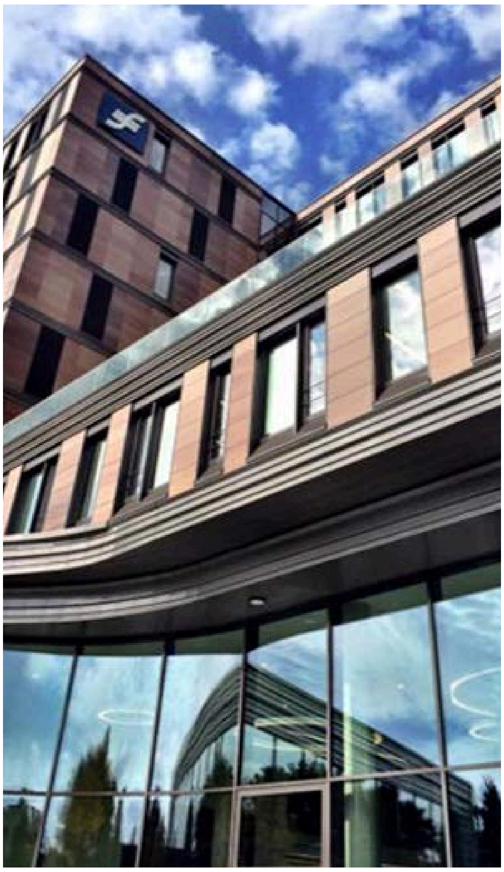
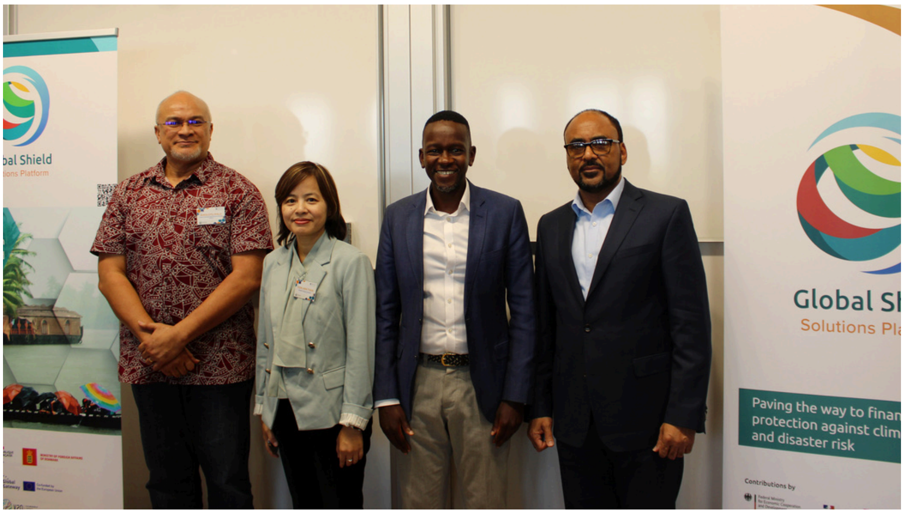
Climate Risk Finance Forum Debrief

11 APRIL
12 APRIL 2024





Dear Participant,

Thank you for attending the **Climate Risk Finance Forum (CRFF)** at **Frankfurt School of Finance & Management**!

We felt very honoured to have you all with us. We trust that you found the face-to-face exchanges stimulating and inspiring. We hope that the sessions have provided you with insights, knowledge, and networking opportunities that will prove useful in our joint efforts to address climate and disaster risk.

During the CRFF, we focused on the four Sovereign Regional Risk Pools and the support offered by the Global Shield Programme for Resilient Risk Pools (GSRRP). With valuable input from our esteemed Track Leads, we curated a dynamic agenda that spanned one and a half intensive days.

This debrief is to inform you about the discussions that took place during the workshops and about all the results achieved.

