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INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 18 May 2017

**The Importance of Insurance Regulation in
Disaster Resilience**





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Presenters

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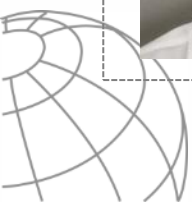


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Moderator



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Overview of Consultation

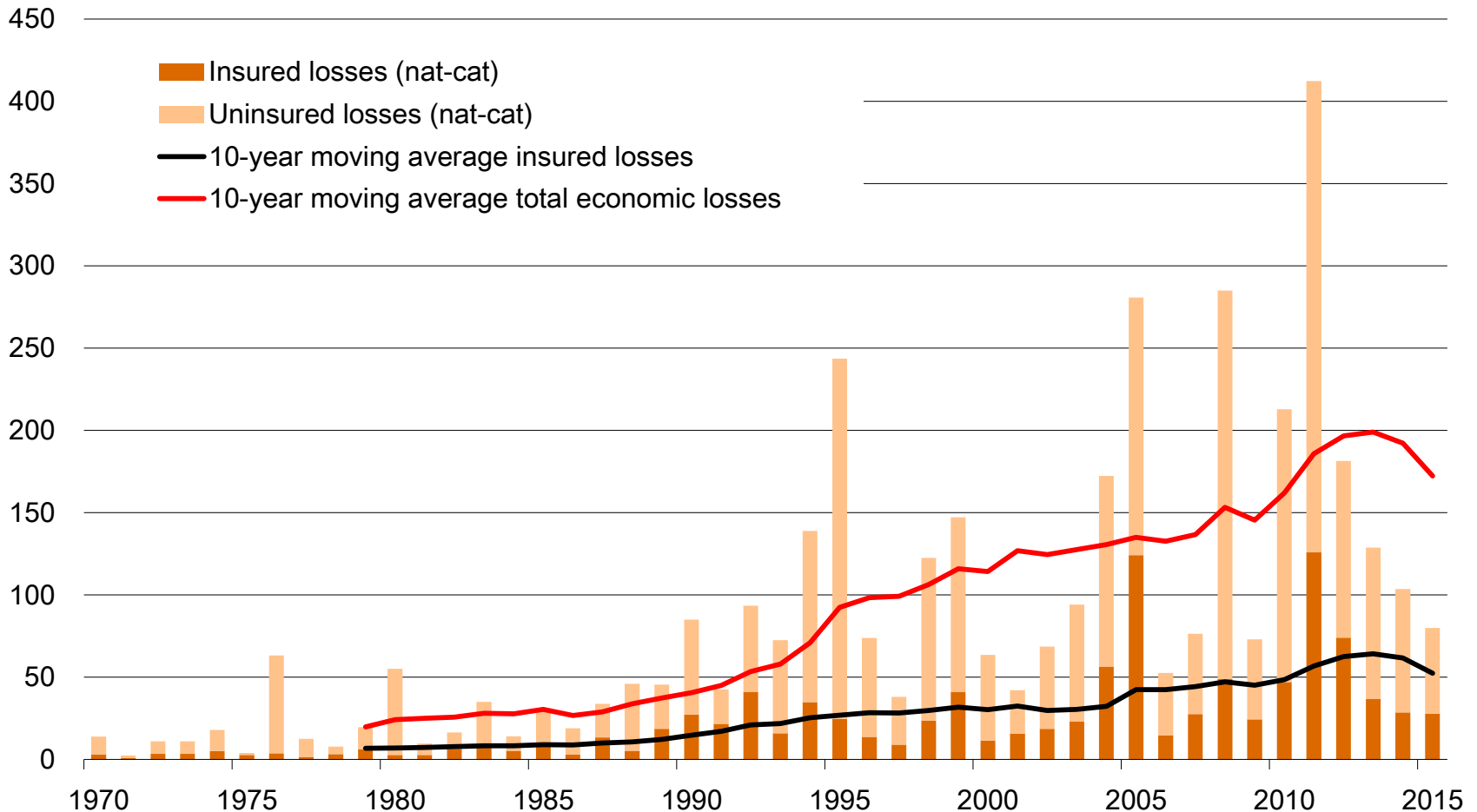
- Defining the Issue – closing the Protection Gap
- Unique issues concerning sovereign, sub-sovereign risks.
- The array of relevant insurance sector skills and capabilities.
- The need for sound and effective insurance regulation.
- The important role of insurance regulators/supervisors.
- The Insurance Development Forum – Its goals, structure.





