



Global Shield
Solutions Platform

OPERATIONALISATION OF PREMIUM SUPPORT

RATIONALE

Premium support (PS) plays a vital role in ensuring access to climate and disaster risk insurance, particularly for low-income and climate vulnerable countries and populations. In providing such support, PS funders have considered and tested structures and approaches at the macro, meso and micro levels to incentivise the purchase, long term sustainability and best practice in the use of climate and disaster risk insurance solutions. For political, geopolitical, and fiscal reasons, international support is likely to face considerable downward pressure in coming years, making it increasingly urgent to prioritise and efficiently deploy scarce resources for PS.

Based on international practice, literature review, experiences from project implementation under the Global Shield Solutions Platform (GSSP) and InsuResilience Solutions Fund (ISF), and stakeholder and expert consultations, this **consultation paper aims to articulate a systematic approach to the further operationalisation of PS.**

The paper builds on the content of the Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability published by the InsuResilience Global Partnership in 2022¹ and discussions from the Climate Risk Finance Forum (CRFF) hosted by the Frankfurt School of Finance and Management in April 2025.

The motivation and objective of PS has major implications on how it should be structured. Consequently, this note suggests distinguishing **three main reasons why PS is generally accepted and offered** as a means of increasing access to pre-arranged finance and financial protection:



Motivation 1: Market inefficiencies:

Traditionally, one of the main motivations for PS has been to incentivise the uptake of climate and disaster risk insurance by addressing barriers arising from various sources of **market inefficiencies**, such as externalities, limited competitiveness, public goods, behavioural biases, lack of trust, or transaction costs.

By mitigating some of these barriers and promoting the desired behavioural changes, PS can foster market development and expand the use of insurance solutions, including in middle-income countries. However, PS does not resolve structural and systemic challenges, including issues of the political economy, the defining of political priorities, governance challenges or fiscal constraints, supply-side inefficiencies (such as the limited availability of tailored insurance policies), lack of risk data, lack of awareness, or information asymmetry.



Motivation 2: Alternative to ex-post disaster relief:

PS can also serve as an innovative, cost-effective, ex-ante funding mechanism and alternative to traditional ex-post disaster relief, reflecting a **moral commitment and internationally shared value** to sharing the burden of disaster relief and recovery while protecting the most vulnerable communities.

Recognising the varying ability to pay, solidarity motivated PS (often provided as 100% PS, i.e., without contribution from the receiving party) supports pre-arranged risk transfer solutions instead of relying solely on post-disaster humanitarian aid and social security interventions.

[1] Töpper, J., and Stadtmüller, D., 2022, Smart Premium and Capital Support, InsuResilience Global Partnership, [\[link\]](#)

**Motivation 3: Addressing losses and damages:**

In the future, PS may become a means to **address losses and damages** attributed to climate change.

PS could finance an insurance cover that corresponds to the increased risk caused by climate change, beyond the baseline of natural climate variability. While distinguishing between these components and attribution are complex, such an approach could help ensure that countries facing heightened climate risks are not disproportionately burdened by rising insurance costs.

The differentiation between the three motivations is important for the further design of PS. I.e., Motivations 2 and 3 require a systemic shift in how PS is conceptualised, including the consideration of mechanisms to deliver longer-term PS.

To further develop the operationalisation of PS, we aim to build broader consensus on its essential design elements. We begin with a summary of areas where consensus already exists, particularly through the lens of the main reasons to provide PS outlined above. We subsequently identify aspects and critical discussion points addressed at the CRFF 2025.







AREAS OF EMERGING CONSENSUS

The operationalisation of PS is dependent on a clear understanding of the role of the insurance solution and an articulated need and purpose. Insurance is just one tool among multiple climate disaster risk finance instruments, each with relative strengths in addressing different risks. While insurance aims to provide rapid liquidity for response and recovery, its true value emerges when integrated into a broader climate risk financing strategy – where it not only cushions large shocks but also encourages prudent risk-taking that promotes long term growth and supports sustainable improvements to livelihoods.