Once again, thank you for your participation. We hope you enjoyed the event as much as we enjoyed hosting it, and we look forward to seeing you again soon!

Dr. Annette Detken
Head of GSSP

Karsten Löffler
Co-Head of GSSP

Background

Global Shield Solutions Platform (GSSP) and the
Global Shield Programme for Resilient Risk Pools (GSRRP)

Climate change and climate disasters lead to significant losses and damages particularly in vulnerable developing countries. Traditional risk-sharing mechanisms and social safety nets do not match the scale and effect of such catastrophic events. The G7 and the V20 have recognised that vulnerable developing countries need more support for dealing with climate-related damage. Consequently, the G7 countries have agreed with the V20 countries to set up the **Global Shield against Climate Risks** (the Global Shield), which was officially launched at COP27. The Global Shield aims to provide systematic, coherent, and sustained financial protection to scale up support for vulnerable people, communities, and countries facing increasing risk of losses and damages related to climate change.

As one of three financing vehicles under the Global Shield, the **Global Shield Solutions Platform** (GSSP) contributes to shaping the global financial architecture by supporting CDRFI solutions. Its mission is to support the development of innovative climate risk finance and insurance solutions to lower the impact of climate disasters, make vulnerable countries' economies more resilient, safeguard sustainable development, and protect lives and livelihoods of vulnerable people and communities.

The GSSP supports needs-based and sustainable CDRFI solutions by supporting all activities along the value chain, including:

- Supporting comprehensive climate risk analysis, data and modelling support, and project related research as a vital basis for defining needs-based climate risk management and finance strategies, as well as to inform the GSSP in the further development of its strategic focus.
- Funding studies and providing advice for the design and development of new concepts and solutions for CDRFI, considering the specific needs of the poor and vulnerable population.
- Supporting the implementation of innovative climate risk finance and insurance solutions including SMART Premium and Capital support.

GSSP offers support for **Regional Risk Pools under the Global Shield Programme for Resilient Risk Pools (GSRRP)** to foster greater financial protection and faster and more reliable disaster preparedness and response. Regional Risk Pools are collaborative initiatives among countries that offer parametric insurance products to help them access quick financial resources in the event of disasters. They provide cost-efficient insurance coverage through pooling and diversifying risks. They also enhance risk management through standardised risk analysis, local delivery mechanisms, and integration with overall risk management policies. In short, Regional Risk Pools present a compelling value proposition for countries, offering a unique blend of benefits that extend far beyond traditional insurance coverage.

The GSRRP offers a single access route to pooled funding that Regional Risk Pools can access directly and according to their needs.

Thursday, 11 April 2024

The first day of the Climate Risk Finance Forum began with an introduction and an overview of the Forum's content. This included an overview of the Global Shield against Climate Risks as the overarching initiative, the Global Shield Solutions Platform (GSSP) as one of the financing vehicles under the Global Shield, and the host of the Forum. Finally, the Global Shield Programme for Resilient Risk Pools set the thematic framework for the workshops and discussions.

The Climate Risk Finance Forum was organised and hosted by GSSP to bring together representatives from the four Regional Risk Pools, technical experts from the insurance industry, development partners and academia. They convened for one and a half days, engaging in three separate but thematically interlinked tracks. Each track was hosted by a Track Lead who provided the content for discussion. The topics of the tracks were:

01 Operationalising Risk Analytics for Regional Risk Pools, led by the Global Risk Modelling Alliance (GRMA).

02 Potential Optimisation for Risk Ceding and Retention for Regional Risk Pools, led by Willis Towers Watson (WTW).

03 Setting a vision for development insurance, led by the Centre for Disaster Protection (CDP).

This format, with three tracks running in parallel, was chosen to both fill the Forum with a variety of engaging content and relevant information and to reflect the support available to the Risk Pools under the GSRRP. This support encompasses Research and Education, Concept and Solutions Development, and, in the next phase also Implementation Support.