The Protection Gap: Uninsured losses are a large and growing burden

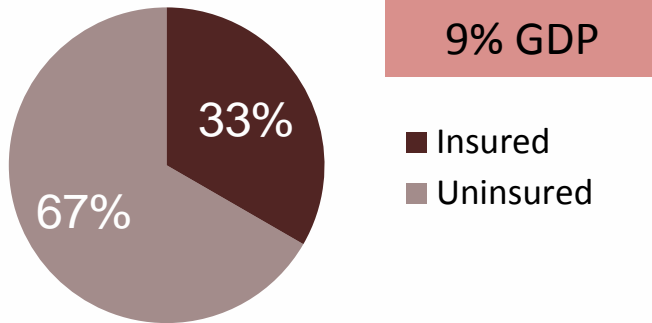
Natural catastrophe losses 1970 – 2015 (in 2015 USD billion)



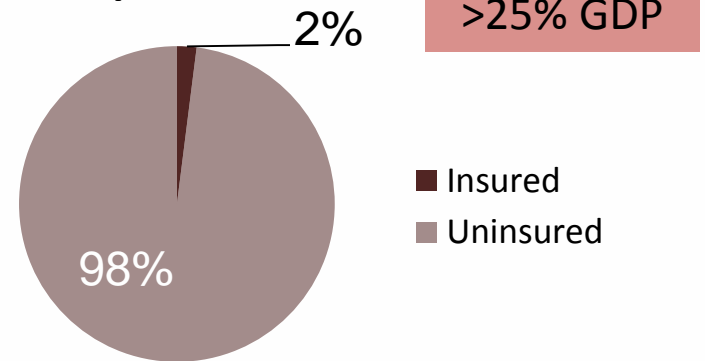


Major events in Asia – the cost to society

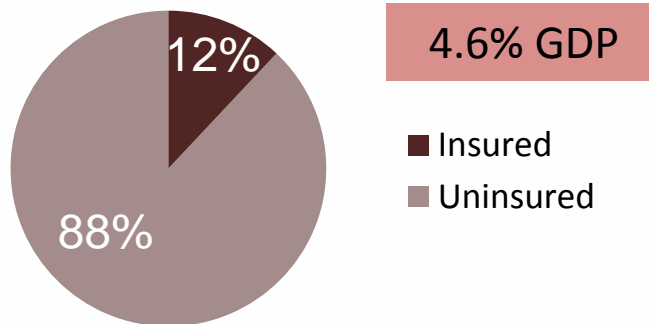
Thailand floods 2011



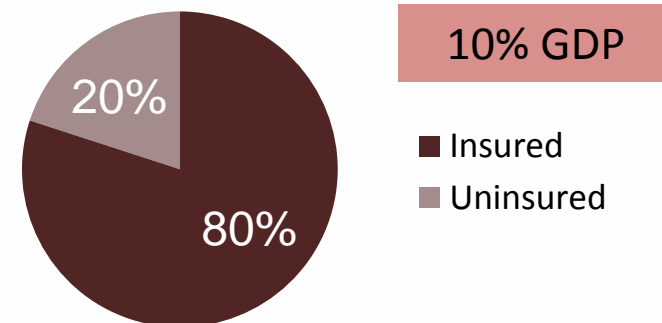
Nepal EQ 2015



Philippines TC 2013



New Zealand EQ 2011



Source: Swiss Re Sigma catastrophe database



(Sub) Sovereign Exposure

A unique aspect of the protection gap is the uninsured exposure of sovereign and sub-sovereign entities

- Sovereign and sub-sovereign insurance arrangements include insuring at the country, state, province, district, county, city level rather than the individual or household
- Natural catastrophe losses can have substantial negative impacts on budgets, government programs, overall strength and resiliency of national or local economies.
- (Sub) Sovereigns have different needs, resources and risk appetite.
- The insurance laws and regulations surrounding these risks may be different, but can also be relevant to the broader market.





The Insurance Sector's Role

The insurance sector can enhance resiliency to natural catastrophes through numerous mechanisms at the (sub) sovereign level:

- Risk measurement: Risk mapping, modeling, underwriting.
- Risk awareness: Projections of loss, high risk areas, risk factors.
- Risk pricing: Premiums as an indicator of real exposure.
- Risk transfer: Transfer of risk from the balance sheet of the insured and placing it on the balance sheet of the insurer.
- Risk mitigation: An important byproduct of risk measuring, awareness, pricing. Industry knowledge of mitigation tools.
- Loss recovery: Source of funding post event. Advice re rebuilding, recovery steps.





