Report Number: ICRR0022583

1. Project Data

Project ID	Project Name
P156455	SEE Catastrophe Insurance Facility TA
Country	**Practice Area(Lead)**
Western Balkans	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-95647,TF-A6354	30-Jun-2020	11,056,559.46
Bank Approval Date	**Closing Date (Actual)**	
14-Sep-2015	30-Jun-2020	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	11,056,976.97	11,056,976.97
Revised Commitment	11,056,976.97	11,056,559.46
Actual	11,056,559.46	11,056,559.46

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	John R. Eriksson	Christopher David Nelson	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (page 5), the project development objective of the Southeast Europe Catastrophe Risk Insurance Facility (SEE CRIF) Technical Assistance SECO Project was "(i) to increase the access of homeowners, farmers, the enterprise sector, and government agencies to affordable insurance covering losses to property and crops caused by climate change and geological hazards in Albania, FYR of Macedonia, and Serbia, and (ii) to expand the offering of innovative catastrophe insurance products developed under the SEE CRIF Project to Bosnia and Herzegovina."

This technical assistance project, funded by the Swiss State Secretariat for Economic Affairs (SECO), represents the second phase of the development of the SEE CRIF, established in 2010 to develop catastrophe risk insurance markets in Albania, North Macedonia (the Former Yugoslav Republic of Macedonia was renamed Republic of North Macedonia in 2019), Serbia, and Bosnia and Herzegovina:

- The first or start-up phase, in 2009-15, also funded by SECO (P117069 and TF071362), launched the SEE CRIF as a catastrophe and weather risk insurance program in the SEE and the Europa Reinsurance Facility Ltd. (Europa Re) as the program implementing agency (Europa Re was incorporated under Swiss Law by the three founding SEE states in 2009). Albania joined SEE CRIF in 2008 and Serbia and North Macedonia in 2010, all three borrowing from the World Bank to finance their contributions to Europa Re. SECO provided technical assistance grants to Europa Re in 2009 and 2010. Europa Re also received a technical assistance grants from the Global Environment Facility in 2011 and from the Global Facility for Disaster Reduction and Recovery. By 2015, Europa Re had become a full-pledged Swiss reinsurer, domiciled and licensed in Switzerland, regulated by the Swiss Financial Market Supervisory Authority (FINMA), offering various catastrophe risk insurance products, and supporting the sales of catastrophe insurance policies by local insurance partners.
- This second phase, in 2015-20, funded by SECO (P156455 and TF095647 and TF0A6354), aimed to further develop the catastrophe risk insurance market in the three original member states and to expand SEE CRIF to Bosnia and Herzegovina. In 2017, a new activity – to raise Europa Re's capital reserve – was added to this project, in response to a mandate by FINMA requiring all Swiss reinsurers to meet additional statutory capital requirements.

This ICR Review and the ICR cover only the second phase of the development of SEE CRIF and the operations of Europa Re. For purposes of this evaluation, the project development objectives are parsed as follows (the first two drawn from the Project Appraisal Document of 2015 and the third adapted from the Restructuring Paper of 2017 and the ICR of 2021):

- Objective 1 - To increase the access of homeowners, farmers, the enterprise sector, and government agencies to affordable insurance covering losses to property and crops caused by climate change and geological hazards in Albania, North Macedonia, and Serbia.
- Objective 2 - To expand the offering of innovative catastrophe insurance products developed under the Southeast Europe Catastrophe Risk Insurance Facility to Bosnia and Herzegovina.
- Objective 3 - To support the financial sustainability of Europa Re.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had two components.

Technical Assistance (US$4.158 million estimated at appraisal for technical assistance activities, fully disbursed to Europa Re; and US$0.08 million for project supervision and trust fund management disbursed

to the World Bank) aimed to increase access to catastrophe risk insurance for homeowners, farmers, the enterprise sector and government agencies in Albania, North Macedonia, and Serbia and to expand the offering of innovative catastrophe insurance products developed under the SEE CRIF to Bosnia and Herzegovina. The technical assistance activities included: (a) consulting services to support insurance product development, capacity development for risk-based supervision by national insurance regulators, marketing of insurance products, and information technology for insurance sales and claims management; (b) country risk assessment for the development of new catastrophe risk models, risk underwriting services, actuarial work, and disaster risk management advisory work; (c) project management, including compensation for the Europa Re board of directors and project administrative staff; (d) audits of the SECO trust fund and the Europa Re financial statements; and (e) training of project staff on project management, procurement, and financial management.