The discussions and outcomes of the three tracks and the workshops that took place as part of each track will inform the structuring of the Support Programme that is currently being developed by the GSSP as part of the GSRRP.

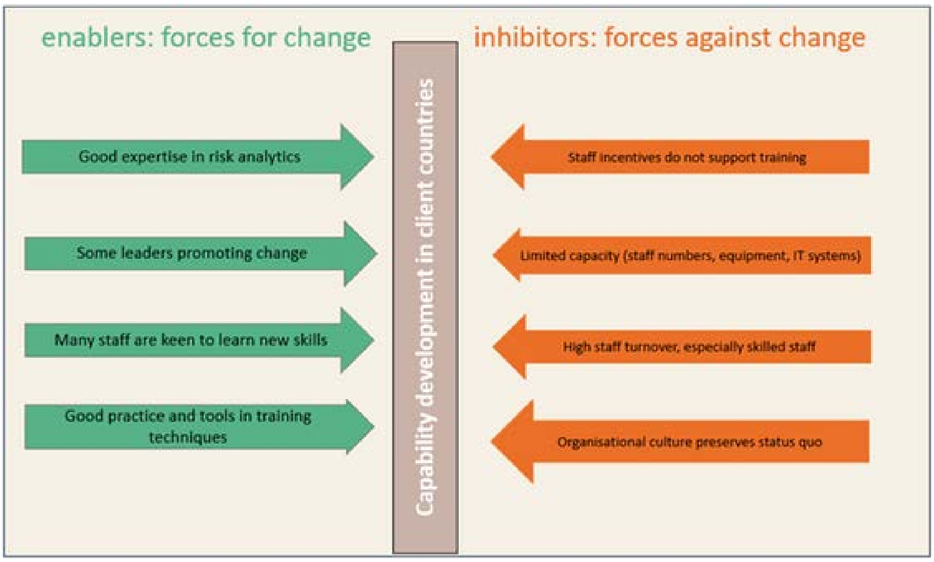
After two sessions per track, the participants reconvened for a plenary session on the topic of Premium Support. This session featured two panel discussions that examined the topic from both the country and global perspective.

The following Track Debriefs summarise the contents and discussions of the individual tracks.

TRACK 1: Operationalising Risk Analytics for Regional Risk Pools

Track 1 of the 2024 Climate Risk Finance Forum focused on the status quo, needs and challenges around **operationalising risk analytics for regional risk pools**. The first session was led by Aileen Lyon, Independent Consultant for the GRMA, who facilitated a discussion around building capability in risk analytics and understanding, followed by a second session on enhancing coordination and exchange of model and data insights, led by GRMA Technical Expert, Alastair Norris.

The first session opened with an introduction to the **Global Risk Modelling Alliance (GRMA)**, its country-specific approach to building capability in risk analytics, and its potential value add to risk pools and the Global Shield. A framework for capability development (CD) was presented, arguing the need to look beyond individual capacities and skills and consider wider institutional, political, and social factors that help or hinder CD. The four risk pool representatives attending the Track were invited to contribute to a 'force field analysis' to explore practices for sustained CD, exchange on experiences of building and receiving CD efforts, and identify where the biggest challenges exist in both building their own capacities as well as that of their client countries.



The discussion revealed that while some experiences are unique to respective risk pools (depending partially on the maturity level of the organisation), others are more widely applicable. Notably, a major need for all risk pools is the ability to **communicate clearly and transparently the complex realities around insurance** (i.e., model limitations, premia, triggers, payouts, challenges, etc.) to member countries – particularly in the context of changing personnel and varying political priorities. Risk aversion among public officials towards investing in insurance and related CD in risk analytics, long timelines beyond project lifespans, and lack of trust were among many inhibiting factors quoted. Some common enablers of successful CD were also cited:

- Mainstreaming or embedding CD efforts within ongoing programmes / strategies (no ad hoc trainings).
- Making a clear case for change (signals from political leadership, positive press coverage, sensitisation).
- Having an institutionalised and accepted understanding of risk across all stakeholders.
- Strong history of collaboration across public, private, and civil sectors; donors, brokers, and reinsurers.
- Aligning stakeholder activities and incentive structures.

