SEE Catastrophe Risk Insurance Facility TA SECO (P156455)

EUROPE AND CENTRAL ASIA | Western Balkans | Finance & Markets Global Practice | Recipient Executed Activities | Investment Project Financing | FY 2016 | Seq No: 1 | ARCHIVED on 07-Jul-2017 | ISR28675 |

Implementing Agencies: Europa Reinsurance Facility, Ltd. (Europa Re), Europa Reinsurance Facility

Key Dates

Key Project Dates

Bank Approval Date: 14-Sep-2015
Original Closing Date: --
Effectiveness Date: --
Revised Closing Date: --

Project Development Objectives

Project Development Objective (from Project Appraisal Document)
The Project Development Objective (PDO) is two-fold: (i) to scale up 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) expand the offering of innovative catastrophe insurance products developed under the SEE CRIF project to Bosnia and Herzegovina.

Has the Project Development Objective been changed since Board Approval of the Project Objective?
No

Components

Overall Ratings

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous Rating</th>
<th>Current Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progress towards achievement of PDO</td>
<td>--</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall Implementation Progress (IP)</td>
<td>--</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

Implementation Status and Key Decisions

The first component of the PDO has been achieved in that over 10% of the SEE region now has access to catrisk insurance (specifically, access to catrisk insurance has been estimated at 30% for Albania, 10% for Serbia, and 5% for Macedonia). The second component of the PDO (expansion of catrisk products in BiH) is expected to be completed by the end of 2017. The target is to provide 20,000 micro-products to the BiH public this fall. Europa RE is also on track to reach its financial sustainability target by the end of 2018. However, this objective, as well as the PDO, cannot be
maintained without altering the original company’s business model which heavily relies on reinsurance of retail catastrophe insurance products (developed and technically supported by Europa Re under the SEE CRIF program) written through its private insurance partners in three countries. The strategy is now being supplemented by developing sovereign and municipal coverage options, as well as entering into "bundling" partnerships with telecoms/banks or large international retail groups.

In regards to developing a new concept for sovereign and municipal coverage, the concept was presented to all membership countries. Initial feedback was positive, however, agreements are yet to materialize. In Macedonia, negotiations for a sovereign and municipal coverage mechanism were postponed due to elections. It is expected, however, that a meeting with the new government will be held in September of 2017. In Serbia, a sovereign agriculture coverage mechanism was presented to the Ministry of Agriculture but negotiations were also postponed for autumn 2017 due to presidential elections. It is expected that several municipalities will buy this type of coverage in 2017.

In terms of expanding operations into new bundling partnerships and products, Europa RE has been successful in all three countries. In Macedonia, Europa RE entered into an agreement with a local insurance company and telecom provider to launch new earthquake micro-coverage for the broader customer base. Technical work has been completed and the launch of the product depends on the completion of the mobile provider’s internal procedures.

In Albania, the program launched a disaster relief product that is currently offered on a standalone basis or bundled with other financial products. The program also developed an online sales system that bundles compulsory third party liability insurance (MTPL) with earthquake disaster relief insurance products endorsed by Europa Re. The developments were done in close cooperation with three local insurers, which agreed to use these systems for offering disaster relief products either on a standalone basis or bundled with the compulsory MTPL.

In Serbia, together with the Serbian Public Investment Management Office, Europa Re developed a new customized risk transfer mechanism based on which flood and/or earthquake coverage can be concluded at the municipal level. The product aims to support local governments in their efforts to cope with financial consequences of natural disasters.

Risks

Overall Risk Rating

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating at Approval</th>
<th>Previous Rating</th>
<th>Current Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>--</td>
<td>--</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Comments

The overall risk rating is moderate. The main project risk is Europa RE’s inability to generate enough premium income to cover its operating costs over the next 3 years. This will also jeopardize its ability to maintain its Swiss reinsurance license. To manage this risk, the company is undertaking a series of steps to increase its premium income base. These include initiation of sovereign and municipal coverage products, expansion into other larger markets such as Romania and Kazakhstan, and exploration of alternative distribution channels for retail insurance products technically supported and fully reinsured by the company.