Capital Reserve Financing (US$2.851 estimated at restructuring in 2017 for capital reserve financing, fully disbursed to Europa Re; and US$0.15 for project supervision and trust fund management disbursed to the World Bank) aimed to raise the capital reserve of Europa Re to meet new statutory capital requirements for all Swiss reinsurers set in 2017 by FINMA, the regulator of banks, insurance companies, stock exchanges, securities dealers, and other financial intermediaries in Switzerland.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: According to the Project Appraisal Document of August 2015, the project was estimated originally to cost US$4.23 million at appraisal, for technical assistance activities. According to the Restructuring Paper of October 2017, an additional project cost of US$3.0 million was required for the capital reserve financing activity. The estimated project costs were inclusive of costs for project supervision and trust fund management due to the World Bank.

Financing: This technical assistance project was financed by grant of US$4.158 million from SECO to Europa Re Ltd., as grantee and project implementing agency, in 2015 and another grant of US$2.851 million in 2017. To complete the financing picture over the two-phase development of SEE CRIF and Europa Re, SECO had previously provided a grant of US$2.23 million in 2009 and another US$1.9 million in 2010, taking the total SECO grants funds extended to Europa Re to US$11.1 million over 2009-2020.

Borrower Contribution: There was no contribution to this technical assistance project by the grantee and implementing agency, Europa Re Ltd., or by the SEE countries benefitting from SEE CRIF and Europa Re's operations – Albania, North Macedonia, Serbia, and Bosnia and Herzegovina.

Dates: The project was approved and became effective on September 14, 2015, and closed on June 30, 2020.

Restructuring: This project was restructured on October 25, 2017. The restructuring: (a) added a new project activity – "Funding for Europa Re Capital Reserve," involving the increase in Europa Re's statutory capital by CHF2.851 million to meet a mandate by FINMA that all Swiss reinsurers meet a new statutory capital requirement of CHF10 million, regardless of their risk exposure and risk-based solvency; (b) provided additional funding of US$3.0 million from SECO; and (c) extended the project closing date for two years from June 30, 2018 to June 30, 2020.

3. Relevance of Objectives

Rationale

The project development objectives of this operation were relevant to efforts by the SEE countries to build resilience to natural disasters.

- The frequency and severity of natural disasters had risen in recent years in the SEE region, ninety percent of which is located in trans-boundary river basins that are highly prone to flooding. Flooding affects US$200 million of GDP annually in Albania (GDP was US$11.6 billion in 2015) and 50,000 of the population (population was 2.9 million in 2015). Earthquakes, however, pose the greater risk of a higher impact lower probability event and affect US$700 million of GDP and 20,000 of the population annually. In Northern Macedonia, where the capital Skopje is exposed to flooding from the Vardar, Treska and Lepenec rivers due to heavy rainfall and snow melting, flooding affects US$500 million of GDP (GDP was US$10.5 billion in 2015) and 70,000 of the population (population was 2.1 million in 2015) annually. Earthquakes affect US$200 million of GDP and 40,000 of the population annually. The capital losses from earthquakes are US$100 million annually. Floods pose the greater risk to Serbia and occur mostly along the river courses of Sava, Drina, Velika Morava, Juzna Morava, and Zapadna Morava. Flooding affects US$1 billion of GDP (GDP was US$36.4 billion in 2015) and 200,000 of the population (population was 7.1 million in 2015) annually. Meanwhile, earthquakes affect US$300 million of GDP and 60,000 of the population annually. Flooding also poses the greater risk in Bosnia and Herzegovina and affects US$600 million of GDP (GDP was US$15.3 billion in 2015) and 100,000 of the population (population was 3.8 million in 2015) annually. With Bosnia and Herzegovina lying within the Mediterranean-Trans-Asia fault zone, one of the most seismic areas in the Balkan Peninsula, earthquakes affect US$200 million of GDP and 20,000 of the population annually.
- With the SEE governments facing limited capacity to respond to and recover from natural disasters, it was thought in 2009 that the SEE states could transfer the financial risks arising from natural disasters to the private sector with the organization of a regional catastrophe insurance market. A regional market would be more viable than small under-developed national markets and would be of greater commercial interest to reinsurers. Since then, half a decade after the creation of SEE CRIF and the organization of Europa Re, catastrophe insurance products had become available and affordable to the regional market. This project, representing the second phase in the development of SEE CRIF and Europa Re, would deepen the market in Albania, North Macedonia, and Serbia, and introduce catastrophe risk insurance to a fourth market, Bosnia and Herzegovina.
- The project would also support the financial sustainability of Europa Re, after the company shifted its business model in 2017 from being a specialized catastrophe reinsurer in the SEE to being a universal non-life reinsurer writing business worldwide. When SEE CRIF and Europa Re were created in 2009, it was expected (although not required) that the SEE countries would pass laws making property catastrophe insurance mandatory following similar schemes in other catastrophe insurance programs supported by the Bank, including the Turkish Catastrophe Insurance Pool, the Romanian Pool-ul de Asigurare Împotriva Dezastrelor Naturale, and the Caribbean Catastrophe Risk Insurance Facility. Making catastrophe insurance mandatory would: increase demand for catastrophe insurance products; ensure extensive catastrophic risk coverage; and improve the long-term viability of SEE CRIF and Europa Re. When the SEE countries would not adopt the mandatory