The second session sought to discuss the challenge of data and analytics often being developed for single projects, resulting in limited coordination and information / data exchange between countries. A presentation demonstrated **some of the global publicly available datasets, tools and platforms that can provide risk modelling and analytics for use across the entire spectrum of risk management, and how these could support long-term knowledge exchange.**

Participants expressed interest in learning more about various tools (e.g., the risk layering tool developed by the World Bank). An interactive discussion followed around the use of open-source (OS) applications and OS platforms, challenges with accessing various types of tools, and around the potential need for model certification to enable all parties to have trust in a model. The RRPs shared their varying experiences in terms of understanding and using models – for example, while CCRIF have had good experiences commissioning in-house models, SEADRIF indicated a preference towards vendor models. The key takeaway from this discussion was that regardless of the approach, RRPs need to ultimately have ownership over their modelling approach and ensure sufficient technical knowledge in-house to gain trust with member countries and the insurance industry. RRPs further expressed qualified interest in greater sharing of knowledge / information to leverage each other's experiences and also of the experiences of other global or regional initiatives without implications on resourcing. It will be discussed further between RRPs and other organisations at Understanding Risk 2024. It was acknowledged that dissemination of information is itself an intensive activity with resource implications, and often, too much information is counter-productive if not well targeted.

TRACK 2: Potential Optimization for Risk Ceding and Retention for Regional Risk-Pools (RRPs)

17 participants and the two track leads, Simon Young and David Simmons from **Willis Towers Watson (WTW)** came together to actively discuss the results of WTW's study around opportunities for the RRPs as a group and individually to **share risk, access the risk markets more effectively as well as to deploy their capital more effectively**. The study was commissioned by the Global Shield Solutions Platform and will be published in June 2024. The overall objective of the workshops was to test and discuss the study's findings towards the realities of the risk pools.

In the first of two sessions, Simon Young provided some financial, operational and governance information on each of the RRPs as background and presented the four main options for risk-sharing investigated in their study. These are risk swaps, co-insurance, alternative approaches to re-insurance (also including a potential dedicated re-insurance facility), and capitalisation of RRPs. The main recommendations and the support needs identified in the study were discussed in the second session with the purpose to frame tangible next steps which the RRPs would wish to see taken to support their immediate and likely future needs.

Amongst the main challenges was the **provision of capital**. On the one side, ARC Ltd (in particular) needs to accumulate capital from its operations which is challenging as it is not easily possible to increase their insurance premium as governments have a pre-defined dedicated budgets which has been decided long before the pricing of the insurance takes place. PCRIC and CCRIF, on the other side, could explore deploying existing capital in a more dynamic way as this offset the need for currently expensive reinsurance. Deploying their existing capital more effectively is found to be more important as an immediate step for both these risk pools, rather than concentrating only on seeking new capital.

A shared guarantee for the replenishment of capital could ease constraints on deployment of own capital. In general, WTW recommends a mechanism which provides for guaranteed re-capitalisation after pre-agreed levels of capital erosion (e.g., back-to-back retention losses), conditioned on pools having met agreed capital coverage KPI benchmarks, pursuing appropriate ceding vs retention optimisation, and maintaining adequate inwards premium pricing.

Lacking a clear path to recapitalization the pools face the challenge of a reduced appetite to retain risk, especially for the 1-to-2-year time horizon, which leads to the purchase of reinsurance in working layers where they have a high cash cost. Further, the pursuit of large volume coverages for individual perils and countries is dampened by uncertainty around the access to reinsurance at a sustainable price. In principle, some kind of risk sharing across pools would have maximum impact on pricing of coverages for individual perils and countries, although significant capital would be involved. Nevertheless, as it has been discussed during the session, this comes with political difficulties regarding the payment for climate events on the other side of the world.

