climate data and information services, of adequate risk assessment and financial modelling tools and of business management and response strategies in the context of disaster-related disruptions, which often affect several parts of the value chain. The individual challenges will certainly be different across and even within countries. What they do show though, is that a network of supporting actors will be needed early on to implement one or more of the following functions:

² High-Level V20 Needs and Support Assessment (Draft) prepared by the SIF Technical Support Team, available online here: <http://www.climate-insurance.org/index.php?id=324>

Universities/Research networks, insurers: Identify weather risk, related loss data needs and efficiency or productivity gains from low-carbon technology relevant for MSMEs' information needs

Universities/research networks, insurers, technology providers: Develop and/or enhance access to actionable weather risk and loss modeling data; Provide a menu of low-carbon technology options to realize efficiency or productivity gains for various stakeholders, including MSMEs

Technical assistance providers, national planning and finance ministries: Perform vulnerability and climate risk analyses, as well as cost-benefit analyses from the use of low-carbon technology and identify key economic sectors and value chains

Business associations, technical assistance providers, national planning agencies, and NGOs: Develop tools and train MSME (owners) regarding:

Translating sector/value chain vulnerability and cost-benefit analyses into financial and operational business impacts

Developing business continuity and disaster response plans to identify key assets, activities, personnel, and response options

STAGE 2: Risk management and enabling framework conditions

Doing so will help to set the stage for applying comprehensive risk management practices, including but not limited to insurance. Such practices should also entail the diversification of business operations and suppliers, technology upgrades and business model transformations. Taking these necessary steps in the context of risk assessments and response planning will allow the MSME owners to better understand their risk management needs. Often, however, either due to lack of understanding and awareness, and often because of a lack of financial resources, MSMEs are forced to resort to negative coping strategies, such as selling assets or ceasing business operations entirely. Additionally, various impacts remain beyond their control, especially in relation to climate impacts that translate into negative effects on the logistics and market fronts. Together with MSMEs, the following actors should address these challenges by

Technical assistance providers, insurers, business associations, industry associations, national chambers of commerce and industry, and NGOs: Identify different risk management options, including business model upgrades, climate-proof investments in business infrastructure, risk transfer, investments in low-carbon technology for energy savings, and value chain responses

Universities/Research networks, insurers, technology providers and technical assistance providers: Develop actionable tools which integrate risk layering, business continuity and disaster preparedness planning to adequately identify cost-effective insurance potentials

Technical assistance providers, insurers, technology providers and national planning and finance ministries: Identify, prioritize and facilitate large scale risk reduction investments, which lie beyond the reach of MSMEs, e.g. large-scale investments in climate-proof infrastructure or decentralized renewable energy systems, and create policy and regulatory frameworks incentivizing risk reduction

STAGE 3: Product design

Building on the above, one of our previously introduced MSME owners might identify risk transfer (e.g. insurance) as a means to cost-effectively protect its business against risks that cannot be reduced through risk reduction investments. Yet, this alone cannot substantiate adequate product design or uptake. MSMEs frequently fall in between market segments, since they are usually too big for the micro-insurance market, while too small for corporate insurance offerings: As an economic entity, micro enterprises can often be rather interpreted as households and show a stronger need for personal insurance components. Small and medium enterprises with a bigger asset base and more employees have rather asset-based insurance needs, but their particular product needs still differ from those of the corporate sector. And since the MSME segment is not well known among insurers, few products correspond to these requirements, while MSMEs often not only lack financial literacy and understanding of insurance, but also trust in the sector as a whole.

NGOs, universities/research networks and business associations: Strengthen financial literacy of MSMEs and increase understanding of insurance products regarding own needs and contractual limitations to build informed demand

National planning authorities, finance ministry, industry, business and insurance associations: Build strong communication channels between the insured and the insurer to allow for exchange

Technical assistance providers: Build insurers' capacity regarding their understanding of climate-related portfolio risks, climate-related business opportunities, such as the provision of additional advisory services, and climate-smart product design features, including pricing and needs-responsive product bundling

Technical assistance providers, finance ministry, insurers, business associations: Ensure that insurance contracts are designed to include broader development objectives, including efficiency gains/productivity enhancement, growth-orientation, and resilience

Technology providers, cooperatives/mutual insurance, MFIs: Enhance data collection services and facilitate the development of innovative solutions such as climate risk endowment funds to reduce basis risk and build trust in insurance

STAGE 4: Distribution channels and other access pre-requisites

Now that the insurance product is developed, the food processing plant owner in Morocco is ready for uptake. Yet, there are some remaining hurdles - one of them being necessary regulatory interventions, and another one being actual access to the product. Regarding the latter, the following actors should:

Technical assistance providers, insurers, brokers, cooperatives, actors in upstream supply chain activity, business associations and/or NGOs: Work to create or engage with aggregators, which have the capacity to collect premiums and disburse payouts to a broad MSME client base

Fintech, Technology providers, and mobile services: Create and expand distribution channels through digitization/mobile applications allowing for secure and quick disbursements

STAGE 5: Regulation, accessibility and affordability

Finally, almost all structures are set in place to obtain the climate-smart insurance product. Yet, as mentioned above, for the product to have the potential to be effective and accepted, several framework conditions may have to be addressed with the help of regulation:

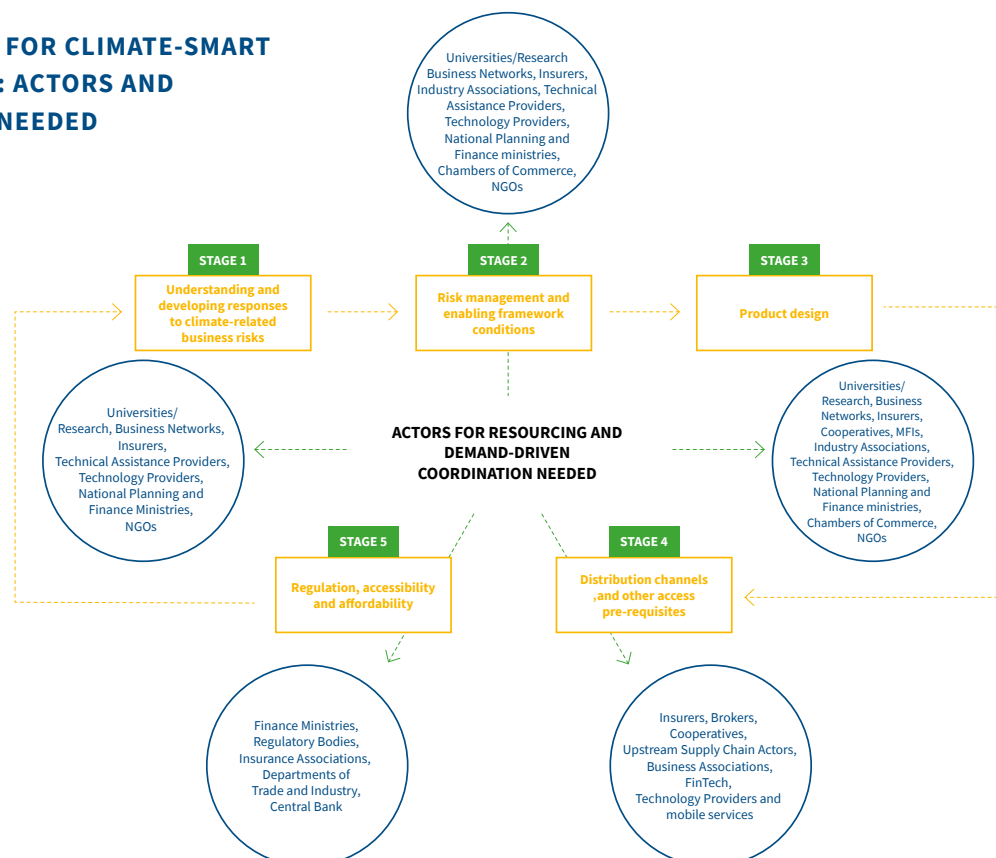
Finance ministries, regulatory bodies, and insurance associations: These bodies should be involved early on to successfully facilitate product approval, e.g. for parametric insurance products, or supportive sandbox approaches

Finance ministries and regulatory bodies: If required, adapt regulatory framework conditions to allow for innovative marketing and distribution of insurance products

Finance ministries and departments of trade and industry: Enable more needs-responsive product (payment) requirements by allowing MSMEs and the insurance industry to accept premium payments based on MSMEs' distinct economic cycles

Finance ministries and central banks: Enhance affordability and/or encourage business continuity plans through fiscal incentives by reducing or eliminating value-added tax (VAT) on premium payments and/or income taxes on insurance payouts.