insurance scheme, but, in fact, continued to compensate uninsured homeowners, following a major earthquake in Albania and floods in North Macedonia and Serbia, Europa Re adjusted its business model to gain financial sustainability – the company would not be able to cover its operating costs from limited reinsurance premium income alone if the demand for catastrophe insurance were lower than expected.

The project development objectives were aligned with the Bank Group strategy in Albania, North Macedonia, Serbia and Bosnia Herzegovina:

- The *Country Partnership Framework for Albania 2015-2019* acknowledged that "Albania has high vulnerability to natural disasters, especially floods, on account of weather variability and climate change" and cites efforts at disaster risk management and flood management studies on Drin River in response to these risks.
- The *Country Partnership Strategy for the Former Yugoslav Republic of Macedonia for the Period FY2015-FY2018* states that "continued development of insurance mechanisms can help limit the financial damage of natural disasters to which FYR Macedonia is prone."
- The *Country Partnership Framework for Serbia for the Period FY16-FY20* notes that the 2012 and 2014 recessions were primarily caused by natural disasters and that, “Disaster Risk Management is an inherent part of the policy coordination and rationalization agenda (Objective 1b) as well of financial risk mitigation through the Catastrophic Risk Insurance Facility (Objective 2b)."
- The *Country Partnership Framework for Bosnia and Herzegovina for the Period FY16-FY20* cites three focus areas, one being "building resilience to external shocks, including climate-induced natural disasters."

The project development objectives were also relevant to the work of the SEE countries and the Bank relative to:

- the *Hyogo Framework for Action 2005-2015*, which considered the "development of financial risk-sharing mechanisms, particularly insurance and reinsurance against disasters" as a priority action for improving the resilience of states and communities to natural disasters;
- the *Cancun Agreements on Climate Chang*e, which called for enhanced action on climate change adaptation with significant focus on the role of insurance and other risk transfer mechanisms; and,
- the *U.N. Sustainable Development Goal*s, particularly with SDG 13 "to take urgent action to combat climate change and its impacts" and the target "to strengthen resilience and adaptive capacity to climate-related disasters."

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To increase the access of homeowners, farmers, the enterprise sector, and government agencies to affordable insurance covering losses to property and crops caused by climate change and geological hazards in Albania, North Macedonia, and Serbia.

Rationale

Theory of Change. The expansion of Europa Re's catastrophe risk reinsurance business in Albania, North Macedonia, and Serbia would increase the access of households, farms, enterprises, and governments in these countries to affordable insurance covering losses to their property and agricultural produce caused by natural disasters. This assumes that: (a) primary private insurers are able to develop, structure and offer catastrophe risk insurance products that are suitable and affordable; (b) consumers are knowledgeable about and have the economic incentive to purchase these insurance products; and (c) the reinsurer has the capacity to pool and diversify risks across risk classes, locations, customers, and time and provide an additional layer of risk absorption capacity to the insurance market. The provision of technical assistance for insurance product development, marketing of insurance products, information technology for insurance sales and claims management, development of new catastrophe risk models, risk underwriting services, actuarial work, disaster risk management advisory work, and capacity development for risk-based supervision by national insurance regulators would help achieve this objective.

Outputs. The project met the three output targets set for this objective.

- The percentage of insurance agents offering Europa Re insurance products was 43.7 percent in Albania, 23.6 percent in North Macedonia, and 10 percent in Serbia, meeting the target of 10 percent for each market. Europa Re has signed business cooperation agreements with four insurance companies in Albania, four in North Macedonia, and three in Serbia, which offer Europa Re insurance products to consumers. The business partnerships have allowed these companies to offer catastrophe insurance products developed under SEE CRIF as well as those developed by the companies inhouse.
- An insurance microproduct costing Euro (EUR) 1.00-2.00 per annum (for an insured sum of EUR 20,000-30,000) had been available in Albania and Serbia since October 2015 and an earthquake insurance microproduct costing EUR 7.00 per annum (for an insured sum of EUR 15,000-20,000) is available in North Macedonia, meeting the target that insurance products costing US$2.00 be available to ensure the affordability of insurance premiums for basic catastrophe insurance. The insurance microproduct is distributed by several banks and a specialty retailer in Albania and Serbia while the earthquake insurance microproduct is part of the mortgage lending program of two commercial banks in North Macedonia. Europa Re provides reinsurance coverage for these microinsurance products.
- The number of insurance companies offering catastrophe risk insurance products developed under the project to the public reached 10, exactly meeting the target.

