

From Innovation to Learning

Creating a CDRFI Roadmap

Breakout session on Sovereign Risk Pools, Marcela Tarazona



InsuResilience
GlobalPartnership



Agenda

- Round of introductions:
 - What is your name?
 - What's your affiliation?
 - What brings you to this session?
- What are SRPs?
- What is the evidence?
- Identifying gaps – open discussion



Introductions...

Partnership



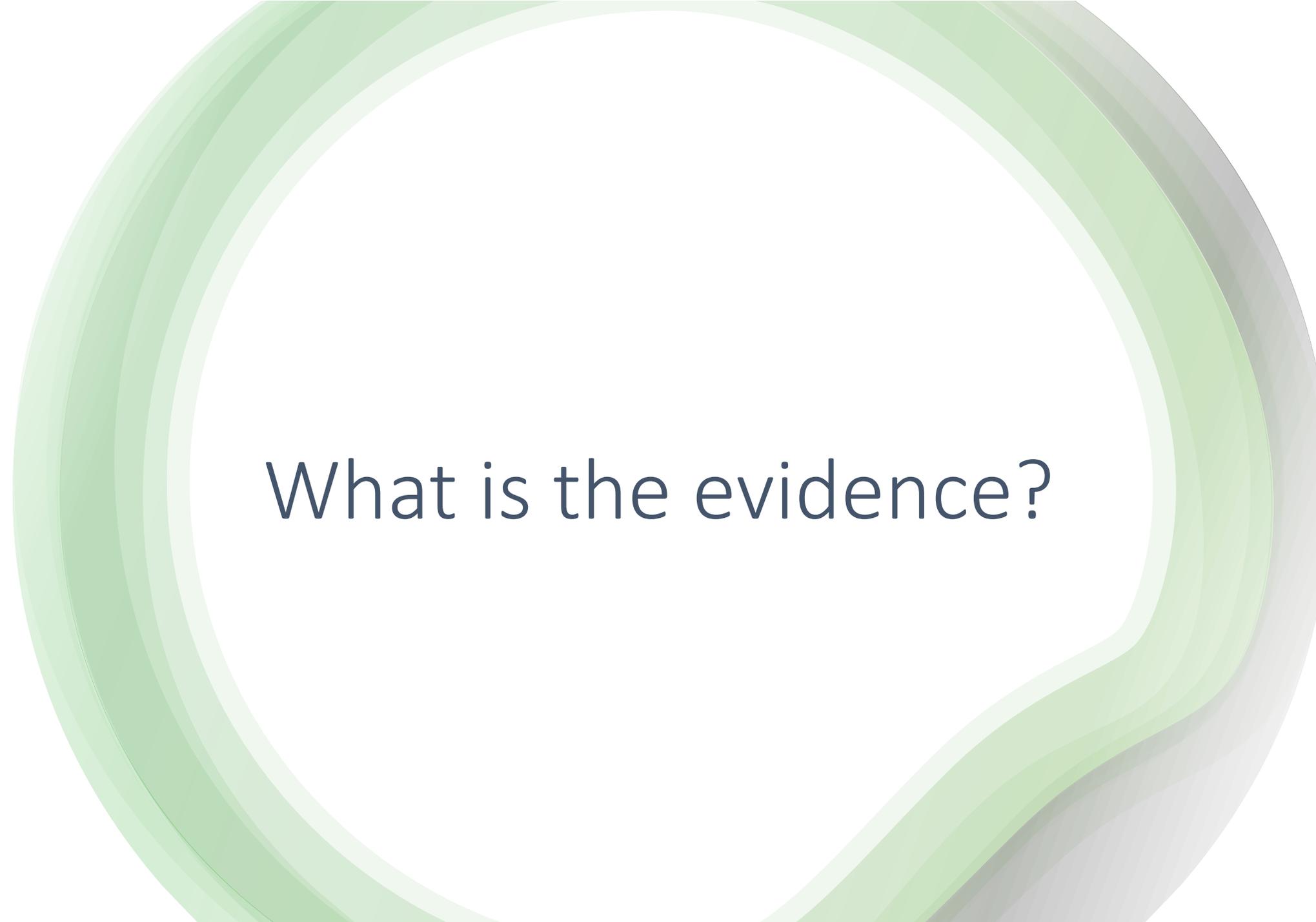
What are SRPs?