ECOSYSTEM FOR CLIMATE-SMART INSURANCE: ACTORS AND ACTIVITIES NEEDED



Part II: Aligning Implementation and Support

The above created ecosystem of actors working together to build a sustainable climate-smart insurance menu, will need substantial support, coordination and resources throughout the different stages. Traditionally, the V20 have strongly engaged with regional multilateral development banks (MDBs). However, looking at the wealth of tasks ahead, it is clear that regional MDBs cannot finance or manage these tasks alone. Several complementary actors will be needed either for particular stages or even throughout:

1. Overarching, demand-driven coordination support structure: To ensure that the specific design of individual SIF projects matches the needs and demands of the countries within which the MSME target group is based, one would need a structure that supports the build-up of the above mentioned activities from stage 0. This structure could, for example, support initial scoping and feasibility studies through technical assistance providers to develop a conceptual framework for the types of activities and actors needed for individual countries (the result being e.g. project proposals). This concept should be developed in close coordination with the countries' respective finance ministries and could be utilized to approach/convene specific actors. Essentially, therefore, this coordination structure would (1) facilitate the demand-driven identification of SIF project potentials, (2) identify and convene the relevant actors, and (3) support the coordination of the implementation of different project components and respective implementing partners for SIF landmark initiatives.

2. Dedicated research initiatives: As Part I has shown, developing sustainable climate-smart insurance solutions requires a vast array of additional research, most notably in the areas of (1) enhancing the availability of customized and actionable data for MSMEs, (2) understanding climate impacts and resilience/risk management approaches for MSMEs, and (3) identifying MSMEs' specific product requirements pertaining to insurance and other financial services. This work would also include the development of specific financial models, allowing to quantify the impacts of climate change on MSME balance sheets.

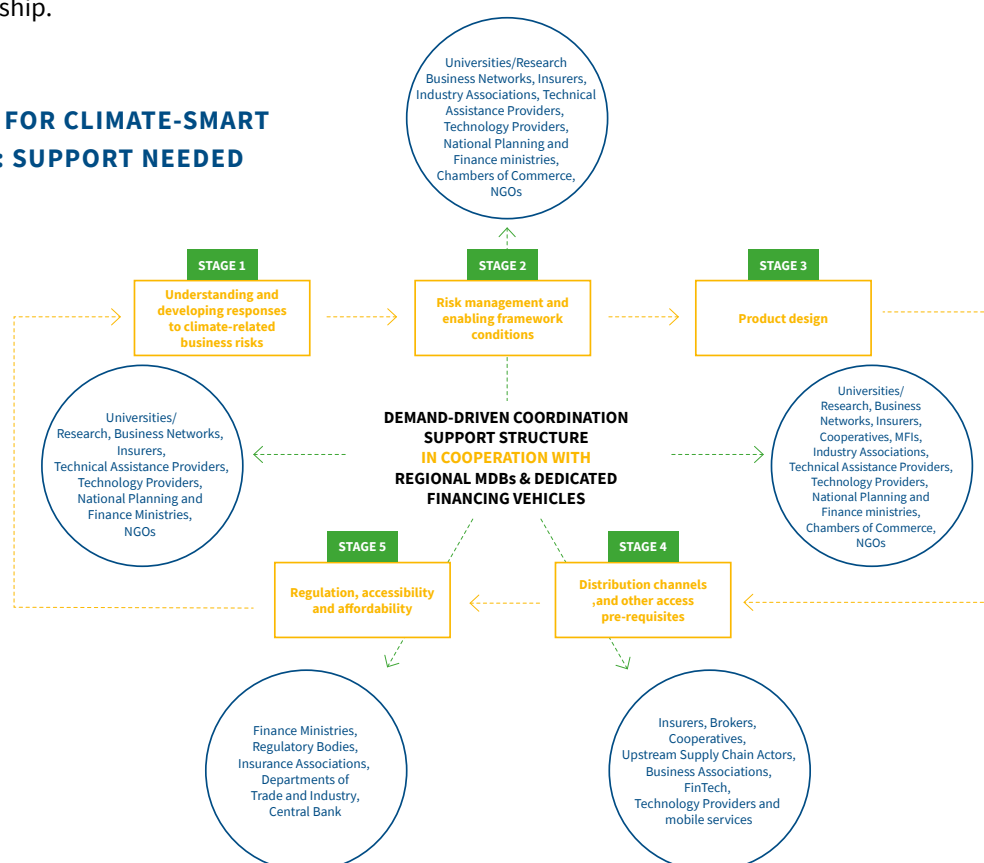
3. Dedicated technical assistance initiatives: Similarly, substantial capacity-strengthening should happen on four fronts, the insured, the insurer, the intermediaries and the policymakers/regulators. Translated into action areas, training and general capacity-building/strengthening would be needed particularly in relation to (1) Financial and climate risk literacy and awareness of MSMEs, (2) Climate-responsive planning for MSMEs, (3) Product/service development or enhancement, (4) Distribution channel development or enhancement, and (5) Policy and regulation. Naturally, some of the actors grouped within dedicated research initiatives could overlap.