Outcome. The project met the outcome target set for this objective.

- Insurance products designed under SEE CRIF are widely available in Albania, North Macedonia, and Serbia, meeting the target. The target did not specify the number of products that would be made available in these national markets.

- From 2015 to 2019, a total 10,152 policies had been written for products including area yield index insurance (AYII), micro earthquake stand-alone, package commercial, package residential, earthquake stand-alone, earthquake commercial, earthquake residential, disaster relief stand-alone, and disaster relief motor third-party liability (MTPL). The total premiums collected amounted to EUR 580,080 for the total insured sum of EUR 65.358 million on a total insured area of 242.8 million square meters. In 2019 alone, 890 policies were written and EUR 116,295 in premium were collected on EUR 16.0 million of insured assets covering an insured area of 12,743 square meters. All the catastrophe insurance products were developed under SEE CRIF, were introduced to the market by Europa Re, were actuarially priced, and did not receive any premium subsidy.
- Moreover, over the course of this project, Europa Re has developed sovereign and municipal insurance products in all three SEE states – sovereign disaster risk transfer products, municipal budget protection products for natural disasters, AYII for municipalities (AYII is a multiple-peril index-based insurance policy that insures farmers against all climatic and biological perils that could cause a drop in yield below a historical average for a certain planted area). None of the three states have so far availed of sovereign catastrophe insurance coverage, but Serbia has been active in the municipal catastrophe insurance market (the business has generated US$500,000 in premiums over the course of this project).

While the project met all output and outcome targets, the uptake of catastrophe risk insurance products in Albania, North Macedonia and Serbia would have been greater had the governments adopted a mandatory risk insurance system.

Rating
Substantial

OBJECTIVE 2
Objective
To expand the offering of innovative catastrophe insurance products developed under the SEE CRIF to Bosnia and Herzegovina.

Rationale
Theory of Change. The extension of SEE CRIF and Europa Re's reinsurance business to Bosnia and Herzegovina would make catastrophe risk insurance products available to households, farms, enterprises, and governments in the country, in the same way that these insurance products were available in Albania, North Macedonia, and Serbia. The same interventions – technical assistance for various product and market development activities – would be applied to Bosnia and Herzegovina. The same set of assumptions about the markets in Albania, North Macedonia, and Serbia would have to hold for the outcome to be achieved in Bosnia and Herzegovina.

Output. The project met the output target set for this objective.

- Catastrophe risk insurance products are available in Bosnia Herzegovina, meeting the target. The Europa Re Board approved the expansion of the company's operations to Bosnia and Herzegovina in 2015. Europa Re renewed its participation in commercial reinsurance coverages for six companies

that provide earthquake and flood insurance to homeowners in 2018. The company also offered its earthquake insurance tariff (the fixed price list that determines the premium rates which insurance companies can charge consumers for insurance products sold by them) to the local market – the tariff is used by local companies in pricing earthquake insurance coverage.

Outcome. The project met the outcome target set for this objective, which was also the same as the outcome target.

- Catastrophe risk insurance products are available in Bosnia Herzegovina, meeting the target. As with the output indicator, the target for this outcome indicator did not specify the number of products that would be made available in this national market.
- Europa Re has since December 2018 offered global reinsurance coverage to six insurance companies in Bosnia and Herzegovina.

While the project met all output and outcome targets, the uptake of catastrophe risk insurance products in Bosnia and Herzegovina would have been greater had the government adopted a mandatory risk insurance system.

Rating
Substantial

OBJECTIVE 3
Objective
To support the future financial sustainability of Europa Re.

Rationale
Theory of Change. The provision of additional capital to Europa Re would allow the company to meet new statutory capital requirements imposed by the regulator FINMA on all Swiss reinsurers. Higher capital buffers would boost Europa Re's ability to meet its profitability target and maintain its credit rating, thus enabling it to perform its reinsurance functions in the SEE catastrophe risk insurance market.

Output. The project achieved the output target set for this objective.

