

Event details

Title **Leveraging Insurance for Resilient Infrastructure**

Date 9 September 2021

Speakers

- **Ekhosuehi Iyahen**, *Insurance Development Forum*
- **Arunkumar Abraham**, *Senior Environment Consultant*
- **Christian Wertli**, *Swiss Re*

Discussant

- **Jane Romero**, *Pacific Region Infrastructure Facility*

Moderator

- **Benita Ainabe**, *Asian Development Bank*



Source: ADB

Overview

Value proposition of the insurance industry for quality infrastructure

Insurance can play an important role in influencing behavior, lowering the economic impact from disaster events, and unlocking private sector financing for sustainable infrastructure investments and more effective disaster response and reconstruction. This interactive session brought together experts and practitioners to discuss the value proposition of the insurance industry for quality infrastructure, de-risking infrastructure investments, and exploring innovative public-private partnerships.

Setting the scene, **Ekhosuehi Iyehen** highlighted the increasingly complex nature of disaster risk and the need to develop new solutions to close the global insurance protection gap, estimated at \$162.5 billion (with emerging economies accounting for 96%)¹. Underscoring that infrastructure investments are critical to achieving the Sustainable Development Goals (SDGs), the necessity and urgency to firmly commit to increased financing to support the mitigation of disasters impacts, including enhanced preparedness planning, more investment in adaptation and risk reduction, risk transfer, and risk informed decision-making, was outlined. COVID-19 was given as an example where just 2% of global funding was planned and arranged in advance. As part of the mix, insurance can help unlock challenges that are faced in public financial management, by leveraging the tools that the insurance industry offers. This includes modeling to improve understanding and planning, incentivizing adaptation measures, structuring of insurance products, and supporting the enhancement of the enabling legal and regulatory environment. It was emphasized that with public sector collaboration, the industry can drive innovation and significantly contribute to sustainable development.

Presenting the case for the value of coral reefs in terms of maintaining genetic diversity and provisioning natural resources such as fish products, generating income through tourism and recreation, and protection from natural hazards, **Arunkumar Abraham** invited participants to consider insuring nature capital-based infrastructure, and specifically coral reef ecosystems. It is estimated that coral reefs have a value of \$2.1 million/ha/year. One innovative option to protect this type of natural infrastructure is parametric insurance. It can provide a pre-agreed amount of financing that will be made available immediately based on the occurrence and intensity of an identified hazard event, serving as a proxy for loss, rather than indemnifying against the actual loss. A pioneering model from Quintana Roo, Mexico was presented in the context of replicating this model in

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other region adapting it to local circumstances. The importance of collaboration was underscored given the context specific nature of natural infrastructure and the many stakeholders.

Christian Wertli outlined the three roles the insurance industry plays with respect to infrastructure. First, as an investor, the insurance industry has over \$30 trillion under asset management with long-term liabilities that is conducive to investments with long horizons, such as sustainable infrastructure. Second, as attracting private capital for infrastructure investments remains a challenge, the insurance industry can help de-risk infrastructure projects and make them more attractive to investors. Equally, where investments and assets are unbankable and uninsurable because of high-risk exposure or because they are not any longer aligned under the objectives of the Paris Alignment, such as coal, the insurance industry can incentivize and facilitate alternative investments that are more resilient and help mitigate climate change. Finally, as a provider of insights as a risk taker, the insurance industry is at the forefront of understanding new technologies and emerging risks, including the impact of climate change. Examples of innovative and comprehensive infrastructure finance projects and solutions were presented bringing together the differing roles the industry plays in practice.

Reflecting on accessing affordable insurance in the Pacific, **Jane Romero** highlighted the increasing challenge of securing adequate insurance cover for infrastructure projects. The causes were attributed to increasing extreme weather events, poor management of project risks while their complexity is increasing, and a lack of capital allocated by the insurance market not least due to the increasing risk of disaster losses in Pacific countries. The small scale of the projects further complicates the context. The diversity of the Pacific Region Infrastructure Facility's project pipeline offers the opportunity to explore aggregation and scalability to support de-risking in small markets through innovate solutions such as risk pooling across the region. Greater collaboration between the private and public sectors will be needed if the infrastructure and insurance protection gap is to be closed in small and less developed markets.

¹ Lloyds. A World at Risk, Closing the Insurance Gap. https://www.lloyds.com/~media/files/news-and-insight/risk-insight/2018/underinsurance/lloyds_underinsurance-report_final.pdf.

Key Takeaways

- 1. Insurance is an important part of the solution for achieving resilient infrastructure.** Insurance plays a key role in building resilience through raising awareness and understanding of risk, incentivizing prevention and risk reduction through planned and evidence-based actions, de-risking projects to facilitate investment, and providing greater financing when events occur.
- 2. Unlocking private capital is crucial to closing the infrastructure gap.** The insurance industry's function as an investor, risk taker and provider of risk insights can, when appropriately sequenced, be leveraged to realize sustainable infrastructure by de-risking projects, co-financing projects, and incentivizing climate resilience.
- 3. Insurance solutions require collaboration.** Recognizing the role and value of public and private sector partners in designing and scaling sustainable solution to finance resilient infrastructure is critical. The use of the industry's tools and experience as an active risk taker can enhance the business case for greater bankability of infrastructure investments.
- 4. There is no one size fits all approach.** The insurance industry can help customize solutions to address specific challenges. Engaging the industry early can drive innovation and reduce barriers to infrastructure project financing.