4. Dedicated financing vehicles: To source the financial resources needed to implement the above as well as to enhance affordability through direct and indirect premium support, dedicated financing vehicles are needed to support both, the more general technical assistance requirements in relation to capacity-building as well as individual product design. Such vehicles can be grouped into multi- and bilateral financing vehicles identified with view to their individual focus areas, including on (1) Support for MSME insurance, (including both, product development and enhancing insurance and re-insurance risk capital), (2) Support for data and integrated risk management needs and (3) Support for other risk financing solutions (e.g. macro and micro insurance products, contingent credit lines, etc.). Individual financing vehicles could, for example, administer and channel dedicated SIF funds to (1) support product development, (2) enhance insurers' risk capital, or to (3) enhance re-insurers' risk capital and/or support reinsurers in the development of reinsurance products relevant for the MSME insurance context.

5. Regional development banks: To coordinate the different implementation components pertaining to research and capacity-building as well as providing and channeling the necessary resources, a strong lead implementation partner is needed. Ideally, this implementation partner has a proven track record in the V20 regions and strong engagement with governments, particularly finance ministries. Regional development banks could function as an implementation focal point. In this regard, the main functions to be taken on by MDBs could pertain to, (1) leading particularly on the technical assistance component on policy-making and regulation, the build-up of MSME demand and the creation of distribution channels through strong engagement with finance ministries, and (2) administering and channeling dedicated SIF funds through existing, in-house climate or CDRFI financing vehicles.

6. V20 Countries, G20 Partners and Global Initiatives: In order to adequately resource the implementation of the ambitious objectives of the SIF, donor support for both, general technical assistance as well as financing for direct and indirect premium support is needed. The G20 have long-standing political commitments to financial inclusion within developing countries and to support and scale up demand-driven CDRFI initiatives. Based on these commitments, funding and financing in support of implementing the SIF objectives can be provided. The V20 as a Group and as individual countries can drive ambitious and sustainable responses to the financial impacts of climate change. This may also include joint premium support arrangements, which equitably share the burden between V20 and G20 countries. Through being strongly engaged with both components of the ecosystem - the implementation side (see Part I) and the main supporting actors (e.g. the coordination structure and the regional MDBs), the V20 finance ministries can be sufficiently capacitated to ensure that activities and support are demand-driven every step of the way. International partnership and advocacy initiatives, such as the InsuResilience Global Partnership and the Global Partnership for Financial Inclusion (GFPI) should use their platform to increase the visibility of the importance of MSME-responsive insurance, thereby supporting vulnerable countries in raising the funds and resources needed. Transnational initiatives such as the UNEP FI Principles for Sustainable Insurance (PSI) Initiative can continue to advocate for demand-driven and country-owned MSME insurance among their membership.

ECOSYSTEM FOR CLIMATE-SMART INSURANCE: SUPPORT NEEDED



VI. OPERATIONALIZING THE ECOSYSTEM NEEDED: PROPOSED SIF PROGRAMMATIC FOCUS AREAS, PARTNERS AND INTERACTION

To operationalize the above envisioned ecosystem of activities and actors given the current actor landscape and the objectives of the SIF, the SIF Technical Support Team developed five Draft Programmatic Focus Areas and an Illustrative SIF Ecosystem. The draft ecosystem is based on findings of the V20 Needs and Support Assessment³, as well as two stakeholder roundtables with private insurers, researchers and civil society organizations and four in-country consultations.

The proposed SIF Ecosystem includes:

The **Draft Programmatic Focus Areas**, building the framework for the kind of activities that should be implemented in context of the SIF.

The **Draft SIF Partners**, selected given the current actor landscape and the focus on V20 members from Asia-Pacific, and their capacity to work within the framework specified by the programmatic focus areas.

The Illustrative Ecosystem at the end of this section:

Demonstrates how the group of selected key partners as well as other supporting institutions may work together on activities that fall within the framework set by the programmatic focus areas.