- The amount of capital reserve of Europa Re that was financed by the project was US$2.815 million, meeting the target. Following the capital infusion, Europa Re's equity capital rose from CHF10.8 million in end-2018 to CHF12.3 million in end-2019. The equity capital is estimated to top CHF13.5 million in end-2020 and projected to increase to CH14.9 million in end-2021 and CHF16.6 million in end-2022. With the addition to its capital reserve, Europa Re was able to maintain it reinsurance license with FINMA, adding to its credibility and good standing as a reinsurer. FINMA had required all Swiss reinsurers, regardless of their risk exposures and risk-based solvency margins, to meet a minimum capital requirement of CHF10 million in 2017. For Europa Re, FINMA required the reinsurer to increase its statutory capital by at least CHF2.5 million before end-2017.

Outcome. The project met the outcome target set for this objective.

- Europa Re's return on equity (ROE) – the ratio of net income to shareholders' equity, an indicator of profitability – reached 3.4 percent in 2018, and although it dipped to 1.7 percent in 2019, it bounced back to 5.1 percent in the first half of 2020, exceeding the target of 3 percent. Calculations based on unaudited financial statements estimate the ROE at 7.4 percent for the full year 2020, and project it to strengthen to 8.7 percent in 2021 and 9 percent in 2022. Because Albania, North Macedonia, and Serbia had not mandated compulsory catastrophe insurance among their residents, the demand for Europa Re's products had not been as strong as originally expected. To address the shortfall in expected demand, Europa began to write reinsurance business worldwide beginning in end-2017. The change, however, raised concerns about the company's financial stability and motivated the addition of this capital raising activity and results indicator to the project results framework..
- Apart from meeting the profitability target, Europa Re also strengthened its creditworthiness. According corporate financial data reported to FINMA in May 2020 and publicly disclosed by the reinsurer, the company's solvency ratio – calculated, following the regulatory Swiss Solvency Test (SST), as SST risk-bearing capital (SST RBC) minus the market value margin (MVM), divided by SST solvency capital requirement (SCR) – remained a high 216 percent as of January 1, 2020. The solvency ratio had been consistently high, at par or above 200 percent since 2016, an indicator of the company's creditworthiness. The risk-based SST regime is equivalent to the European Union (EU) Solvency II standard, which measures a reinsurer's probability of default based on: (a) ratings assigned by external credit assessment institutions (ECAI's), in case of a rated reinsurer; or (b) risk-based solvency ratios, in the case of an unrated reinsurer domiciled in an EU-equivalent supervisory regime. For a solvency ratio of at least 196 percent, which Europa Re meets, the associated probability of default would be 0.01 percent and the equivalent ECAI rating would be AA (by S&P), Aa (Moody's), and AA (Fitch).
- Moreover, Europa Re's pivot toward the global reinsurance business beginning in 2017 affords it the opportunity to attain even better financial results moving forward.

Rating
High

OVERALL EFFICACY

Rationale

The project met all of the output and outcome targets set for the objectives to increase the access to affordable insurance covering losses to property and crops caused by climate change and geological hazards in Albania, North Macedonia, and Serbia, to expand the offering of catastrophe insurance products developed under SEE CRIF to Bosnia and Herzegovina, and to support the future financial sustainability of Europa Re. The degree of achievement of the project objectives is assessed as substantial. The adoption by Albania, North Macedonia, Serbia, and Bosnia and Herzegovina of mandatory catastrophe risk insurance, an expected but not required action by the SEE governments, would have set a stronger foundation for the regional catastrophe risk insurance market in the SEE region but was not completed. The rating for overall efficacy is lower (substantial, rather than high) for this reason.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The Bank did not conduct any formal cost-benefit analysis for this project at appraisal or at completion. The ICR (page 24), however, argues that Europa Re, the implementing agency, was a cost-effective reinsurer. While most insurance companies would allocate 20-30 percent of the budget for developing and selling a new insurance product for administrative expenses, Europa Re used only 10 percent of the grant funds for administrative expenses.

Operational Efficiency. The operational efficiency of this project is assessed as substantial. All planned project activities were implemented, and they were completed on time and within budget. Bank audits of Europa Re concluded that the project funds were used properly and efficiently.

Because there is no evidential basis for drawing a firm conclusion about economic efficiency, the overall efficiency of this project is assessed as modest. A cost-benefit analysis could have been attempted. According to the Organization for Economic Cooperation and Development (OECD), for instance – see OECD, "The Contribution of Reinsurance Markets to Managing Catastrophe Risk," 2018, page 39 – it is possible to calculate a simple loss ratio (the ratio of reinsurance claims paid to reinsurance premiums written, excluding commissions and loss adjustment expenses) to judge the cost of a reinsurance system (the simple average loss ratio was 67.9 percent for property catastrophe reinsurance across a sample of 29 countries for 2014-2016).