Insurance Regulation as a Cornerstone for Building A Resilient Society

- A wide range of laws, regulations and government policies are needed to facilitate deployment of insurance sector capacities. They include:
 - General rule of law.
 - Insurance laws and regulations
 - Tax laws and policies
 - Securities laws and regulations.
 - Disaster prevention and response policies
 - Budget setting policies
- Insurance Regulation is at the center of all of this.
- Regulatory certainty as a success factor





Some Key Areas of Insurance Regulation

- Authorization/licensing requirements
- Solvency requirements
 - Capital requirements – amount, quality, location
 - Investment rules
 - Risk management
 - Transparency and disclosure
- Risk based pricing of insurance risks
- Treatment of Insurance Linked Securities (ILS)
- Intermediary regulation
- Authorization of reinsurers to operate within the jurisdiction
- Authorization of cross-border reinsurance transaction





The Role of Insurance Regulators (Supervisors): Beyond Pure Regulation

- The need for regulatory certainty.
- Deep knowledge of local markets.
- Capacity to help coordinate responses.
- Cooperation role with Governments...and other supervisors (role of Local, Regional and Global Regulatory bodies).
- Leveraging progress to enhance penetration.
- Combining micro with macro objectives.





The Role of Regulators (Supervisors): Some Challenges Ahead

- Many initiatives started to link Insurance to Society...
- WHAT IF this gets too political?
- HOW LONG does it take?
- WHAT does win-win mean?
- HOW do I measure success?
- Intrinsic complexity of Nat Cat.





The Insurance Development Forum

- The Insurance Development Forum Is seeking to harness Government, industry and civil society resources to enhance resiliency (and sustainable development).
- What is it?
- What can it (hopefully) do?
- Why does it matter?





What is it?

- A joint venture between the World Bank, the UN and the insurance industry.
- December 2015 – IDF announced at CoP 21
- April 2016 – High Level Forum on Resilience & IDF Inception Meeting
- September 2016 – Steering Committee Meeting in the margins of the UN General Assembly





Steering Group

- Chaired by Stephen Catlin, Deputy Chairman, XL Catlin
- Co-chaired by Helen Clark, Administrator, United Nations Development Programme and Joaquim Levy, CFO, World Bank Group
- Mark Carney, as Chair of FSB
- CEOs or Chairman from 12 leading insurance industry companies

Implementation Group

- Chaired by Industry, UNDP and WBG

Working Groups

- Risk Sharing & Transfer: Tech Advisory Facilities on Financial Protection
- Risk Modeling & Mapping
- Insurance Regulation & Resilience Policies
- Risk Sharing & Transfer: Microinsurance
- Insurance & the Humanitarian System
- Insurance Education & Communication
- Indicators & Development Metrics for Resilience and Insurance
- IDF & Global Alignment



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Conclusion

- The Protection Gap is massive and growing.
- It is a macro, meso and micro issue and is a developing and developed economy issue.
- Addressing sovereign and sub-sovereign risks can have profound positive impacts on their resiliency and on economic development.
- Insurers can assist in unique way to address/close the Protection Gap.
- The right legal and regulatory structure is critical.
- Insurance regulators are key players and need to play an active part in addressing this issue.





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The implication of catastrophic events

Case study: Morocco

Amal SOUAIFI

ACAPS, MOROCCO





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Agenda

1. Establishment of a system to cover the consequences of catastrophic events;
2. Beneficiary component
3. Insurance component
4. Global scheme of insurance coverage





1. Establishment of a system to cover the consequences of catastrophic events

Law n° 110-14 establishing a system to cover the consequences of catastrophic events
(Promulgated on 25 August 2016)

catastrophic events covered

Natural phenomenon

- List of hazards set by regulation

Man-made events (Violence)

- Terrorism
- Riots and civil commotion

⇒ The triggering of the compensation process is conditional on the declaration of the catastrophic event by the Head of Government after the advice of the Committee for the follow-up of catastrophic events





1. Establishment of a system to cover the consequences of catastrophic events

Mixed system :

- An insurance system for the benefit of persons who have taken out insurance contracts (by inclusion)
- An entitlement system that guarantees persons with no coverage a right to minimum compensation for personal injury and loss of principal residence (Solidarity Fund against catastrophic events).





2. Beneficiary component

■ The Solidarity Fund against Catastrophic Events :

- ✓ Compensation for personal injury estimated on the basis of the scale applicable to victims of traffic accidents (max. 70% of the estimated loss).
- ✓ An allowance for persons whose principal residence is declared uninhabitable:
 - Allowance for the rehabilitation of the premises for the benefit of the owner (which may not exceed 70% of the reconstruction value or an amount fixed by the administration (\geq 250 000 Dirham))
 - Allowance for deprivation of use for occupants (6 months of rental value (minimum and maximum fixed by the administration)).
- **The Solidarity Fund against Catastrophic Events**, in addition to an initial state grant, is financed mainly by the proceeds of parafiscal taxes.