Before granting PS, the first step is to assess which problem PS is intended to address, i.e., which of the three motivations above forms the basis for its use, and whether insurance is the most suitable instrument relative to alternative financing mechanisms that may provide more effective or cost-efficient coverage. This assessment should be guided by:

1. **The Rationale for the need for PS** is essential that the justification is clearly articulated providing convincing rationale of the need. PS should be designed to achieve specific, measurable outcomes, which will vary based on the underlying motivation (i.e. three motivations introduced above), the type of insurance protection provided and the risks and sectors it addresses. PS should only be pursued when the problem is clearly defined, and the design ensures that intended outcomes can be achieved.
2. **Eligibility** should be determined according to vulnerability and need, based on, for example, multi-dimensional indices that integrate economic, environmental, and social factors to more accurately classify countries.
3. The **Duration and level of subsidy** should be determined by the underlying motivation and respective objective of PS.
 - When structuring and pricing a climate and disaster risk insurance product, the expected loss ratio – representing the price of risk or actuarial risk premium – should not be set below a reasonable threshold level to be specified by the PS funder (thus implying an upper limit to expense loadings) without adequate justification. Pricing that does not adhere to this threshold must be adequately justified to the funder.
 - Operationalising the SMART Principles also requires managing the unrealistic idea that PS requires an exit strategy for donors in all cases. Motivations 2 and 3 provide examples that justify long-term PS and instead require further discussion on how donors can and should best deliver this.

The following matrix categorises PS by the duration and level of subsidy, with guidance on the evaluation of the support, to ensure that PS is effective, targeted, and (in the case of Motivation 1) time-bound and designed to avoid long-term dependence, aligning with the SMART Principles.

		Expected duration of support			
Level of subsidy		Up to 3 years		More than 3 years	
	Up to 20%		Small funding gap over the short to medium term; <div>Evaluate exit strategy</div>		Small funding gap over the longer term; <div>Clear evidence of sustainability and policy renewals required</div>
	Between 20% and price of risk		Significant funding gap over the short to medium term; <div>Evaluate exit strategy including the need for a phased exit strategy</div>		Significant funding gap over the long term; <div>Clear evidence of sustainability and policy renewals required</div>
	Reduces premium below price of risk, up to 100% subsidy		Bridge a funding gap (only when price distortions are avoided) <div>Evaluate exit strategy</div>		Exceptional cases <div>Exceptions only for insurance solutions in:<ul style="list-style-type: none">▪ Fragile and conflict affected states (Motivation 2)▪ Low to low-middle income countries (Motivation 2)Countries with high climate risk exposure (Motivations 2+3)</div>

Source: Global Shield Solutions Platform (GSSP)

KEY

represents Motivation 1: Market inefficiencies/behavioural change



represents Motivation 2: Ex-ante alternative to traditional ex-post disaster assistance



represents Motivation 3: A means to address the loss and damage attributed to climate change

GUIDELINES TO FURTHER OPERATIONALISE PS

Several key areas of consensus emerged during the CRFF 2025 regarding the effective use and design of PS. We have translated these into practical guidelines to support the structuring of PS for climate disaster risk insurance in a way that promotes sustainability, transparency, and alignment with broader risk management and development objectives.

Guideline 1: Anchor PS in demonstrable commitment to DRM

PS recipients should demonstrate commitment to DRM as a condition for eligibility. PS should be designed to incentivise parallel progress in Disaster Risk Reduction (DRR) and insurance uptake, although full DRR implementation should not be a strict precondition for support.

This can be evidenced ...

... on the macro level through:

- National strategies, such as the Nationally Determined Contribution (NDC), the National Adaptation Plan (NAP), but also meaningful integration within broader public financial management systems.
- Embedding disaster risk financing in core budget processes as evidence of national ownership, increasing the likelihood of sustained premium payments, and enhancing the credibility of countries in the eyes of investors and donors – especially critical in a development landscape marked by constrained Official Development Aid (ODA) and a growing emphasis on efficiency and self-reliance.
- Embedding insurance into public financial management and development planning systems remains under-prioritised in most contexts and should be a central marker of genuine political commitment.

... on the meso & micro level through:

- Embedding disaster risk financing in broader resilience and adaptation efforts evidenced by, for example, investment in risk reduction measures, use of complementary risk prevention activities, behavioural changes, etc.

Guideline 2: Promote Transparency and Informed Decision-Making

2.1 Transparency on insurance pricing

Require **transparency on insurance pricing** and value-for-money metrics - such as expected loss ratios - as a condition for PS. This enables better decisions around risk layering, fosters accountability, and ensures risk informed decision making. Maintaining risk-based pricing is crucial to preserving incentives for investments in risk reduction and climate adaptation, ensuring stakeholders remain committed to long-term resilience-building measures and avoid maladaptation.