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project development objective was relevant to efforts by the SEE countries to build resilience to natural disasters, specially floods and earthquakes to which they were particularly exposed, by expanding the operation of the regional catastrophe risk insurance market created by SEE CRIF and strengthening the finances of the principal reinsurance company Europa Re. The project met all of the output and outcome targets set for the objectives to increase the access to affordable insurance covering losses to property and crops caused by climate change and geological hazards in Albania, North Macedonia, and Serbia, to expand the offering of catastrophe insurance products developed under SEE CRIF to Bosnia and Herzegovina, and to support the future financial sustainability of Europa Re. There was no data to assess the economic efficiency of the project, but the completion of all project activities within budget and on schedule was evidence of the operational efficiency of the project. The outcome of the project is rated moderately satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risks to the sustainability of the development outcomes of this project is assessed to be moderate.

Political Risk. According to the ICR (page 29), frequent changes in the political leadership in the SEE countries partly explained the lack of firm political commitment to mandating catastrophe risk insurance in the SEE states. Moreover, the political preference was to offer aid to constituents in the aftermath of natural disasters rather than to have the constituents take out catastrophe risk insurance. Hence, catastrophe risk insurance mandates face considerable hurdles in such a political context.

Business Risk. Although this technical assistance project strengthened the supply side of the catastrophe risk insurance market in the SEE, with the development of new products for the three SEE states and the expansion of SEE CRIF to Bosnia and Herzegovina, much work remains on the demand side. The problem pertains not only to the lack of national legislation mandating compulsory catastrophe risk insurance but also to low levels of public awareness of catastrophe risk, low levels of public knowledge about insurance products, and public perceptions that compulsory catastrophe insurance is yet another tax imposed by the government.

COVID-19 Risk. As elsewhere globally, the COVID-19 pandemic has disrupted economic and business activity in the SEE countries. There are both negative and positive risks. On the downside, the pandemic and the attendant governmental focus on public health responses and on fiscal and monetary stimulus measures to revive economic activity detract attention from other items in the public policy agenda, including disaster risk reduction and catastrophe insurance. In Albania, for example, two big earthquakes in 2019, with damages topping US$1 billion, prompted the government to consider introducing compulsory catastrophe insurance, a move endorsed by the Bank and for which a catastrophe insurance law was drafted by the Albanian Financial Supervisory Authority. According to the ICR (page 35), the pandemic stopped further work on the legislation. On the upside, the pandemic has highlighted the possibility offered by catastrophe risk insurance to cover pandemic risks as well. According to the ICR (page 27), Europa Re is "exploring the opportunity of how to offer a regional insurance solution against future pandemics in the SEE region."

8. Assessment of Bank Performance

a. Quality-at-Entry

Although this technical assistance project would continue with the earlier first-phase development of SEE CRIF and Europa Re, the Bank conducted a full-pledged vetting of the project objectives, results framework, and implementation arrangements, according to the ICR (pages 32-33).

- A Project Concept Note and Grant Restructuring Paper (to extend the Grant Agreement with SECO, which was providing CHF3.95 million or US$4.23 million in financing, and to extend the project completion date to December 31, 2018) was prepared. A Project Appraisal Document was also prepared.
- This technical assistance project would use the project implementation arrangements, including for project management, procurement, financial management, audits, monitoring and evaluation, and information technology as had been used earlier in the first phase from 2009-15.
- It was concluded that the new activities did not change the environmental category of the project or trigger any Bank safeguard policies. Hence, there would be no changes to the safeguard arrangements for this project.

In preparing this project, the Bank drew from lessons learned during the first-phase development of SEE CRIF and Europa Re. The Bank was also cognizant of lessons learned from other catastrophe insurance programs globally, including about the vital importance of mandatory systems to ensure the financial sustainability of the insurance programs. As can be gleaned from the ICR (pages 32-33), there were pros and cons to requiring the SEE states to legislate mandatory catastrophe risk insurance systems as a condition for this grant. The arguments in favor were:

- Demand for insurance products would arguably be spurred if: insurance were compulsory for all mortgage holders residing in disaster-prone areas; proof of catastrophe insurance coverage were required on all properties in disaster-prone areas upon the registration of real estate sales; and insurance of government-owned buildings or stock were mandatory to manage contingent fiscal liabilities due to natural disasters.
- Making catastrophe insurance mandatory would enhance the long-term viability of SEE CRIF and the financial sustainability of Europa Re, thus ensuring extensive catastrophe risk coverage in the SEE and protecting a greater number of people from financial harm due to natural disasters.
- In other catastrophe insurance programs like the Turkish Catastrophe Insurance Pool and the Romanian Pool-ul de Asigurare Împotriva Dezastrelor Naturale, participating countries were expected to pass laws making property catastrophe insurance mandatory for homeowners and they did – Turkey in 2000 and Romania in 2010. Consumer demand for catastrophe insurance would have otherwise been low in Turkey and Romania in the absence of a mandatory catastrophe insurance system, according to the Project Appraisal Document (page 10).