³ High-Level V20 Needs and Support Assessment prepared by the SIF Technical Support Team, available online here: <http://www.climate-insurance.org/index.php?id=324>

1. Draft SIF Programmatic Focus Areas

IMPLEMENTATION

1	<p>Research, awareness raising & policymaking to enable the demand and uptake of climate-smart insurance, e.g.:</p> <p>Market scoping and sector and value chain vulnerability studies, addressing information asymmetries of MSMEs</p> <p>Development of diagnostic climate and financial risk assessment toolkits for MSMEs</p> <p>Loss modelling tools quantifying impacts for MSME balance sheets</p> <p>Policies to create and broaden MSMEs' budgetary space</p> <p>Support of the development and implementation of policy measures and investment targets driving risk reduction</p>
2	<p>Regulation, capacity-strengthening and targeted stakeholder engagement to enhance the supply and uptake of climate-smart insurance, e.g.</p> <p>Support of the development and implementation of country risk management strategies, including risk financing, insurance and renewable energy/energy efficiency targets, appropriate pricing of adaptation benefits, and data collection and sharing</p> <p>Creation and promotion of collaborative forums for risk management and financing authorities, the insurance industry as well as other relevant stakeholders</p> <p>Support for the development of market regulations to facilitate product introduction</p> <p>Demonstration of climate-related portfolio risks as well as the potential of new product lines (given possible savings and income generation from risk reduction activities) to insurers</p>
3	<p>Build conducive market structures to simultaneously stimulate demand, supply and uptake, e.g.</p> <p>Creation of aggregation mechanisms to bundle receivables and payables, where possible based on market-driven approaches, and promotion of well-organized business associations</p> <p>Identification of further strong and appropriate distribution channels</p> <p>Support of technology for the creation of digitized distribution platforms for service transactions and delivery</p> <p>Hedge against basis risk and further strengthen product design and delivery, including through enabling investment in information and communication technology for data collection, while supporting the building of a financial identity, and/or the creation of endowment funds</p>

PRODUCT DESIGN

4	<p>Develop comprehensive climate-smart insurance solutions to strengthen productivity and growth of MSMEs, e.g.</p> <p>Support of insurers (i.e. cooperatives) for product development, including for pricing climate risk and assessing systemic risk context, and on needs-responsive product design, including modification of existing insurance solutions, bundled/composite insurance solutions, and credit-linked insurance</p> <p>Support of products tailored to meet specific (non-financial) risk management needs, by including e.g. advisory on risk reduction and management measures, and business model and technology upgrades</p> <p>Support for the creation of risk capital</p>
5	<p>Adapt product characteristics to match economic cycles of MSMEs and enable formalization and affordability, e.g.</p> <p>Support in adapting premium payment requirements to MSMEs' economic cycles</p> <p>Support for the development of payment models supporting the progressive formalization of businesses' cash flow, through e.g. public-private cooperation on in-kind and/or contributory payments</p> <p>Creation of robust reinsurance appetite for MSMEs and working to also adapt reinsurers' payment timeframe to MSMEs' economic cycles</p>

2. Draft SIF Actors and Partners

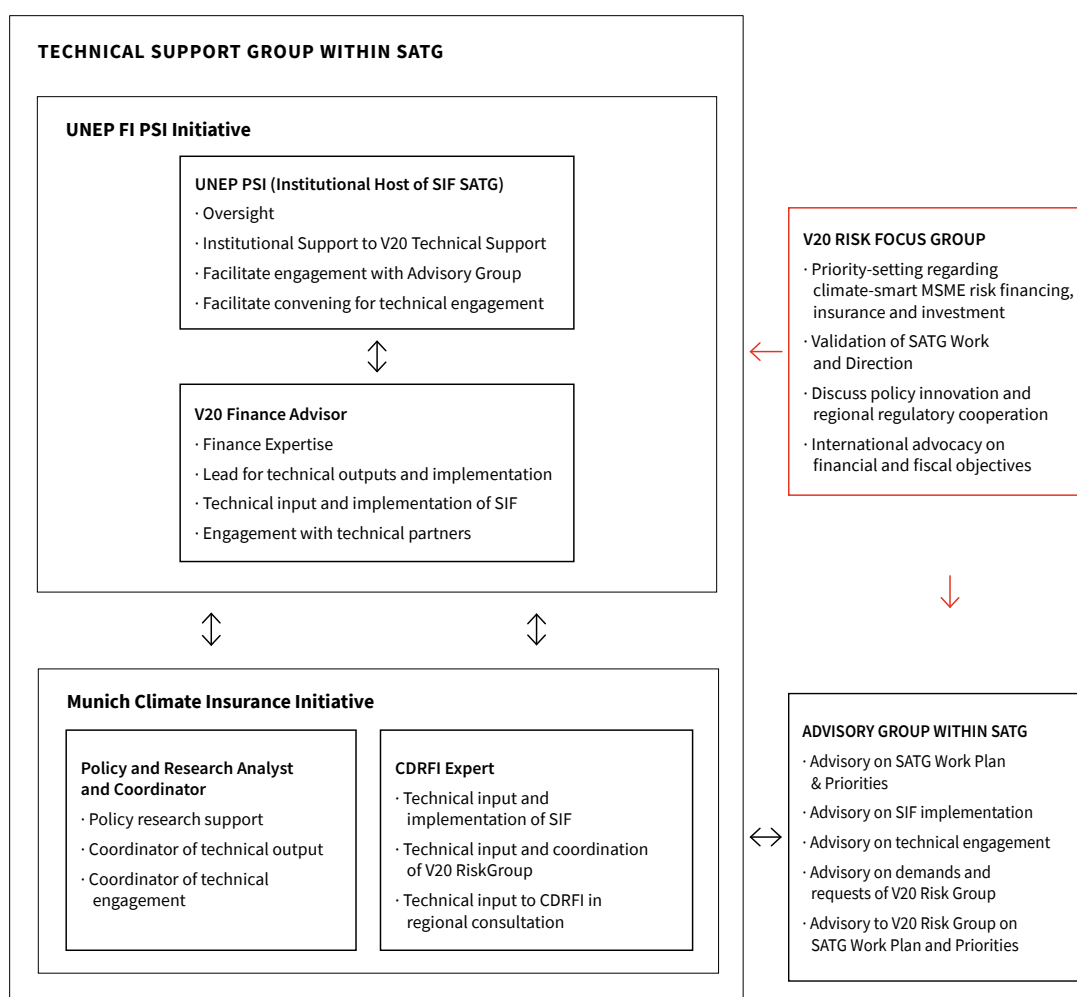
DEMAND DRIVEN COORDINATION AND SUPPORT SYSTEM