One point especially highlighted was the potential that can be unlocked to **overcome the significant differential between the pools' and the reinsurance market's view of risk**. To mitigate this gap without moving all the way to where the reinsurers are, the risk view of the RRPs must be very well and thoroughly researched and backed up.

Therefore, risk pools could benefit from establishing a **shared technical resource base,** for example in form of a multi-pool based back-office, to support and complement in-house modelling and analytics as a collective effort. **Each pool could benefit from developing and applying a broadly common risk assessment methodology which fits their needs and meets reinsurance market expectations.** A shared technical resource base could support all RRPs which are under-resourced on the technical side relative to their current operations and for pursuing growth options and to support their view of risk versus the reinsurance market.

A potential **global facility** could also be a technical hub and shared testbed for new initiatives across the regional pools, developing new risk transfer products as well as risk management services. Such a facility could offer several products, beginning with those most valuable to the pools and commensurate with available underwriting capacity. WTW's research suggests that the offering of shares of **facultative excess of loss covers** where market pricing is relatively high would be of highest value to the pools. A second area could be offering fair and **stably priced quota share cover low in the reinsurance stack**, which would be valuable in reducing the cash cost and volatility of the cost of reinsurance for the pools and would not require as much underwriting capacity in the new facility as would playing higher in the reinsurance stack. Further, it could provide multi-year retention covers which would offer an alternative way of protecting a pool's capital base after heavy losses.

TRACK 3: Setting a vision for development insurance

The third track of the Climate Risk Finance Forum 2024 focused on **Development Insurers** and their **impact** on people´s lives. The first session of the workshop emphasised on the areas where development insurance has demonstrable impact, its challenges and limitations, and what could be done. This was followed by a second session focusing on the effects of pre-arranged financing and placing the Risk Pools in the broader context of all financial instruments. Together, the sessions addressed the theme of setting a vision for Development Insurers. The track was led by Daniel Clarke, director of the **Centre for Disaster Protection (CDP)** and Shakira Mustapha and Charlie Benson, research leads at CDP.

The first session started with a brief introduction on the terminologies of multilateral development banks (MDBs) and multilateral development insurers (MDIs) to which the four Regional Risk Pools belong. The guiding topic of discussion was the question if **risk pools should be focused on providing fast payouts to countries or on providing early action with countries**. In this context the 7 habits of highly effective Disaster Risk Finance (DRF) developed by CDP were briefly discussed in preparation of the following presentation of the **Second Formative Evaluation** (FE2) of the African Risk Capacity by Oxford Policy Management (OPM). The study, presented by Patrick Ward, Technical Director, OPM, highlighted the main findings on ARC's capacity building, value for money, growing demand and longer-term sustainability. He presented **recommendations including speeding up the response time from payout to assistance reaching beneficiaries, donors agreeing to longer-term finance commitments through a streamlined channel, and ARC identifying innovative strategies to help recipient governments improve their drought responses**. The presentation led to an interactive discussion about the extent to which transparency is an impediment or a benefit to effective DRF.