The arguments against requiring mandatory catastrophe risk insurance legislation as a condition for this grant were

- The project was small in size and a pilot undertaking.

- Europa Re, and not the SEE governments, was the project implementing agency, hence project covenants could not be imposed on the governments.
- The focus of the project was on the supply side of the catastrophe insurance market.
- The expectation was that the demand side could be addressed in due course and using other Bank instruments.
- Any demand for mandatory insurance would have political implications in the SEE states.

Evidently, the arguments against a grant conditionality weighed on the Bank's decision. Nonetheless, the ICR (page 32) admits that the Bank, in hindsight, over-estimated the demand for catastrophe insurance based on the expectation that the SEE governments would enact the supporting legislation mandating catastrophe insurance. Had the SEE governments legislated compulsory insurance systems, demand for catastrophe insurance products would have been greater, premiums collected by Europa Re would have been higher, and the reinsurer would have focused on the SEE region rather than being driven to write reinsurance worldwide.

The Bank assessed the operational risks to the project and recommended mitigation measures.

- Project design risk was assessed as moderate. The Bank acknowledged the low demand for catastrophe and weather risk insurance products. The Bank also noted that legal and regulatory actions that would raise demand had not yet been implemented by the SEE governments. However, the Bank also recognized that Europa Re has undertaken actions to increase demand: conducting ongoing dialogue with key policy makers on best international practices; addressing the lack of public awareness about disaster risk through marketing measures including the launch of CATMonitor (an Internet-based disaster risk information tool for homeowners); and working closely with local insurance partners to design new products and explore alternative distribution channels.
- Stakeholder risk was also assessed as moderate. The recommended mitigation measures included: (a) SEE government participation in Europa Re through the Policy Advisory Board; (b) technical assistance for regulatory policy and regulatory changes; and (c) technical assistance for public awareness campaigns.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

According to the ICR (pages 33-34), the Bank met all the implementation supervision requirements for this project.

- The Bank carried out three project supervision missions, three technical missions, one financial management review mission, and one virtual procurement review.
- The Bank prepared four Implementation Status Results Reports (ISRs) over the five-year implementation period of the project.

- The Bank maintained key staff in the region to provide implementation support to the project. The staff were not changed during the five-year period.

The Bank conducted a restructuring of the project in 2017 to add a new activity – to raise Europa Re's capital reserve – to the project, in response to a FINMA requirement for higher statutory capital requirements on all Swiss reinsurers and in consideration of additional financing provided by SECO to Europa Re for this purpose.

The Bank also conducted a Mid-Term Review of the project in February 2020. The Mid-Term Reviewed followed rather than preceded the restructuring in October 2017.

Throughout project implementation, the Bank maintained continuing dialogue with Europa Re, SECO, and the SEE governments.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
There were three results indicators originally defined to measure the objectives to increase the access to affordable insurance for losses to property and crops in Albania, North Macedonia, and Serbia and to expand catastrophe insurance products developed under SEE CRIF to Bosnia and Herzegovina. At restructuring, one indicator was added for the foregoing objectives while two new results indicators were introduced for the objective to support the financial sustainability of Europa Re.

According to the ICR (page 31), the results indicators were not difficult to define, since they followed from achievements in the first phase of SECO's technical assistance to SEE CRIF and Europa Re over 2009-15. Importantly, Europa Re, the grant recipient and project implementing agency, was familiar with M&E design and implementation arrangements. Europa Re, had also established a governance body, the Policy Advisory Board, which acted as the company's link to its SEE government shareholders and which, together with the Bank and SECO, would be a recipient of M&E reports.

b. M&E Implementation
Europa Re collected all project implementation data from its partner insurance companies and third-party service providers under the project. Europa Re prepared semi-annual project implementation reports. These reports were discussed with company management and submitted to the Bank and

SECO. Europa Re also prepared and submitted required periodic operational and financial reports to its regulator, FINMA.