2.2 Data and modelling

Encourage the **availability and accessibility of data and modelling assumptions** that underly insurance products to support broader risk awareness and ownership, particularly for sovereign clients with limited climate modelling and actuarial capacity.

Guideline 3: Enable Layered Risk Financing, While Recognising Capacity Constraints

Require insurance as part of a layered risk financing strategy, used to cover residual risk that is not manageable through other instruments. Where a **holistic risk layering strategy** is absent, provide technical assistance to help countries / beneficiaries understand and apply appropriate thresholds to the design of insurance solutions, ensuring they are embedded within broader DRM strategies and holistic DRM approaches. For example, early-warning systems can help lower climate risks, thereby reducing premiums and improving affordability. See also Guideline 1.

In contexts where fiscal space and political incentives are limited, PS may be maintained until a payout occurs. This approach can provide governments with a tangible demonstration of insurance value, helping to build political support and encourage continuation of policies once the benefits are visible.

Guideline 4: Support the strengthening of local institutions

Engage with civil society organisations, NGOs, and other local actors who can ensure that local contexts and perspectives are adequately reflected in the design of PS. Their insights can contribute to more effective and context-specific PS solutions and respective requirements, such as, e.g., enhancing the design and implementation of climate disaster risk contingency plans and standard operating procedures for insurance payouts or supporting campaigns to raise awareness and strengthen financial literacy with respect to insurance.

Guideline 5: Consider multi-year insurance terms

Strengthening local institutions also requires creating predictable and sustained frameworks for engagement. The development and use of **multi-year policies** can provide governments with greater predictability, build trust, and demonstrate the value of insurance over time, particularly through the higher likelihood of experiencing a claim during the policy cycle. Such approaches not only enhance institutional capacity but also foster long-term confidence in risk financing as a credible tool for resilience.

When assessing the advantages of multi-year policies, it is necessary to weigh up the price effect resulting from additional risk buffers against the advantage that the price for risk coverage remains unchanged even if climate variability and thus the underlying risk could increase during the term of the insurance.

Guideline 6: Engage local actors to establish a robust Monitoring, Evaluation, Accountability and Learning (MEAL) framework

A robust MEAL framework should be established to track and assess the impact of PS over time. Specific KPIs should be developed, and strong monitoring mechanisms must measure the impact of PS relative to the initially stated need (or barrier) and ensure that insurance payout proceeds are directed to their intended recipients promptly and effectively. Verification processes are critical to preventing delays and ensuring that insurance payouts reach (or support interventions targeting) those most in need. While contingency plans are consistently requested for emergency relief efforts, they are not always applied to other uses, such as infrastructure projects, highlighting the need for consistent oversight across different applications.

APPENDIX: REMAINING ASPECTS FOR FURTHER DELIBERATION

While areas of consensus have been identified at the CRFF 2025, several key considerations remain under industry discussion. Learnings and perspectives from PS programmes, initiatives and their implementing partners, countries and local stakeholders as well as donors are shaping the approaches to providing PS and require ongoing reflection and dialogue.

The following areas are identified as requiring further deliberation and continued engagement and are listed below with guiding questions and comments.

Viability and sustainability of insurance:

- How should subsidies be designed to incentivise and promote the longer-term sustainability of an insurance scheme considering the motivation of PS? What mechanisms or features will incentivise risk reduction and investments in climate adaptation? What mechanisms or features will incentivise and provide evidence of likely renewals? What types of evidence should be required to demonstrate that policyholders and / or beneficiaries or other funding sources will contribute toward premium payments in future renewals?

Consultations led respondents to provide suggestions such as:

- The development and use of multi-year policies to provide predictability, build trust, and demonstrate value to governments (through the resulting higher likelihood of claims).
- The provision of ongoing subsidies under a results-based framework that rewards growing domestic ownership (of paying the subsidy) and / or implementation of risk reduction activities in parallel.
- The provision of donor subsidy until a payout occurs, providing a political incentive for the government to continue the policy.
- It was also noted that it may not be possible to provide evidence of sustainability from the outset of donor support if the objective of providing premium support is to demonstrate the value of insurance to the policyholder.