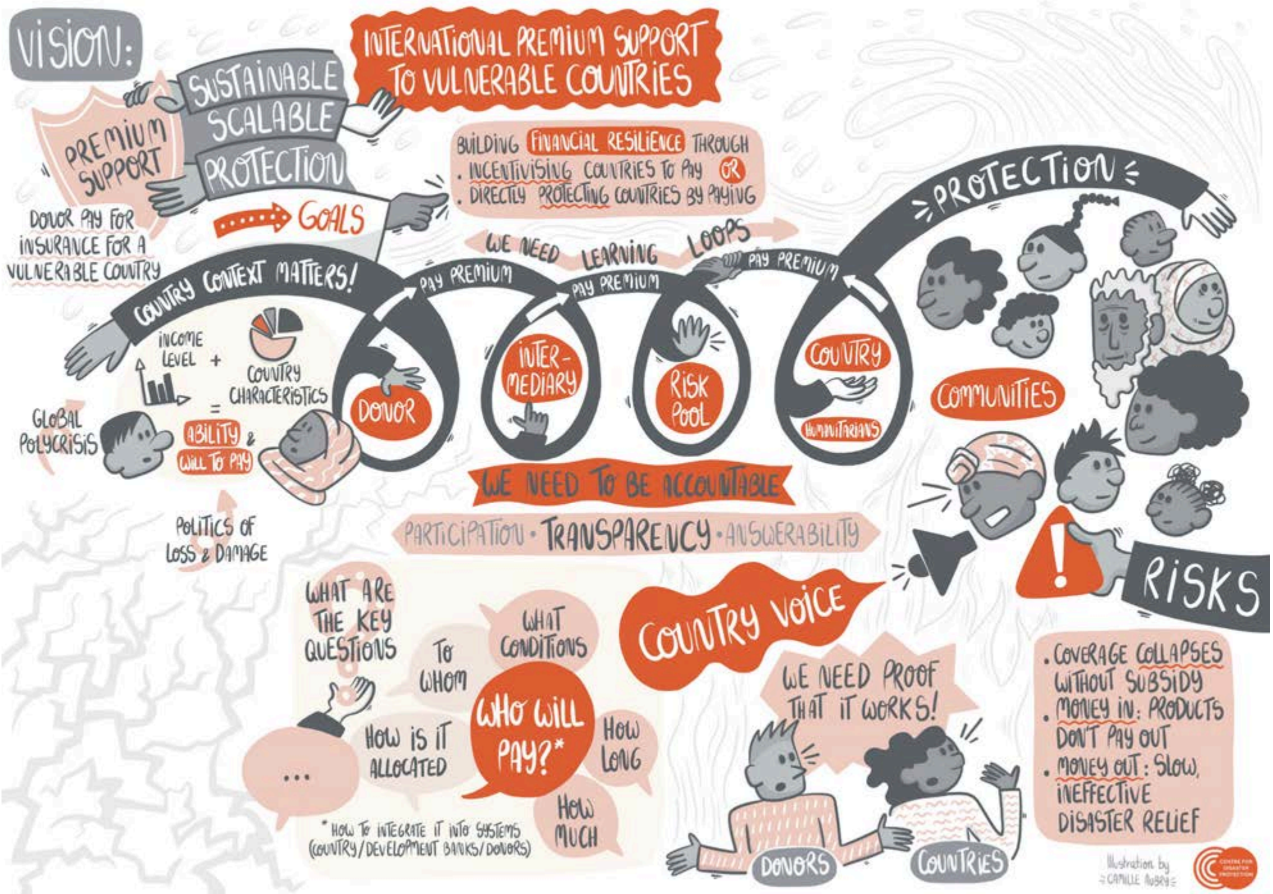
The participants highlighted that fast payouts do not always lead to fast actions since procurement guidelines need to be considered and, in many cases, funds are distributed quickly by the Risk Pools but they stay in governmental systems for several weeks and sometimes months due to bottlenecks. This undermines the value proposition of MDIs. Accordingly, strong government capacities are central to making a positive impact. The discussions also address the questions such as how MDIs can upscale their own capacities. Key recommendations comprised strengthening country ownership to enable faster deployment of funds and generating more regional discussions and coordination around CDRFI for better regional ownership and value for money. Moreover, clear development objectives could also help MDIs unlock financial resources more efficiently.

