Allianz Climate Solutions

Opportunities for true partnership
The insurer's perspective on climate risk insurance initiatives

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Karsten Löffler, Managing Director
Engaging the private sector needs to happen early-on and in a smart manner

Matching demand and supply, building trust and partnerships:
- Expertise and mutual understanding about desired solutions
- Transparency about product development / product choice
- True to contracted payouts, pressure potential

*Clearing House? InsuResilience Secretariat? Knowledge platform?*

Public sector keeps an eye on the social impact, while the private sector keeps an eye on financial sustainability

*Impact Metrics for InsuResilience? IDF work on indicators?*
When talking to the private sector you can think beyond pure underwriting activities

Only together we can get the right data (on a case by case basis rather than in a one-stop shop)

no new database needed

and the data right (accessibility, quality, consistency)

OASIS? Open source and data standard initiatives

Enabling (regulatory) environment key to reach the communities with valuable private sector products after 2020

Success criteria beyond 400m?

Timeframes are a major challenge:

• Long development phase, changes in government
• Desire for short-term results / impact /profitability

Solutions?
Insurance is not a cure for all risks and every (personal) loss …
Questions?

Ideas?

Further information  acs.allianz.com

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... but it brings significant value to financial stability. Delivering primary insurance should be the goal.

<table>
<thead>
<tr>
<th></th>
<th>Macro / sovereign level ins.</th>
<th>Primary insurance</th>
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</thead>
<tbody>
<tr>
<td>Ease of distribution</td>
<td>Depending on government infrastructure</td>
<td>Depending on insurance company infrastructure and tailoring to the market</td>
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<tr>
<td>Pay out in case of claim</td>
<td>Relatively quick</td>
<td>Insurance based on indemnity: claims process takes time index / parametric: quick</td>
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<tr>
<td>Incentive for prevention</td>
<td>Moral hazard on end beneficiary level, can be addressed by obligatory preventive measures</td>
<td>Insurance pricing discovers risk and provides incentive for prevention Natural proximity between risk and beneficiary</td>
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<tr>
<td>Financial sustainability</td>
<td>Depending on continuous government / donor funding</td>
<td>Long-term sustainable (if risk adequate premiums are paid by the insured)</td>
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International aid and government funds (reserves, contingency credits etc)
Main hurdles for insurers to increase insurance penetration and support adaptation to climate change exist

**Institutional hurdles**
- Low familiarity with insurance; direct insurance reaches only a small fraction of vulnerable population
- Limited **purchasing power** to cover the cost of insurance
- Limited **financial infrastructure**
- Limited demand for insurance expertise in adaptation planning processes by governments and multilateral organizations; sufficient expertise readily available?
- Visibility of **business case** for insurers to participate in NAP processes

**Customer acceptance and understanding as hurdle**
- Missing **understanding of financial concepts**
- Customers expect **government to protect** them from extreme weather events
- Missing **understanding of the level of risk**, especially of reoccurring risks
- **Reluctance to accept recommendations** coming from the private sector
Example for micro-insurance: Sahel Crop Insurance

- Insurance policy coupled with loan for seed purchase
- Since 2011
- In 2013 over 15,000 farmers in Burkina Faso and Mali took out policies with Allianz Africa
- Index-based, easy payouts
- Basic financial education for farmers
- Caution: Sensation of security, risky behavior?

“When the rains failed I was really surprised when the insurance company came the long way to my village to bring me the news that I receive an insurance payment for my seed loan.”

BARTHELEMY KOHOUN
A FARMER FROM POUNDOU, A VILLAGE OF 4,000 PEOPLE IN BURKINA FASO
Example for risk assessment and development of insurance market: RIICE

- Public-private partnership since 2012
- 7 Asian countries
- Development of remote-sensing system which serves as an early-warning system
- Basis for development of insurance market for smallholder rice farmers

“We want to transfer the financial risks that smallholder farmers face from natural catastrophes to the formal insurance market. Through the remote sensing technology we have a reliable and unbiased tool to calculate insurance premiums and evaluate the losses.”

AMER AHMED
ALLIANZ RE CEO
Example for national level insurance: Uruguay weather and oil price insurance

- A PPP between World Bank, Swiss Re and Allianz Risk Transfer
- Since 2014 in Uruguay
- First index-based weather insurance for hydroelectric power coupled with oil price
- Decreases the country’s financial exposure in times of drought
- Swiss Re Corporate Solutions and Allianz Risk Transfer took on a material part of the risk

"Combining protection against the risk of drought and high oil prices is something that works particularly well for hydropower companies [...] This transaction is a good example of how we can focus our financial and technical expertise, combined with experiences in other countries, to deliver solutions that meet specific client needs.

MADELYN ANTONCIC
Vice-President and Treasurer of the World Bank
Risk transfer in the portfolio of responses on a sovereign level


Expected return period