c. M&E Utilization

According to the ICR (page 32), progress with the project was adequately documented and the progress reports were evaluated and used to inform decision-making on the project. M&E data from the ISR No.1 and ISR No. 2 were used in the restructuring of the project in October 2017. According to ISR No. 2, to which the Restructuring Paper was appended, "It is expected that by the end of 2018, for the first time ever, Europa Re will break even. To advance progress toward this outcome, at the [end] of 2017, the project supervision team restructured the project to accept an additional US$3 million contribution from SECO toward increasing the capital reserves of Europa Re." M&E was rated satisfactory in ISR No. 4 (the last ISR) of March 5, 2020.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental and Social Safeguards. The project was classified as an environmental category C project at appraisal. The project did not involve any activities that would impact the environment. It did not trigger any Bank environmental or social safeguard policies at appraisal. The restructuring did not change the environmental category of the project nor did it trigger any safeguard policies.

b. Fiduciary Compliance

Procurement. According to the ICR (page 32), fiduciary requirements related to procurement were complied with. Procurement was rated satisfactory in the last ISR of March 5, 2020.

Financial Management. According to the ICR (page 32), fiduciary requirements related to financial management were complied with. The project grant funds were fully disbursed. Internal controls were in place throughout project implementation. All financial statements and reports were filed in compliance with Bank requirements and on time. Financial management was rated satisfactory in the last ISR of March 5, 2020.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Per IEG Guidelines, when the ratings for Quality at Entry and Supervision differ but are both in the Satisfactory range, the rating of Overall Bank Performance is the lower of the two former ratings.
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 36-37), with some adaptation.

Mandatory catastrophe insurance policies are essential to maintaining the financial sustainability of a regional catastrophe reinsurance system. In this project, Europa Re had to alter its business strategy after the SEE states failed to mandate compulsory catastrophe risk insurance in their national markets. As evident in other regional insurance pools after which the SEE CRIF was patterned, a mandatory system helps to ensure that an adequate volume of insurance premium is generated and that the regional system remains commercially viable and achieves economies of scale. The lack of national mandates would be associated with lower market demand for catastrophe insurance products.

Unconditional government aid to uninsured homeowners and farmers in the aftermath of a disaster dampens the incentive to secure catastrophe insurance. In this project, the government in Albania continued to compensate uninsured homeowners and farmers without mandating the purchase of catastrophe insurance after two earthquakes in 2019, and so did the governments in North Macedonia and Serbia after major floods in 2014 and 2016 respectively. Governments typically consider post-disaster aid as a politically favorable approach, and refrain from mandating compulsory catastrophe insurance which are viewed by voters as a tax. Yet, unfettered disaster aid imposes fiscal costs on governments and discourages the transfer of risks to insurers.

A strong reinsurance partner is essential in establishing and sustaining a disaster risk insurance program. In this project, notwithstanding the lack of mandated compulsory catastrophe insurance, Europa Re played a crucial role not only in acting as a reinsurer to private insurance companies operating in national markets, but as an enabling institution that built the underlying

disaster insurance infrastructure in the SEE region. In particular, Europa Re developed the underlying automated online underwriting, pricing, and sales platform; designed the claims management system based on remote sensing technologies; and carried out the advanced risk mapping and modeling work that underpinned insurance operations. Europa Re also trained hundreds of insurance agents working for local insurance companies and worked with national regulators to ensure that the products could be sold in the SEE countries.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides an informative context for this project starting with a summary assessment of the SEE countries' risk exposure to natural disasters and including the first phase in the development of SEE CRIF and Europa Re over 2010-15. The ICR for the Loan to Albania for a Disaster Risk Mitigation and Adaptation Project (P118045) and the ICR for the Loans to Serbia and FYR Macedonia for the SEE CRIF (P1190910) provide additional useful information on SEE CRIF and Europa Re.

The assessment of the efficacy of the project was candid. While the project achieved all the output and outcome targets, the inaction by the SEE governments on legislation to compel catastrophe risk insurance on their citizens and residents left market demand for catastrophe insurance products lower than originally expected (the Project Appraisal Document did not pin down expected demand to a numerical target, but stated that "latent demand" for catastrophe risk insurance products was "significant," implying that prospective demand would be high). Stronger market demand, within the context of a mandatory insurance system, would have allowed Europa Re to focus on its original mission as a catastrophe risk reinsurer in the SEE region rather than being driven to change its business model by beginning to write universal non-life reinsurance business worldwide in 2017.

The ICR was written following OPCS/IEG guidelines. The analysis and the ratings are evidence-based and results-oriented. The lessons are well founded and valuable to future catastrophe risk insurance operations, specifically on the critical role of mandatory insurance in building up consumer demand for insurance products and sustaining the financial viability of the insurance system and on the countervailing effect of unconditional government aid to the uninsured.

a. Quality of ICR Rating

Substantial