Q&A

Webinar #6: Catastrophe Risk Insurance Markets Development
Knowledge Exchange Series: Building Sovereign Financial Resilience in Middle Income Countries (MICS)

The following questions were submitted during the Webinar #6 (either in webinar chat or earlier during the registration for the event), which could not be addressed during the Webinar.

The following questions are answered by: **Antoine Bavandi**, Senior Financial Sector Specialist, Crisis and Disaster Risk Finance (CDRF), Finance, Competitiveness, and Innovation (FCI) Global Practice, World Bank Group

Q1: Please elaborate on Flood Loss assessment with the help of World Bank as just mentioned?

- With support from the World Bank/SECO DRF program, a Morocco-specific flood risk model was developed by French reinsurance company CCR in 2020. This provides a full catalogue of probabilistic events with damage rates on the built environment. It is expected to support the design and implementation of a flood risk transfer product by January 2023.

Q2 : Je comprend bien, que vous charger les privee pour subventionnee l'industrie? (I understand that you charge the private sector to subsidize the industry?)

- The dual insurance protection programme relies on the principle of solidarity: on the one hand, the private insurance scheme is fully funded by private insurance contracts (a premium surcharge on all existing property contracts, mostly from businesses and industries, finances the bulk of the natural catastrophe extension). On the other hand, the public solidarity scheme supports populations (against loss of residential property) through a funding mechanism that is partly funded by the government (initial lump sum) and annually replenished by a tax on all non-life insurance policies in Morocco.

The following questions are answered by: **Eduard (Eddie) Held:** Managing Director, Swiss Elemental Pool, Reinsurance, Swiss Insurance Association

Q3: How far the Solidarity principles among the insured as in the case of Switzerland is replicable/modified in low- and middle-income countries considering the income inequality?

- In my view the two principles of solidarity can work in any country. Maybe even more in those with low and middle income: (a) Solidarity among the insureds: Initially one could also consider a relatively lower overall event limit (in Switzerland currently approx. USD 2bn) or a higher retention for the insured, both lowering the annual premium into the lower USD double-digit range. (b) Solidarity among insurance companies: this is up to the legislator. I believe the main hurdle remains the political will.

Q4: Thank you, Mr. Held. So would it be fair to say that your long standing track record and loss history is critical to convince reinsurers that 2bps (20/100,000) is sufficient?

- Our long-standing track record, loss history but also high transparency (insurance conditions are defined in the law) are critical to convince reinsurers to accept a reinsurance premium commensurate with the risk. The reinsurers are not directly interested in the original premium rate (which however is an important indication of the level of risk) but more in the loss history of the Elemental Pool.

The following questions are answered by: **Harriet Boughton:** General Counsel, Flood Re

Q5: Is Flood Re a broker? licensed?

- Flood Re is not a broker, but a reinsurer. We are regulated by the UK's PRA and FCA. Flood Re reinsures insurance policies underwriten by insurers including via brokers.

Q6: With regard to build back better payment, how will Flood Re evaluate the effectiveness of the actual prevention measures to justify the cost to be incurred?

- Flood Re will not be involved in determining the appropriateness or suitability of flood prevention measures either as products, or in relation to a given home. The insurer, and loss adjusters / surveyors will be best placed to assess the opportunities for property level resistance and or resilience measures for each home and will take these into account as they carry out the wider claim repair for flood damage to the home. Flood Re will point insurers to third party guidance on best practice as it evolves. This is consistent with our general approach, because Flood Re does not normally get involved in the handling of flood claims but simply "follows the fortunes" of the insurer. Of course, not all homes may be suitable for building back better. Some homeowners may not wish for measures to be installed. Flood Re's offer of up to £10,000 per home per flood can be added to by the insurer and the homeowner should they wish, along with any government or local authority grants. Over time, we will work with stakeholders to determine whether the preventative measures have, in fact, reduced the risk of future flooding.