SIF Advisory and Technical Support Group (SATG): The SATG will consist of a Group of Advisors proposed by the SATG Technical Support Group and approved by the V20 Risk Group. The Advisory Group will consist of senior CDRFI experts to be selected by the V20 Risk Group over the course of 2020. The Advisory Group will coordinate closely with the Co-Chairs of the V20 Risk Focus Group and advise the V20 Risk Focus Group on strategic priority-setting, demands, needs, and gap questions. It will furthermore translate any technical decision made or action requested by the V20 Risk Focus Group into directives for the Technical Support Group to ensure country ownership and demand-led implementation of the SIF.

Under the guidance of the Advisory Group, the Technical Support Group will function as the project office of the SATG and oversee the (1) technical engagement with the proposed SIF partners, other supporting institutions and the V20 Risk Group, (2) lead SIF pipeline development, including through developing proposals for 1-3 SIF landmark projects over the course of 2020, (3) oversee and streamline SIF labelled activities, (4) perform a matchmaking function to bring together V20 demands and needs with support opportunities, and (5) prepare a biennial report, providing insights of recent developments and achievements. The Technical Support Group may initially be composed of MCII and the UNEP PSI Initiative, and be hosted in one of the respective institutions.

The V20 Risk Group: The V20 Risk Focus Group is co-chaired by the Philippines and Barbados and facilitates discussions, position-building and knowledge sharing among all interested V20 members. It usually convenes twice a year during the V20 Ministerial Meeting in conjunction with the World Bank Spring and Annual Meetings. Focus topics discussed within the Group encompass V20-led risk pooling mechanisms and other means of financial protection from climate risks, preparedness and disaster risk management, climate related transition risks and strategic engagement with key partners on these issue areas.

The Group also provides a forum to discuss policy innovations as well as regional regulatory cooperation and international advocacy on strategic financial and fiscal objectives, including on but not limited to international cooperation on sustainable premium support and resilient debt management in the context of climate change. The two Co-Chairs of the Focus Group will continuously engage to discuss and communicate priority needs, demands and decisions of the V20 Risk Focus Group Members with the members of the Advisory Group under the SATG.



ENGAGEMENT: PROPOSED SIF PARTNERS

SIF Core Partners (SCP): Most importantly, regional MDBs, may commit to facilitate progress in selected SIF programmatic focus areas, including through their own activities as well as those of implementation partners and stakeholders, together with the support of the SATG. ADB may focus on providing the necessary financial and technical support for building distribution channels, policy- and regulatory capacities as well as for enhancing MSME demand through selecting, sub-contracting and coordinating further implementing partners. These sub-contracted partners may include local universities, NGOs, other technical assistance providers and business associations, which strengthen MSME demand, including in the areas of data needs, climate and financial literacy, and the implementation of complementary risk reduction activities and investments made by MSMEs.