What are sovereign risk pools (SRPs)?

- We have all heard of parametric insurance and of risk pooling.
- SRPs combine the use of parametric insurance and risk pooling.
 - Parametric insurance is a type of insurance that ‘pays out when modelled losses reach certain predetermined triggers, as opposed to traditional indemnity insurance that pays out based on actual losses’ (Martinez-Diaz, Sidner, and McClamrock 2019).
 - Examples of triggers are a hurricane of determined magnitude or an earthquake of a particular magnitude.
 - Risk pooling refers to the spreading of financial risks evenly among a large number of contributors. Through sovereign risk pools, “countries can pool risks in a diversified portfolio, retain some of the risk through joint reserves and capital, and transfer excess risk to the reinsurance and capital markets” (World Bank 2017).

What are sovereign risk pools (SRP)?

- Caribbean Catastrophe Risk Insurance Facility (CCRIF) (since 2017)
- Africa Risk Capacity (ARC) (since 2012)
- Pacific Catastrophe Risk Insurance Company (PCRIC) (since 2016)
- Southeast Asia Disaster Risk Insurance Facility (SEADRIF) (since 2018)
- In addition to risk pools, governments have a range of other disaster risk finance tools available to them

A large, stylized green circular graphic with a wavy, layered border. The graphic consists of multiple concentric, slightly offset rings of varying shades of green, creating a sense of depth and movement. The center of the graphic is a plain white circle.

What is the evidence?

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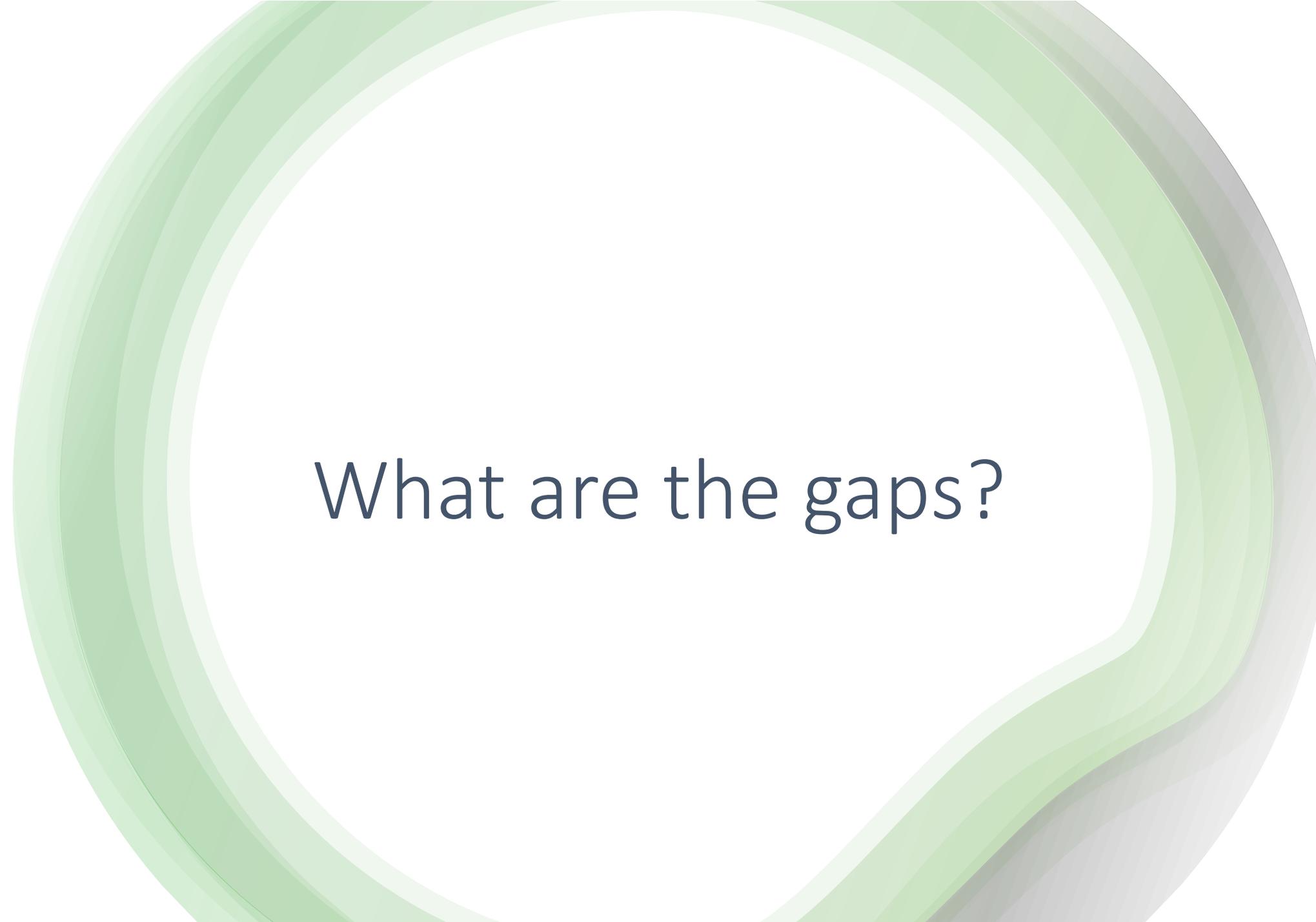
- VERY LITTLE!
- OPM (2017)
 - DFID commissioned the Independent Evaluation of ARC (2015- 2024)
 - Theory based evaluation with four questions:
 - To what extent does ARC's institutional setup and outputs lead to the adoption and effective use of ARC insurance products? Can this be improved?
 - To what extent has ARC contributed to in-country timely and effective responses that protect affected households' livelihoods and prevent asset loss and food insecurity?
 - To what extent has ARC influenced AU Member States' capacity to anticipate, plan, finance and respond to climate related disasters generally, and more specifically in making best use of ARC?
 - Do participating governments and other stakeholders value ARC's risk pool and technical assistance? Why?
 - Only the results of their first formative evaluation have been published
 - The evaluation team is currently collecting baseline data for an impact evaluation in Senegal, which results are expected to be available later in 2020