Strategic Alignment:

- How should donors collectively coordinate on **equitable PS allocation between countries**? If one donor applies a certain approach to equitable support allocations, this could have limited effect if parallel support from other donors overcompensates.
 - There is strong support for donor coordination to ensure the fair and strategic allocation of premium support across countries that is based on need, vulnerability, and the strengthened of DRM commitments, particularly in the context of limited global budgets. This suggests a mandate for greater harmonisation and transparency among donors – not only to avoid fragmentation, but also to ensure that support reaches those with the greatest need and strongest alignment with principles of risk layering and financial preparedness.
 - 50% of CRFF 2025 participants strongly agreed and 32% agreed that donors should act collectively to ensure equity in how PS is distributed.
- How can it be ensured that PS is structured so that insurance **only covers residual risk**? Should donors enforce appropriate risk thresholds for insurance solutions, for example, the index attachment points below which other risk finance instruments should be used?
 - There was no consensus from the CRFF on whether donors should enforce appropriate attachment points for insurance solutions to ensure that insurance focuses on coverage for low frequency / high severity events, with 24% strongly disagreeing (24% disagreeing) and 24% agreeing (18% strongly agreed).
 - For guidance, any donor action in this area should be carefully calibrated and remain sensitive to the context, ideally supported by broader dialogue with partner countries on integrated risk layering, national risk appetites, and the role of insurance in their public financial management systems.

Transparency and Accountability

- Risk-based pricing requires that insurers provide details of their pricing assumptions. Can PS funders effectively require **transparency on pricing** (e.g., expected loss ratios)? To what extent would insurance providers be incentivised to bias their communication of their pricing assumptions?
 - While views on enforcing risk thresholds in insurance remain divided (see above), there is strong consensus on the importance of transparency in pricing as a condition for premium support. An overwhelming majority of CRFF stakeholders strongly agreed (71%) or agreed (22%) that donors should require transparency on pricing metrics such as expected loss ratios. It is noted, however, that responses to this question may directly reflect the sample of respondents and the organisations that they represent.
 - This reflects a clear opportunity for donor action and accountability from the insurance sector: enhancing transparency not only improves accountability but also helps countries better understand the value and limitations of insurance as part of a broader risk financing strategy. It can also serve as a foundation for more informed dialogue on risk layering and structuring future premium support.

Political Commitment

- There is consensus that beneficiaries must show a (political) commitment to DRM to be eligible for PS. What specific criteria should be used to assess this commitment? [For example, existence of a national DRM strategy, integration of insurance with a risk retention strategy and broader climate adaptation investments, or other key indicators]. Should disaster risk reduction investments be implemented or under implementation before insurance is utilised?
 - While there is some support for the idea that (political) commitment to DRM should be a prerequisite for premium support eligibility, the specific criteria for assessing such commitment remain undefined. Opposing views advocate for simplicity of PS that is unattached to conditions, encouraging donors to support DRM in parallel.
 - CRFF discussions also reflect a diversity of views: while a small majority (34%) disagreed that DRR investments must be implemented prior to using insurance, 34% were either neutral or in agreement indicating ongoing debate and the need for clearer guidance on sequencing and integration of instruments. Insurance and DRR are viewed as connected, but the idea of requiring DRR before or during the implementation of insurance is more divisive.
 - CRFF stakeholders also highlighted several key indicators that could serve this purpose²:
 - Existence of a national DRM strategy (61%)
 - Integration of insurance within a risk retention strategy or instrument (56%)
 - Evidence of investments into DRR (50%)
 - Integration of insurance with broader adaptation investments (42%)
 - Other forms of evidence (14%)
 - These results suggest that commitment should not be assessed solely through the presence of a DRM strategy, but also through how insurance is operationalised within wider financial and resilience frameworks. This again points to the importance of embedding insurance into broader public financial management and development planning systems—something that has yet to be sufficiently prioritised in most contexts.

[2] Specifications of indicators for meso- & micro approaches where not explicitly put to the poll.

Global Shield Solutions Platform

The Global Shield Solutions Platform (GSSP) is a multi-donor grant facility. With the mandate to foster the development and use of Climate and Disaster Risk Finance and Insurance (CDRFI) solutions, GSSP contributes to effectively addressing losses and damages exacerbated by climate change.

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