From protection to prevention

The role of cooperative and mutual insurance in disaster risk reduction

EXECUTIVE SUMMARY

icmif
International Cooperative and Mutual Insurance Federation

UNDRR
UN Office for Disaster Risk Reduction

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Context

In November 2019, the International Cooperative and Mutual Insurance Federation (ICMIF) and the United Nations Office for Disaster Risk Reduction (UNDRR) began a multi-year collaboration to help ***address the urgent challenge of reducing disaster risks*** in the midst of an expanding and intensifying global risk landscape.

Specifically, the collaboration aims to clarify the practical aspects of enabling a shift within the insurance industry from a focus on providing risk transfer products and services as a means to protect the insured from disaster risks, to an emphasis on prevention through disaster risk reduction (DRR) incentives, awareness, capacity and financing. With a member-driven operating model, the cooperative and mutual insurance sector is uniquely positioned to take a lead in charting a practical path ***from risk protection to prevention***.

This report, prepared by the ICMIF-UNDRR collaboration, presents seven mechanisms gleaned from case studies compiled across the cooperative and mutual insurance sector and from a literature review on the role of insurance in supporting disaster risk reduction and resilience.

The challenge

A focus on ***preventing new risks and reducing existing risk is more urgent than ever*** because disasters can erase development gains and hinder progress, often for years to come, such as in the case of floods, hurricanes, earthquakes, pandemics or major technological disasters. In the period 2000 to 2019, there were 7,348 major recorded disaster events claiming 1.23 million lives, affecting 4.2 billion people (many on more than one occasion) resulting in approximately USD 2.97 trillion in global economic losses (**UNDRR 2020**). The increasingly systemic and cascading nature of risks, such as seen in the cases of Covid-19 and climate change, represent an existential threat to the achievement of a sustainable and resilient future. The Covid-19 pandemic alone had caused 1.8 million deaths globally by the end of 2020 (**WHO 2020**) with an employment loss of 114 million jobs relative to 2019 (**ILO 2021**) and record levels of national debt not seen since World War II (**WEF 2020**). The human, economic and environmental costs of the climate crisis continue to aggregate due to insufficient action and the potential for climate change to increase the spillover of zoonotic diseases through habitat loss and other factors, is a frighteningly daunting prospect for the 21st century. Indeed, as the Executive Director of the United Nations Environment Programme warned, “nature appears to be sending us a message with the coronavirus pandemic and the ongoing climate crisis (**The Guardian 2020**).”

The Sendai Framework for Disaster Risk Reduction

The Sendai Framework was signed by 196 Member States of the United Nations in 2015. Its goal is to:

“Prevent new and reduce existing disaster risk through the implementation of integrated and inclusive economic, structural, legal, social, health, cultural, educational, environmental, technological, political and institutional measures that prevent and reduce hazard exposure and vulnerability to disaster, increase preparedness for response and recovery, and thus strengthen resilience (UN 2015a, para 17).”

Translating the Sendai Framework for Disaster Risk Reduction into practical mechanisms, be they through risk-informed investment or insurance products that support disaster risk reduction, is of paramount importance if there is to be any chance of ***achieving the 2030 Agenda and its 17 Sustainable Development Goals (SDGs) and the Paris Climate Agreement***.

The Sendai Framework provides a general roadmap for governments and stakeholders, including public, private, mutual and civil society, to reduce disaster risks and thereby support sustainable development. In recognising the fundamental role of the private and financial sector, and their regulators, in disaster risk reduction, the Sendai Framework highlights the importance of risk-informed investment and the role of insurance. In the specific context of insurance however, the primary focus of providers up to this point in time has been related to closing the protection gap to help the insured respond and recover from disaster – and less about how insurance itself could be used to provide incentives to individuals, households and businesses for reducing disaster risks.

Seven mechanisms for supporting disaster risk reduction and resilience through cooperative and mutual insurance

A combined view of insights gleaned from a review of literature and an analysis of mutual and cooperative insurance case studies converges on a set of practical mechanisms for how the cooperative and mutual insurance sector could help drive prevention and disaster risk reduction:

Seven mechanisms for supporting disaster risk reduction and resilience through cooperative and mutual insurance

Direct mechanisms – for insurance products to reduce disaster risks:

1. Apply variable pricing of insurance to provide incentives for risk reduction
2. Include prerequisites and exemptions to provide incentives for risk reduction
3. Ensure investment reduces and prevents risk and builds resilience

Indirect mechanisms – for insurance providers to reduce disaster risks:

4. Raise awareness of the systemic nature of risks and provide transparent information and advice for reducing hazards, exposure, and vulnerability
5. Build and share capacity and technology for risk modelling, analysis and monitoring
6. Promote and enhance local social capital for responding to disasters and innovating to reduce risks
7. Collaborate with the public sector to signal unsustainable development and support decision making towards disaster risk reduction and risk-informed investment while closing protection gaps

The mechanisms provide a practical way for the (cooperative and mutual) insurance sector to implement the Sendai Framework for Disaster Risk Reduction. Through public-private partnerships and the sharing of a unique treasure-trove of risk data, these mechanisms also support implementation of the 2030 Agenda for Sustainable Development and the Paris Agreement. They do so by contributing to reducing exposure and vulnerability to an increasingly complex and intensifying risk landscape. The mechanisms also support reducing the severity and occurrence of the very hazards that stand in the way of achieving the SDGs by 2030, such as climate change, the spillover of zoonotic diseases, and technological disasters, to name but a few.

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