The second session provided a comparative assessment of **international pre-arranged financing** (PAF). Shakira Mustapha and Charlie Benson presented the preliminary findings of their ongoing assessment of the main PAF instruments provided by different entities such as MDBs (WB, AsDB and IDB) and Regional Risk Pools (CCRIF, ARC, PCIRC, and SEADRIF). Results for the following assessment criteria were shared: Attractiveness, timeliness, targeting and assurance of support, resilience building and development impact. Key takeaways of the presentation and the follow-up discussion are that PAF for international crisis is still in its initial stage and there is significant room for improvement in each of these areas. For instance:

1. PAF generally does not trigger early enough to support anticipatory action,
2. the use of payouts and timeliness of response is not sufficiently transparent given much of the payouts / disbursements from pre-arranged financing is provided as general budget support, and
3. lack of robust evidence that PAF is building resilience.

There were mixed views on what improvements were desirable given the need to respect country's sovereignty, the need to hold all PAF actors to common standards (and not just risk pools) and recognition that what is desirable and feasible for anticipatory action will depend on the nature of the crisis (fast vs. slow onset). **The discussions flagged there was value in Risk Pools sharing more information with each other and prioritizing peer to peer learning**.

The third session was conducted in plenum and focused on **exploring the potential of international premium support to provide sustainable protection for climate-vulnerable countries**. The sessions aimed to discuss existing premium support programmes and offers that enable scalable premium financing, particularly focusing on the needs of vulnerable countries and the objectives of donors.



Panel 1 delved into the country context, examining premium support needs in different country contexts. Discussions revolved around how to enable protection in low-income countries with limited risk-bearing capacities and how to create sustainable premium support pathways. They also explored programme design, built partnerships, and determined terms and conditions for sustainable usage of international premium support.

Panel 2 shifted the focus to the global level, discussing how premium support could help achieve development goals and meet loss and damage financing needs. Panelists explored the allocation of global funding to countries, the necessary conditions for premium support to demonstrate developmental impact, and the role of the insurance industry in supporting these objectives.

The discussions highlighted the need to upscale premium support to a level playing field with the concessional terms of general crisis financing offered to countries. Currently, levels of concessionality in risk pools – but also compared to MDB products – vary significantly, and there's a consensus that premium support needs to be upscaled to ensure sustainable protection.

Key findings emphasised the importance of considering the country context, including economic and political situations, in designing premium support terms and conditions. Additionally, there's a need for better integration of premium financing into national and international systems and for countries' voices to be heard in programme design. The discussions also addressed donor concerns regarding premium support programmes' long-term sustainability and impact. Developing partners emphasised the importance of accountability, transparency, and evidence in ensuring the effectiveness of premium support in creating systemic and long-term financing channels.

Overall, the panel discussions highlighted the critical role premium support can play in providing sustainable protection for vulnerable countries, but also emphasized the need for programme design that considers country context and voices, as well as accountability, and evidence to ensure its long-term effectiveness and scalability.

Friday, 12 April 2024

The second day of the Climate Risk Finance Forum began with a recap of the workshops and outcomes presented by each Track Lead. This summary provided an overview of the key topics discussed and the main points raised during their respective sessions.

Following the recap, a panel discussion was held with the CEOs of the four Regional Risk Pools and the GSSP Management. The focus of the panel was on the key takeaways and outcomes of the sessions from the perspective of the risk pools, as well as the potential implications for the GSSP support programme.

Key messages from the discussion included:

- Investing in the development of proprietary technical capacities at the Regional Risk Pool level is a key success factor to substantiate and back up the Regional Risk Pools' risk view versus the reinsurance industry.
- A longer-term horizon for premium financing and capitalisation will be key for the uptake and thus growth of the Regional Risk Pools.
- Collaboration and knowledge sharing in between Regional Risk Pools is a way to enhance their technical capabilities short-term, where the GSSP is ready to support.

With the conclusion of the panel discussion, the Climate Risk Finance Forum officially ended.

Thank You

We hope you enjoyed the Climate Risk Finance Forum at Frankfurt School of Finance & Management and would appreciate your feedback via the following **survey**.

Contact

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