Property Catastrophe Risk Insurance

Background

With an increasing concentration of people and assets in high risk zones (e.g., coastal areas), many cities have become more vulnerable to natural hazards. Especially in developing countries, poor land management and weak enforcement of building codes lead to significant losses from property damage following natural disasters. Often, property catastrophe insurance markets are underdeveloped in developing countries, and the government is expected to provide support for private reconstruction.

Public assets are also exposed to natural disasters. Although governments primarily self-insure, they can often benefit from transferring a portion of their risk to the private insurance markets. Being relieved of this contingent obligation enables the government to preserve its resources to meet immediate post-disaster financial demands and to fulfill social obligations to the poor.

Property catastrophe insurance programs are designed to protect private and/or public assets against natural disasters. Property catastrophe insurance promotes ex-ante financial risk management of natural disaster risk. The World Bank works with the low- and middle-income countries to develop property catastrophe insurance programs, usually relying on public-private partnerships, to strengthen the financial capacity of the country against natural disasters.

Private Property Catastrophe Insurance

The development of private catastrophe insurance financially shelters homeowners, small- and medium-enterprises, and governments against losses caused by natural disasters and relieves the government of pressure to provide post-disaster subsidies in the aftermath of a natural disaster. Property catastrophe insurance can also encourage physical risk mitigation and safer construction practices through premium reductions, risk-based pricing, and arrangements with independent engineering firms that certify construction quality of new residential buildings as a precondition for insurance.

The World Bank assists countries in developing sustainable and competitive property catastrophe insurance markets and increasing property catastrophe insurance penetration among homeowners and small and medium enterprises through the establishment of property catastrophe insurance pools.

The design of a property catastrophe insurance pool is tailored to the specific country or region where the pool is being developed. However, property catastrophe insurance pools have some common goals:

- Creating an insurance mechanism to make liquidity readily available to those affected by a natural disaster;
- Reducing the government’s fiscal exposure and the risk to the national economy arising from major natural disasters;
- Ensuring the financial solvency of the pool after all but the most catastrophic events;
- Reducing the government’s financial dependence on donors’ financial assistance in the aftermath of major natural disasters.

The World Bank has provided technical assistance and contingent financing to establish property catastrophe risk insurance pools at national and regional levels. Such pools include, for example, the Turkish Catastrophe Insurance Pool and the South East Europe and Caucasus Catastrophe Risk Insurance Facility (SEEC CRIF). These facilities demonstrate international best practice in developing catastrophe risk market infrastructure; SEEC CRIF, for example, utilizes state-of-the-art information technology to standardize the production and servicing of catastrophe insurance.

At a glance

- Damages caused by natural disasters are increasing due to increasing concentration of population and assets in high-risk areas, growing urbanization, environmental degradation, and climate change.
- In developing countries with low insurance penetration, governments are often expected to provide support for private reconstruction, in addition to reconstruction of public buildings and infrastructure.
- Property catastrophe insurance programs can cover private and public assets and promote ex-ante financial risk management of natural disasters.
The efficient financing of natural disasters relies on public-private partnerships between the private insurance and reinsurance industries and governments. Figure 1 summarizes public and private financing responsibilities. Governments, frequently backed by donors, should focus on (i) stimulation of competitive private insurance markets through the development of risk market infrastructure and top layers of catastrophe risks; (ii) provision of post-disaster assistance to the poor and disadvantaged; and (iii) restoration of lifeline infrastructure.

**Public Asset Catastrophe Insurance**

Governments sometimes require managers of public assets to buy insurance for the assets under their purview. Recently, the World Bank has assisted countries in pooling the risks born by public assets and purchasing insurance that allows for these risks to be structured and allocated efficiently. This approach can enable governments to insure public assets at a lower cost than if insurance was purchased by individual managers of public assets.

The first World Bank public asset catastrophe insurance project is advancing with Costa Rica, where a catastrophe risk transfer vehicle (CRTV) is being designed. The CRTV will be a facility that will enable insurance companies to offer comprehensive property insurance coverage to public entities, retaining non-catastrophe risks (e.g., fire) and passing catastrophe risks (e.g., earthquake) to the CRTV.

**Further Reading**


**Contact**

**Olivier Mahul**, Program Coordinator, Disaster Risk Financing and Insurance, Capital Markets Practice (NBFI), and GFDRR, The World Bank, omahul@worldbank.org, +1(202) 458-8955

**Eugene Gurenko**, Lead Insurance and Risk Management Specialist, Capital Markets Practice (NBFI), The World Bank, egurenko@worldbank.org, +1(202) 458 5414