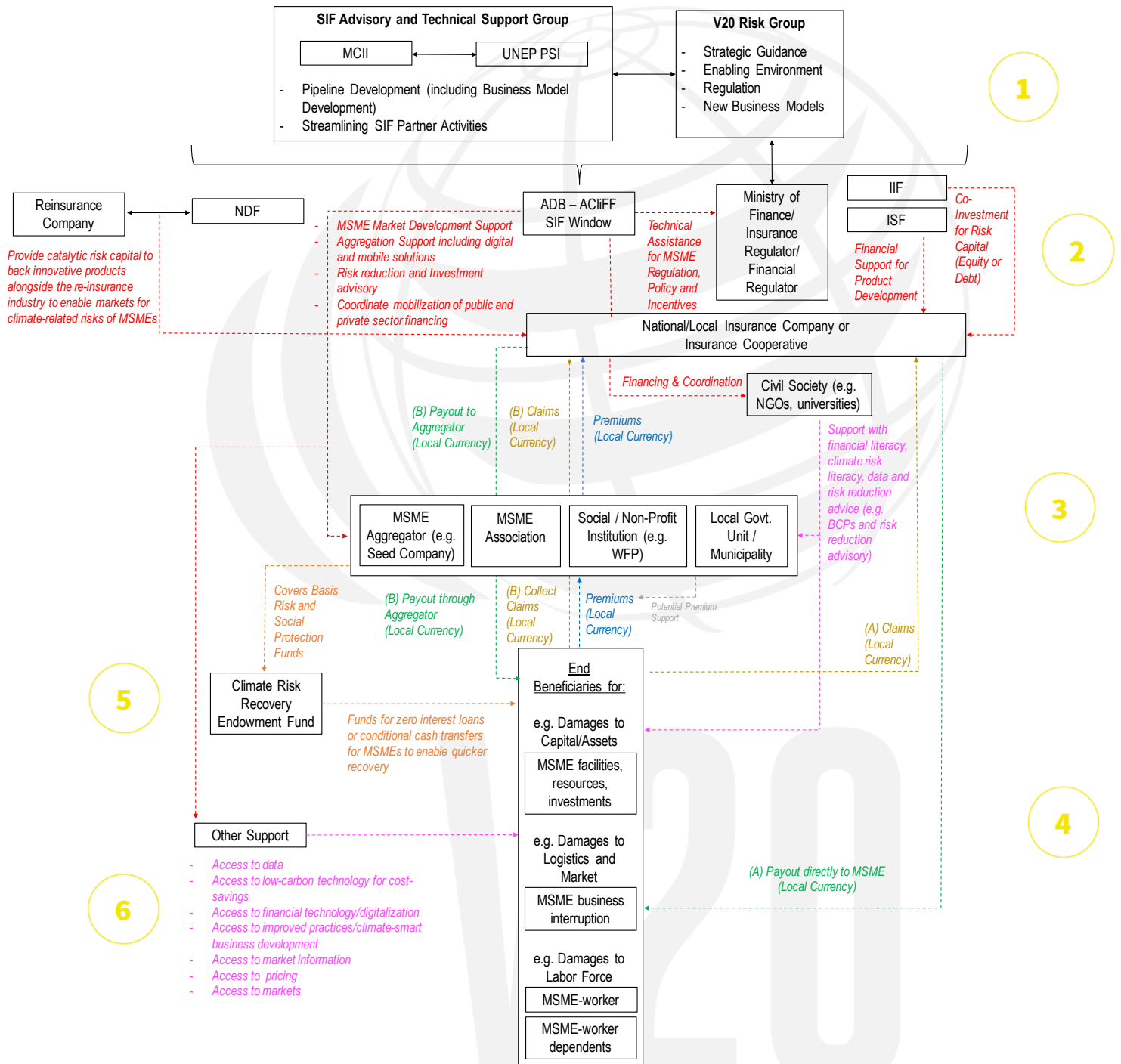
SIF Key Partners (SKP): Most importantly, the InsuResilience Solutions Fund (ISF), the InsuResilience Investment Fund (IIF) and the Natural Disaster Fund (NDF), under the guidance of the SATG, may commit to facilitate progress in selected SIF programmatic focus areas, including through their own activities as well as those of implementation partners and stakeholders, together with the support of the SATG. Working together and under the guidance of the SATG, the ISF may provide insurers with financial support for product development, while the IIF may provide the same insurer with debt or equity investments to increase its risk capital. The NDF may complement the re-insurance industry to facilitate a market for climate-related risks of MSMEs by providing risk capital to seed innovative disaster risk transfer products.

In the here proposed ecosystem, SCPs and SKPs work together on the same SIF landmark initiatives proposed, streamlined and overseen by the SATG.