What is the evidence?

- World Resources Institute (2019):
 - To what extent are countries deploying multiple disaster risk financing instruments to cover the various layers of risk?
 - Only a few countries appear to be following a risk- layering approach
 - To what extent are governments taking advantage of disaster risk insurance solutions and why?
 - Despite the unique value propositions of SRPs, there are several barriers to its uptake including costs, managing unmet expectations, and the limited understanding of parametric insurance
 - To what extent are disaster risk insurance pools supporting governments in their efforts to protect poor and vulnerable people?
 - CCRIF, ARC and PCRIC have different mandates in terms of protecting the poor and most vulnerable people. Only ARC has the explicit mandate to support them.
 - To date, no evidence of impact on the poor has been documented

What is the evidence?

- *Insuring against Climate Change: The Emergence of Regional Catastrophe Risk Pools* (Scherer 2020)
 - Systematic study of CRIF, ARC and PCRIC. The book analyses the goals and characteristics of SRPs; their genesis; compares their characteristics and histories and zooms into their commonalities.
- Schaefer and Waters (2016)
 - Literature review.
 - There is strong evidence (based on proper impact evaluation) that CCRIF, ARC and PCRAFI have a positive impact on catalysing risk assessments.
- Hillier (2018)
 - Macro- and meso-insurance models seem to offer potential to increase resilience, but more efforts are needed to ensure that payouts reach the poor and vulnerable.
- There are a few proposed frameworks for different purposes:
 - Clarke and Dercon (2016) developed a methodology to allow quantitative analysis of the full economic cost of sovereign DRF strategies, which might include SRPs. But no specific framework to assess SRP has been developed.
- There is some anecdotal documentation that sovereign risk pools have reached government faster than international aid (see references to reports by ARC and the WB).

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What are the gaps?

What are the gaps?

- SRPs are relatively new and there is very limited evidence base. A full agenda of research could be developed.
- A few key questions include:
 - Are SRPs reaching the intended beneficiaries?
 - If so, what is the impact they are having on their welfare?
 - How to measure basis risk? How to reduce it?
 - How to improve the transparency of the models used to trigger?

A network diagram consisting of several gold-colored pins of varying heights connected by thin, gold-colored wires. The pins are arranged on a dark, textured wooden surface. The wires connect the pins in a complex, interconnected pattern, forming a network structure. The background is a blurred, dark blue-grey color.

Discussion...