Results

Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Percentage of insurance agents offering Europa Re insurance products (disaggregated by country) (Percentage, Custom)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
</tr>
<tr>
<td>----------</td>
</tr>
</tbody>
</table>


### Overall Comments

Increased access to catastrophe insurance is determined by two indicators. First, the percentage of insurance agents offering Europa Re insurance products is taken into account. Second, insurance premiums for basic catastrophe insurance products that are within reach of the poorest segment of homeowners (EUR10-40/year) are also considered.

To increase access to catrisk products, Europa RE and its implementing partners developed alternative distribution channels for the local markets via mobile phone operators and commercial banks. In FYR Macedonia, Europa RE is working with the second largest mobile company in the country on expanding sales of micro-products via mobile phones, thus making catastrophic insurance purchases as easy and affordable as possible.

In Serbia, since October 2015, a micro-product costing between EUR1-2/year for the sum insured varying around EUR 2000-3000 is available and sold by a local insurance partner. The product is distributed through a local specialty retailer as a loyalty bonus to its clients. A similar micro-insurance scheme is about to be launched in Bosnia and Herzegovina.

In Albania, Europa Re has launched a second micro-product developed as a "disaster relief" product that covers only the living expenses in case of severely or totally damaged properties. The product will be issued by an existing Europa Re insurance partner and distributed through a local bank on a standalone basis or bundled with other financial products offered by the bank. The low-cost awareness (disaster relief) product can be offered by through local insurers, either on a standalone basis (i) either through their sales networks or commercial banks or (ii) bundled with the compulsory MTPL insurance through user-friendly systems developed under the program. Over three thousands of micro policies have been sold so far.

To improve access to catrisk insurance, Europa RE also worked closely with SEE countries in developing municipal and sovereign insurance coverage options. Due to recent elections these negotiations were put on hold, however, based on the positive feedback and interest of membership countries, it is expected that SEE countries will enter into agreements in the near future.

In Serbia, there is no available official data on the number of insurance agents offering catrisk insurance. The number of agents licensed to sell property insurances in insurance companies (including catrisks) amounts to around 3,200. It is estimated that today about 10% of them are selling catrisk insurance.

In Macedonia, the registered number of insurance agents is 1065 (up to 31.12.2016) and approximately 30 new insurance agents were registered in 2017 thus far. Most of them are registered to sell non-life insurance including sell of cat risk insurance. A smaller portion of insurance agents are selling life insurance. In practice, it is impossible to determine the number of agents offering cat risk insurance on a daily basis. However, we estimate that at least 5 percent of them offer cat insurance products and mostly bundled with the household/property insurance product.

In Albania, there are seven non-life insurance brokerage companies and about 300 insurance agents licensed by the regulator to offer non-life insurance products including catastrophe insurance cover. There are no available statistics on the number of insurers’ employees who account for a good part of insurers’ sales force. The number of insurance sales force which is practically offering catastrophe insurance is estimated to be less than 100, or about 30 percent of total.
Intermediate Results Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catrisk insurance products are available in BiH (Yes/No, Custom)</td>
<td>Value</td>
<td>Date</td>
<td></td>
<td>Date</td>
</tr>
<tr>
<td>Value</td>
<td>N</td>
<td>--</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Date</td>
<td>31-Dec-2015</td>
<td>--</td>
<td>26-Jun-2017</td>
<td>31-Dec-2018</td>
</tr>
</tbody>
</table>

Overall Comments
In December 2015, Europa Re Board approved the expansion of company's operations to BiH. Preparatory operational work commenced in early 2016.
As of June 2017, the project is on target in achieving the second component of the PDO (expansion of catrisk products in BiH). 20,000 catrisk micro-products are expected to be provided to the BiH public before the end of 2017.

Data on Financial Performance

Disbursements (by loan)

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan/Credit/TF</th>
<th>Status</th>
<th>Currency</th>
<th>Original</th>
<th>Revised</th>
<th>Cancelled</th>
<th>Disbursed</th>
<th>Undisbursed</th>
<th>Disbursed</th>
</tr>
</thead>
</table>

Key Dates (by loan)

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan/Credit/TF</th>
<th>Status</th>
<th>Approval Date</th>
<th>Signing Date</th>
<th>Effectiveness Date</th>
<th>Orig. Closing Date</th>
<th>Rev. Closing Date</th>
</tr>
</thead>
</table>

Cumulative Disbursements
Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.