SIF Synergy Partners (SSP): May encompass any institution working on e.g. technical or financial assistance, research or capacity-building, and considering itself in a position to contribute to parts of individual SIF Programmatic Focus Areas by (a) either softly integrating certain elements of the SIF Programmatic Focus Areas into already ongoing activities, or by (b) sharing already existing project outputs, e.g. in the form of research, in coordination with the SATG.

Fast Track Engagement to kick-start action: Any institution considering itself willing and in a position to contribute to the objectives and Programmatic Focus Areas of the SIF can do so through immediate action, e.g. by (a) sharing already existing project outputs, e.g. in the forms of relevant research, data, assessment tools, etc. (For the period 2019-2020, there is particular interest for any relevant experiences within the Asia-Pacific region to support South-South learnings), or (b) softly integrating certain elements of the SIF Programmatic Focus Areas into already ongoing activities, including a focus on climate-smart MSME insurance within training and knowledge-share activities of key stakeholders, such as insurance or public finance staff, including awareness raising on climate-smart MSME insurance in ongoing advocacy activities, which henceforth work towards realizing the full menu of the SIF programmatic focus areas, or (c) adjusting their institutional mandate to accommodate individual elements of the SIF Programmatic Focus Areas.

3. Illustrative SIF Ecosystem for Asia-Pacific



SUPPORT LEVEL

1

Under the strategic guidance of the V20 Risk Group, the SIF Advisory and Technical Support Group (SATG) prepares proposals (based on the five SIF Programmatic Focus Areas) to be submitted to ADB, NDF, ISF and IIF.

2

Working within the framework provided by the five SIF Programmatic Focus Areas, SIF project implementation centers around the four implementation areas of (1) Strengthening the relevant regulatory and policy frameworks; (2) Building the demand of MSMEs; (3) Supporting product development and underwriting, and (4) Building distribution channels through ACLIFF, the ISF, the IIF and the NDF. The respective institution may work through further implementing partners, e.g. research institutions, civil society organizations, business organizations, etc. active on the ground.

ACLIFF (managed by ADB) may: Focus on providing the necessary financial and technical support for building distribution channels, policy- and regulatory capacities as well as for enhancing MSME demand through selecting, sub-contracting and coordinating further implementing partners, such as local universities, NGOs, other technical assistance providers and business associations, which strengthen MSME demand, including in the areas of data needs, climate and financial literacy, and the implementation of complementary risk reduction activities and investments made by MSMEs.

ISF (managed by KfW & Frankfurt School) may: Provide insurers with financial support for product development.

IIF (managed by KfW & BlueOrchards) may: Provide the same insurer with debt or equity investments to increase its risk capital.

NDF (managed by Global Parametrics) may: Complement the re-insurance industry to facilitate a market for climate-related risks of MSMEs by providing risk capital to seed innovative risk transfer products.

IMPLEMENTATION LEVEL

3

The MSME Aggregator and/or MSME Association and/or Social / Non-Profit Institution and/or Local Government Unit may collect and/or incur all required premium payments required for the protection of its MSME members. The insurance policy taken out can protect the respective MSME target group from e.g. damages to capital/assets and/or damages related to logistics and market impacts and/or damages related to labor force impacts.

Technical assistance providers, including NGOs, research initiatives/universities, or business associations may strengthen MSME demand through capacity-building on data needs, climate and financial literacy as well as risk reduction activities, such as the development of business continuity plans (BCP), disaster response plans, and advisory on complementary risk reduction and low-carbon investments.

4

Receivables and Payables: Depending on the exact design of the insurance policy, insurance regulation and distribution channels built, (a) MSMEs may either directly claim damages and receive the respective payouts through directly engaging with the national insurance provider via digital platforms developed, or (b) the MSMEs may indirectly claim damages and receive the respective payouts through the MSME Aggregator and/or MSME Business Association and/or the Social/Non-Profit Institution and/or Local Government Units/Municipalities. The actor part of the latter group will engage with both, the national/local insurance provider and the MSMEs to verify claims settlement obligations and distribute payouts.

5

Climate Risk Recovery and Endowment Fund: To build financial trust in the context of insurance, the MSME Aggregator and/or MSME Business Association and/or the Social/Non-Profit Institution and/or Local Government Units/Municipalities may address and mitigate basis risk through the establishment of a “Climate Risk Recovery and Endowment Fund”. This can be used for quick disbursements of a zero-interest contingency loan or conditional cash transfers for insurance policyholders in the event of basis risk.

6

ADB may coordinate (and potentially finance) other supporting measures as needed, including building and facilitating access to data, low-carbon technology, financial technology and digitalization services, the development of business model upgrades, an/or access to market and pricing information.

For the High-Level V20 Needs & Support Assessment (Draft), please scan:



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