3. Insurance Component

The inclusion of the guarantee against the consequences of catastrophic events is obligatory in:

- ✓ **Property insurance contracts**
- ✓ **Insurance contracts covering Automobile Liability**

Covered in this case:

- . Damage to the vehicle;
- . Personal injuries suffered by passengers at the time of the accident;
- . Personal injuries suffered by the owner's family members (regardless of where they are)

- ✓ **Corporate Liability Insurance contracts**

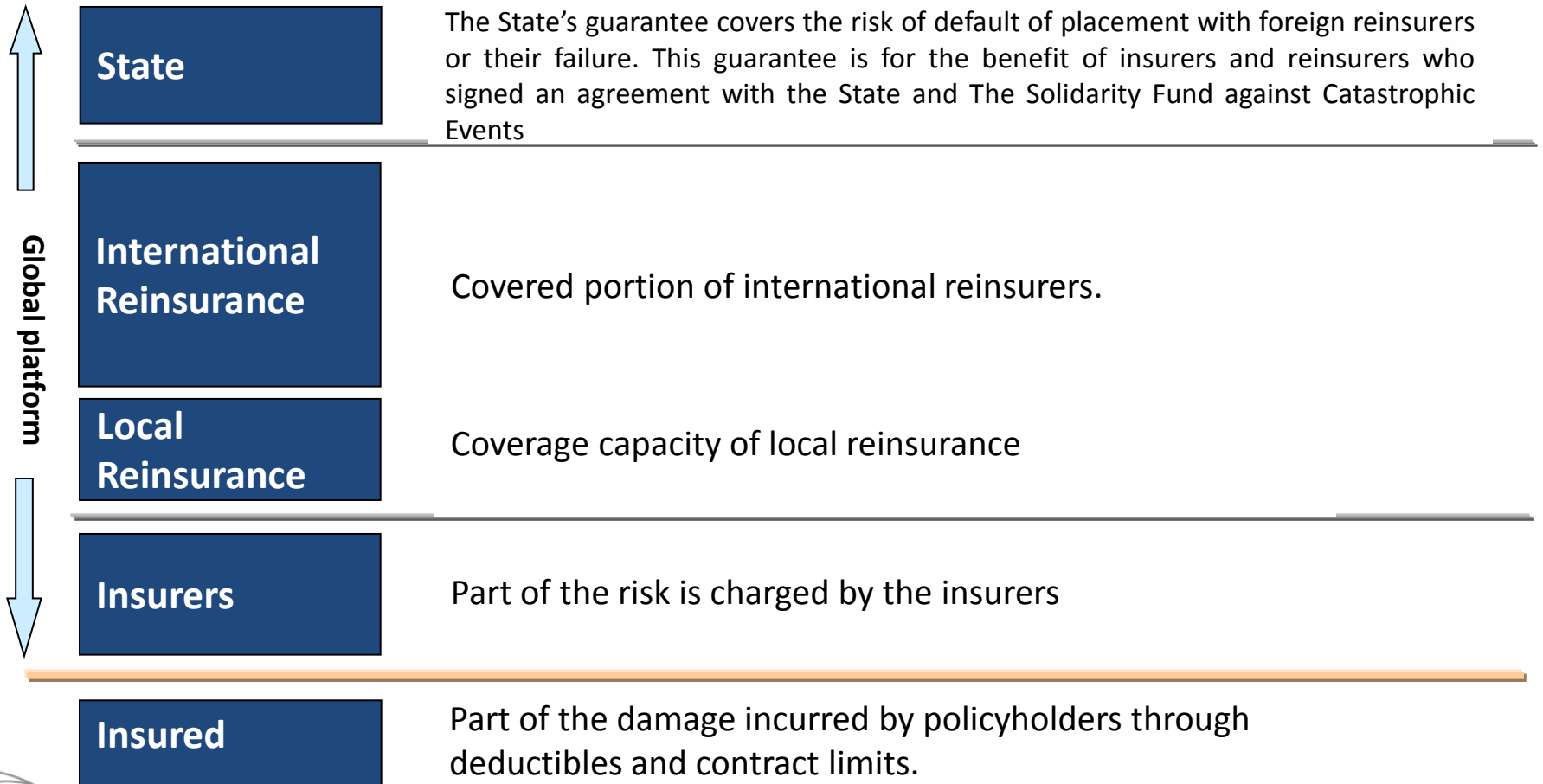
In this case, the compulsory insurance covers personal injuries suffered by persons in the insured premises at the time of the accident.

An overall maximum per-event and per-year indemnity limit, as well as contractual limits and deductibles, are set by regulation.





4. Global scheme of insurance coverage





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Thank you!

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**Save the date for the next Consultation Call
in July!**





The Initiative

The Initiative is a partnership between:

