Insurance and
Risk Finance
Facility

Inclusive insurance and risk financing in Ecuador
Snapshot and way forward 2024

Why this report?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Ecuador. The objective of this summary report is to present a high-level overview of the following information for Ecuador:

1. **Key risks**, especially climate risks
2. The current state of **inclusive insurance**
3. The current state of **disaster risk finance**
4. **Recommendations to advance** inclusive insurance, disaster risk finance and overall development.

This summary is a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and critical stakeholders, including the insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
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Key messages

1

Risks: Ecuador is highly exposed to a wide range of natural risks, including earthquakes, volcanic eruptions, landslides and climatic events, and is classified as a country at "very high risk" in the WorldRiskReport 2023.[1]

2

Inclusive insurance: The inclusive insurance market in Ecuador is at a relatively early stage of development (10 microinsurance products were identified in 2021, addressing around 2% of the low- and middle-income population of the country). However, many current factors favour the development of the market. The Financial Policy and Regulation Board is in the final phase of designing microinsurance regulation, and insurance has been given a role in the new National Policy and Strategy for Financial Inclusion 2023–2027.

3

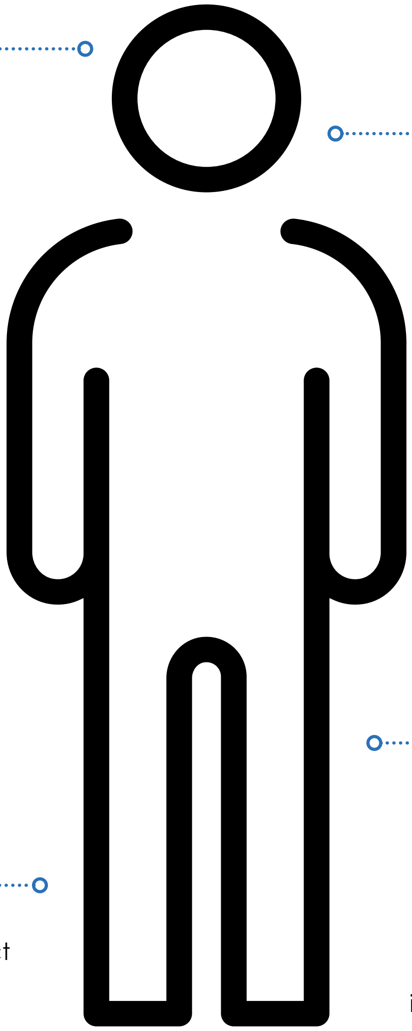
Disaster risk finance: Ecuador has developed a formal disaster risk financing strategy, but it has not yet been implemented. Stakeholders consulted for this study agreed that the country lacks sufficient financial mechanisms to confront the risks it faces. In particular, the country relies heavily on ex post financing mechanisms, with few ex-ante financing mechanisms in place. Notable exceptions do exist, such as the Metropolitan Fund for Risk Management and Emergency Response set up by the Municipality of Quito. Ecuador's disaster risk financing gap cannot currently be accurately calculated, as there is no mechanism in place to quantify the contingent government liability for disasters.

4

Key recommendations: To develop inclusive insurance in Ecuador, it is necessary to define and regulate microinsurance, encourage innovation and market research, and increase private sector participation through incentives and collaboration with the public sector. With a strategic and collaborative approach, inclusive insurance can become a powerful tool to improve financial protection and inclusion in the country. To improve Ecuador's sovereign disaster risk financing, the Disaster Risk Financing Strategy developed by the Ministry of Economy and Finance and the World Bank should be implemented. Other recommendations include improving coordination of information and data between institutions and sectors, building capacity on disaster risk financing in public bodies, increasing dialogue between the public and insurance sectors on disaster risks, and implementing an effective range of disaster risk financing instruments.

Ecuador's development and risk profile

Key macroeconomic and development indicators



32.2% of total state income in January 2023 came from oil exports,[2] evidence of the economy's high dependence on commodities and exports. In 2020, primary sector products constituted almost 80% of exports.[3]

25.2% of people were in income poverty[4] nationally in December 2022, with extreme poverty[5] at 8.2%,[6] due to the repercussions of the COVID-19 pandemic, which caused a deep recession in the country and worsened existing increases in poverty.

15.87% gross domestic product (GDP) growth took place between 2020 and 2022, as the government took steps to fight the recession from mid-2021 onwards.[7] However, unemployment also rose during this period. Inflation for March 2023 was 2.85%, one of the lowest rates in the region.[8]

39.2% of men have adequate employment, compared to 27.4% of women.[9] Although legal provisions have been established and initiatives implemented to promote gender equality, important challenges still need to be addressed in relation to access to employment, gender-based violence, credit and social protection.

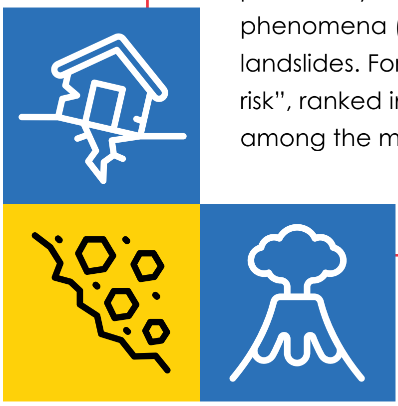
43.9% of households in Ecuador had at least one computer, laptop or tablet in 2020, while 70.72% of people used the internet, 62.9% had at least one activated cell phone and digital illiteracy at the national level reached 10.2%.[10]

Geographic context:

The Republic of Ecuador is located on the north-western coast of South America, on the equator. Ecuador is in the Pacific Ring of Fire region (an extensive geographical area that surrounds the edge of the Pacific Ocean and is characterized by intense seismic and volcanic activity). The topography of Ecuador is varied due to the Andes mountain range, which crosses the country from north to south. Peaks in the mountainous areas of the country exceed 5,000m in altitude, whereas the coast is formed of largely flat, extensive coastal plains, mangroves and estuaries. The country's eastern region is made up of mountains and jungle, with numerous rivers descending from the Andes towards the Amazon basin. Due to this topographical and geographical diversity, the country experiences great climatic variety.[11]

Hazard context:

Ecuador's location in the Pacific Ring of Fire region, combined with its mountainous topography, makes the country vulnerable to various natural phenomena. Ecuador has experienced particularly severe impacts from earthquakes, hydrometeorological phenomena (e.g., El Niño and La Niña), volcanic eruptions and landslides. For this reason, the country is classified as "very high risk", ranked in 18th place in the World Risk Report 2023, placing it among the most vulnerable countries in the world to disaster risk.[12]



Key risks and hazards[13]

Volcanic eruptions

Volcanoes in the country, such as Cotopaxi (2015, 2022, 2023) and Tungurahua (1999-2006), have shown activity in the past and continue to do so, representing a threat to nearby populations.[14] Volcanic eruptions can generate pyroclastic flows, lahars (volcanic mud flows) and ash emissions that affect nearby communities and have a significant impact on agriculture and infrastructure.[15]

In 2019, Ecuador was identified as the country in Latin America and the Caribbean in which the greatest number of people had been affected by volcanic activity in the 21st century.[16] Between January 2017 and January 2022, nine eruptive processes were recorded (from the Sangay, Fernandina, Sierra Negra and Wolf volcanoes). According to the Geophysical Institute of the National Polytechnic School (IG-EPN), it has only been possible to study 15% of the country's volcanoes.[17]

Earthquakes

In the 21st century, five major earthquakes have been recorded in Ecuador: Imbabura (2000), Napo (2005), Manabí (2006) and most recently the 2016 and 2023 earthquakes. The 2016 earthquake resulted in total reconstruction costs of US$3.3 billion (of which 67.4% was financed by the public sector).

Analysis carried out by the Ministry of Economy and Finance (MEF) and the World Bank shows that earthquakes have generated the costliest historical disaster losses for Ecuador, with the earthquakes that occurred in 1987, 1998 and 2016 resulting in total losses of $8.5 billion.[18] The World Bank estimates that, in possible future seismic scenarios with a return period of 1 in 200 years, losses could reach $30.6 billion.[19]

Floods

Floods are also a recurrent risk in Ecuador,[20] especially in coastal areas and in the Amazon basin. In heavy rain seasons, there is a high probability of flash floods and river overflows. These events can cause significant damage to homes and infrastructure, as well as loss of life and displacement of populations. Between 2014 and 2019, a total of 2,268 floods were recorded, with a total of 263,476 people impacted.[21] Although earthquakes generate greater economic losses, floods are the most common threat. Between 1 January and 22 April 2023 alone, 1,592 dangerous events were caused by rains.[22]

El Niño and La Niña climate phenomena

The El Niño phenomenon is characterized by an anomalous warming of the waters of the Pacific Ocean, which causes droughts and floods in various parts of Ecuador. The La Niña phenomenon occurs when there is an unusual cooling of the waters of the Pacific, which can lead to intense rains and landslides. Both phenomena have a significant impact on agriculture, food security and infrastructure in Ecuador. Between 1987 and 2016, El Niño and La Niña have been responsible for $4.4 billion in losses in the country.[23]

Landslides

The combination of heavy rain, steep topography, geological instability, deforestation and poor runoff management increases the risk of landslides, which can destroy homes, block roads and pose a danger to local communities.[24]

Inclusive insurance[25]: Status

Enabling environment[26]

Highlights from the enabling environment for inclusive insurance in Ecuador

Regulations and policies

Current relevant insurance regulation

- Microinsurance in Ecuador is governed by the **General Insurance Law (Ley General de Seguros)** and guidelines. As of July 2023, there is no specific regulatory framework for microinsurance or inclusive insurance.
- The **Regulation for the Marketing of Insurance through Alternative Channels (Resolución No. 660-2021-S, La normativa para la comercialización de seguros a través de canales alternativos)** allows companies to function as insurance sales channels, enabling the use of non-traditional channels, which are important for inclusive insurance.
- The **Prepaid Health Law – Assembly, 2016 (Ley de Salud Prepagada – Asamblea, 2016) and the Regulations to the Prepaid Health Law – Assembly, 2017 (Reglamento a la Ley de Salud Prepagada – Asamblea, 2017)** regulate prepaid medicine products in the country.

The development of new microinsurance regulation

The JPRF (as of July 2023) is designing a **new microinsurance regulation**, which aims to facilitate the provision of insurance products for currently underserved sections of the population. The regulation is expected to make it possible to distribute microinsurance through alternative channels, including financial service providers, non-banking correspondents, cooperatives, NGOs, foundations, mobile network operators, government programmes and others. It will also set out simplified requirements around underwriting, claims and other processes. This proposed regulation has received feedback from local and international actors.

National Financial Inclusion Strategy

- In September 2023, JPRF released the **National Policy and Strategy for Financial Inclusion 2023–2027 (Política y Estrategia Nacional de Inclusión Financiera, ENIF 2023–2027)**, which is designed to increase financial inclusion in the country.[27] The strategy sets out the importance of financial inclusion, including the role of insurance in achieving it, and outlines five key areas that the policy will address: financial access points and channels; supply of basic products and digital financial services; financing of MSMEs and credit infrastructure; consumer protection; and financial education.
- Insurance, alongside other financial services, is considered throughout all of these areas, but the only actions proposed that specifically target insurance are action 4 on allowing agents and digital channels to serve as possible channels for insurance and action 13 on the development of microinsurance regulations. Nonetheless, the policy represents a fundamental step in the development of an inclusive insurance market in the country because it explicitly recognizes insurance as an important element of financial inclusion and facilitates its inclusion in national financial inclusion and education efforts. Furthermore, although the explicit focus on insurance in the ENIF is relatively limited, JPRF has shown strong interest in including further actions to promote inclusive insurance during implementation of the policy.

Stakeholders

Regulatory and supervisory entities

- The Ecuadorian insurance market is regulated by the Financial Policy and Regulation Board (Junta de Política y Regulación Financiera, JPRF).
- The Superintendence of Companies, Securities and Insurance (Superintendencia de Compañías, Valores y Seguros, SCVS) oversees compliance and implementation of insurance regulations. Up until 2015, the Superintendency of Banks (Superintendencia de Bancos) was the main regulatory authority for insurance, but in that year the Superintendence of Companies became the Superintendence of Companies, Securities and Insurance, assuming control and oversight of the private insurance sector in Ecuador.
- The Ministry of Public Health (Ministerio de Salud Pública) plays a role alongside SCVS in the approval of health insurance products and oversight of their medical aspects.

Government ministries and other state entities

- The Ministry of Agriculture and Livestock (Ministerio de Agricultura y Ganadería, MAG) offers agricultural insurance to low-income farmers through its CampoSeguro programme.
- The Ministry of Economic and Social Inclusion (Ministerio de Inclusión Económica y Social, MIES) defines and executes policies, programmes and services to achieve inclusion for vulnerable populations. In the past, funeral insurance has been offered along with social payments, such as in the case of the Bono de Desarrollo Humano (human development payment).
- The Council for Higher Education (Consejo de Educación Superior) and education institutions have the potential to create new opportunities and promote actuarial careers in Ecuador. They could also increase education in inclusive insurance to strengthen the capacity of the insurance sector.
- The Metropolitan Directorate of Risk Management of the Municipality of the Metropolitan District of Quito (Dirección Metropolitano de Gestión de Riesgos del Municipio del Distrito Metropolitano de Quito) plays a key role in the capital city's disaster risk financing and is interested in further exploring the application of catastrophic insurance.

Insurance and financial sector organizations

- The Ecuadorian Federation of Insurance Companies (Federación Ecuatoriana de Empresas de Seguros, FEDESEG) is the national federation of insurance and reinsurance companies in Ecuador.
- The Financial Cluster of Ecuador (Clúster Financiero del Ecuador) is an organization for integration and cooperation in the financial system. It consists of 80 companies, specialized suppliers and financial sector institutions. The Cluster is developing an initiative to promote microinsurance supply and demand.
- The Microinsurance Network (MiN), an international network, includes Ecuador in its annual Landscape of Microinsurance study, providing valuable information on the microinsurance market in the country. The organization also supports the activities of FEDESEG and the Financial Cluster in promoting microinsurance in Ecuador. SCVS recently joined MiN as a new member.

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts

30 insurance companies were active in the insurance sector in Ecuador in 2022 (not including prepaid medicine companies), including 6 foreign companies and 2 reinsurers.

$2 billion in net premiums written was the size of the traditional insurance market (including all insurance companies and excluding prepaid medicine) in 2022.[28]

2.1% penetration (gross written premiums vs. provisional nominal GDP $106.2 billion) was achieved in 2022 (0.6% for life insurance and 1.6% for general insurance),[29] up from 1.9% in 2021.[30] This penetration is similar to that of other countries in the Latin American region, but much lower than global penetration rates (at 7.1% of GDP).

$171.3 million in total premiums in 2022 went to Ecuador's important prepaid medicine market.[31]

Inclusive insurance: Fast facts

- Since neither microinsurance nor inclusive insurance are officially defined in Ecuador, official data are not collected on a national basis.
- The Microinsurance Network's Landscape of Microinsurance study provides self-reported data from some of the country's insurers. In 2021, the study identified 10 microinsurance products, covering more than 358,000 people, representing just 2% of the low- and middle-income population of the country. This is a comparatively low rate, given that the study recorded a rate of 13% for the region as a whole.[32]

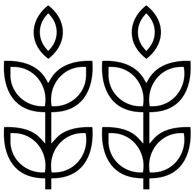
Product types

Life and health microinsurance

Among the 10 microinsurance products identified, life and health were the most important product lines, jointly responsible for 75% of people covered.[33]

Historically, health insurance in Ecuador has been dominated by prepaid health plans, which are offered by prepaid medicine providers rather than insurers and subject to separate regulation.

Agriculture microinsurance



CampoSeguro is an agricultural insurance product that protects small and medium farmers, ranchers and producers in the forestry sector in the event of losses due to weather events or other risks. The insurance is managed by a dedicated team, under the Directorate of Risk Management and Agricultural Assurance of MAG. The insurance is subsidized by the State for up to 60% of the premium, and the product is insured by private insurers. This indemnity product has been made available through private banks, the public bank (BanEcuador), savings and credit cooperatives, commercial houses and seed suppliers, among other channels.

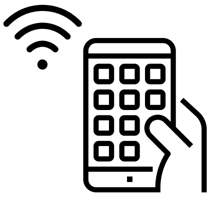
Catastrophic microinsurance

Ecuador has a low level of catastrophic risk coverage. Insurance for catastrophic risks (including products for all markets, rather than specifically inclusive insurance) represented only 2.4% of total net premiums issued in the country in 2019.[34]

Distribution

The forthcoming microinsurance regulation is expected to make it possible to distribute microinsurance through a wider range of alternative channels. Currently, according to information submitted to the Microinsurance Network, the following are the most common channels for microinsurance in Ecuador:[35]

- **Savings and credit cooperatives** play an essential role in providing financial services to vulnerable populations in Ecuador. There are 427 savings and credit cooperatives in the country, which are supervised by the **Superintendency of the Popular and Solidarity Economy (Superintendencia de la Economía Popular y Solidaria)**. Although no data are available on the use of cooperatives as a distribution channel for microinsurance, several insurers commented on their use of this channel in interviews, while others see their potential for reaching low- and middle-income clients.
- **Banks** in Ecuador are growing and increasingly offer microcredit portfolios. Among the main banks in Ecuador, Banco Pichincha is well known for distributing microinsurance and has a division dedicated to managing microinsurance. In addition, Banco Solidario and BanEcuador, among others, distribute microinsurance products.
- **Brokers** and insurance advisors in Ecuador have an important role in helping insurance companies sell to low-income people and establish distribution partnerships, especially with cooperatives.



Potential channels:

- **The insurtech sector** has grown significantly in Ecuador, with an annual growth of 33% in the number of companies established in 2022.[36]
- Other potential distribution channels proposed by stakeholders during research for this document include **municipalities, trade cooperatives, pharmacies and mobile network operators**.

Demand

It is difficult to estimate the size of the microinsurance market in Ecuador, particularly since a national socioeconomic stratification survey has not been conducted since 2010. No study has been conducted in the country on the demand for inclusive insurance.

Potential target segments:

- **Micro-, small and medium-sized enterprises (MSMEs).** According to 2016 data, MSMEs represent 98% of companies in Ecuador and are responsible for 60% of employment in the country.[37]
- **Smallholder farmers:** 29% of Ecuador's workforce is employed in agriculture and the sector is responsible for 9% of GDP. Approximately 75% of farmers in Ecuador are considered smallholder farmers (with less than 10 hectares of land) and these farmers provide almost 60% of the country's basic food supplies.[38]
- **The informal sector:** The informal sector in 2023 accounts for 52.6% of jobs in Ecuador. These jobs are often unstable, with low salaries and with limited social protection or rights.[39]
- **Women:** Women in Ecuador are more likely to work in the informal sector[40] and suffer significant inequalities.

Disaster risk financing: Status

Disaster risk assessments and data systems

Ecuador has several national sources of disaster risk information. However, the country faces important data challenges, which include a lack of systematization and access to existing data, a lack of detailed information on risk exposure and on the economic impact of disasters, and a need to improve capacity at the local level on data collection on risks and impacts.

Key national data sources

- The **National Institute of Meteorology and Hydrology (Instituto Nacional de Meteorología e Hidrología, INAMHI)** provides information and early warnings regarding weather, climate and water resources.
- The **Geophysical Institute of the National Polytechnic School (Instituto Geofísico de la Escuela Politécnica Nacional, IG-EPN)** is a research unit that monitors and evaluates events, mainly seismic and volcanic, through seismological and volcanological stations distributed throughout the country. It has been the official entity for the State since 2003.
- The **Risk Management Secretariat (Secretaría de Gestión de Riesgos)** It is the governing entity for disaster risk management, among its actions it maintains a national registry of those affected by disasters. This information plays a key role in the response to affected people, in part because it determines who receives social payments from the MIES.
- The **Ministry of Agriculture and Livestock (MAG)** has a dashboard that brings together information on the impact of disasters on small- and medium-sized farmers and ranchers in the country, including precise information on the partial and total effects (damages and losses) in each geographical region. Currently, the process for collecting data is time-consuming, but the ministry plans to develop an application for digital information collection.
- **Decentralized autonomous governments** (local government) hold relevant information on their populations and on the historical events of disasters. Large cities like Quito and Guayaquil have good information, but information is variable in other localities.
- The **Ecuadorian Institute of Social Security (Instituto Ecuatoriano de Seguridad Social, IESS)** collects information on health, social security and the distribution of social payments in the country.
- **MIES** and **BanEcuador** hold information on the beneficiaries of social payments to disaster affected and BanEcuador also holds data on beneficiaries of CampoSeguro.

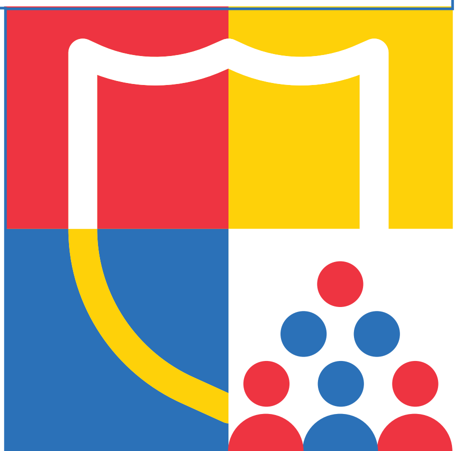
Existing legal, institutional and policy frameworks

Legal

- Ecuador recently approved the Organic Law on Comprehensive Disaster Risk Management. This law establishes a complete section on financial management instruments and financing for comprehensive disaster risk management. The Regulations for the law are currently being drafted.[41]
- All public finance management must be carried out through the General State Budget, and the National Planning Secretariat (Secretaría Nacional de Planificación) must approve any new government initiative as being aligned with the country's development plan.
- **The General Substitute Regulation for the Management and Administration of Public Sector Assets (Reglamento General Sustitutivo para el Manejo y Administración de Bienes del Sector Público)** obliges all institutions that manage State assets to protect those assets through insurance.[42]

Policies

- In 2021, MEF, with the support of the World Bank, launched the **Disaster Risk Finance Strategy (Estrategia de Gestión Financiera ante el Riesgo de Desastres)**, generated with inputs from other sectoral ministries and SGR.[43] The strategy includes three components: the identification of risks and contingent liabilities; risk management through financial instruments; and the strengthening of technical capacities. It was proposed that MEF would create a new unit focused on disaster risk and that this unit would lead the implementation of the strategy. As of July 2023, this unit has not been formed and the strategy has not been implemented. Without implementation of this strategy, there is no active official strategic approach to disaster risk financing in Ecuador.
- Despite the lack of a national policy on disaster risk financing, disaster risk management in general is identified as a priority within the national strategy and the national development plan.
- Based on this national plan, the SGR developed its **Strategic Guidelines for Risk Reduction in Ecuador (Lineamientos Estratégicos para la Reducción de Riesgos de Ecuador)**, published in 2021.[44] This policy aims to ensure that each actor in the National Decentralized Risk Management System prepares its own long-term development plan for risk reduction.



Institutional

- **MEF** is in charge of the country's economic and financial policy, and therefore at the centre of financial decision-making on disaster risk. According to Ecuadorian legislation, any sovereign credit or contingent line of credit must be approved by the Public Debt Committee, of which the Minister of Economy and Finance is a member. Furthermore, funds for disaster relief, according to the Organic Code of Planning and Public Finance, can only be established with the authorization of MEF.
- The **Central Bank of Ecuador (Banco Central de Ecuador)** has acted as a fiduciary agent of funds for disaster relief.
- In disaster risk management, the most important entity is the **Risk Management Secretariat (Secretaría de Gestión de Riesgos, SGR)**, which is the public body that leads the National Decentralized Risk Management System (Sistema Nacional Descentralizado de Gestión de Riesgos) and is responsible for the generation of policies, strategies and regulation to promote the country's capabilities to identify, analyse, prevent and mitigate disaster risks, as well as to recover and rebuild after a disaster.[45]
- **MAG** is responsible for managing risks that affect small and medium-sized rural producers. The regulatory framework that outlines the ministry's activities includes measures for both adaptation and mitigation, as well as for risk management. In addition, MAG's subsidized agricultural insurance, CampoSeguro, is an important contribution to disaster risk financing.
- **MIES** manages government social support payments, including recurring payments for vulnerable groups, as well as contingency payments activated by disasters.

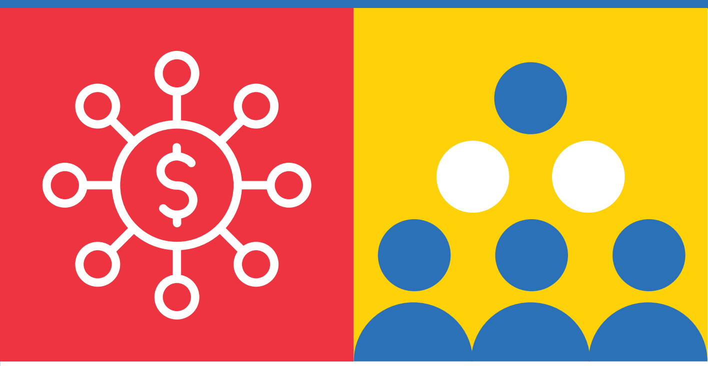
Disaster risk finance mechanisms and instruments[46]

Ecuador relies largely on the State budget and international loans and makes little use of other instruments, such as insurance or pre-established dedicated funds. Furthermore, the country relies heavily on ex post mechanisms (i.e., those implemented after the occurrence of a disaster).

Government budget

- A **specific tax to cover the expenses of a disaster**[47] is a financing tool that has been used once in the country's recent history, in response to the 2016 earthquake. A total of $1.6 billion was collected, representing 55% of the total amount allocated for the reconstruction of Manabí and Esmeraldas.
- To generate resources to manage the COVID-19 pandemic and strengthen the country's health system, the government implemented **early collection of income tax**[48] for fiscal year 2020 for individuals and companies that met certain conditions. This measure facilitated the collection of approximately $296 million.
- **Dedicated public funds for disaster relief** have existed in the past. The Fund for Stabilization, Social and Productive Investment and Reduction of Public Debt (Fondo de Estabilización, Inversión Social y Productiva y Reducción del Endeudamiento Público, FEIREP) was created in 2002 from the State's income from its participation in the oil sector.[49] A total of 20% of the fund was set aside in a contingency fund for the stabilization of oil revenues and for emergencies and catastrophes.[50] In 2002, the fund was renamed, and in 2008 it was dissolved by a new law closing all public funds from oil income.[51]

- The Disaster Risk Finance Strategy proposes the establishment of a new **National Fund for Disaster Assistance** in Ecuador managed through an administrative trust.[52] The importance of setting up this fund was emphasized by multiple actors consulted for this project.
- One **sub-national fund** has been created. The Municipality of Quito created the **Metropolitan Fund for Risk Management and Emergency Response (Fondo Metropolitano de Gestión de Riesgos y Atención de Emergencias, FMGR)** in 2008.[53] The fund is intended for the prevention of and response to emergencies, with up to 30% of the fund allocated to risk management and 70% to emergency response.[54] The fund has proved a vital tool for the municipality, but it faces challenges, including lengthy official processes and the limited size of its budget in comparison to the high costs of disasters. There are no other municipal funds of this kind in the country.
- **Contingent social payments** are made by MIES, which distributes non-contributory[55] social payments designed to protect vulnerable populations. In addition, MIES manages contingency payments that are activated for affected groups in response to disasters. Challenges faced by the programme include a lack of clarity on eligibility, as well as issues with identifying beneficiaries and delivering payments.



Insurance

- The country's ministries are obliged to **insure public assets** in their care, such as health centres and schools. The World Bank identified opportunities to secure other assets with high social impact, such as roads and hydraulic works.[56]
- **CampoSeguro**, the subsidized agricultural insurance scheme, is managed by MAG, this instrument contributes to the financing of disaster risk for smallholder farmers in the country, offsetting potential government contingent liabilities (e.g. farmer relief payments).

International loans and grants

- International borrowing plays an important role in disaster risk financing in Ecuador. The country has several **contingent credit lines** with international financial institutions, such as the Development Bank for Latin America (CAF),[57] the Inter-American Development Bank (IDB) and the World Bank.[58] These lines of credit have been activated in several instances in recent years, the most important being the earthquake of 16 April 2016.
- In addition, Ecuador **negotiates loans after disasters**. In recent years, it has been issued such loans from the International Monetary Fund (IMF),[59] the European Investment Bank[60] and the World Bank.[61]
- In addition, Ecuador has received international aid in response to disasters from both non-reimbursable and reimbursable sources, including from CAF.[62]
- Finally, **green bonds** play a role in financing disaster prevention activities. For example, Ecuador benefited from financing through an IDB green bond for a forestry project intended to reduce disaster risk.

Way forward for inclusive insurance and disaster risk financing

The following recommendations have been compiled in order to promote the development of inclusive insurance and disaster risk financing in Ecuador.

1 Recommendations for the development of inclusive insurance

1.1

Demand. The insurance sector has little understanding of the needs and preferences of the vulnerable population, while the vulnerable and underserved population lacks an insurance culture. There are few efforts to improve the situation and these are further hampered by limited access to financial services, the internet and digital services among certain groups

Conduct market research and data analysis to help the insurance industry understand the needs of those excluded from traditional insurance.

- A system for sharing data between private and public actors should be explored.
- Research should be conducted on the target market for inclusive insurance by key segments. Ideally, research should be carried out jointly through FEDESEG or the Financial Cluster to benefit the entire insurance sector. State actors and academic actors such as universities would be key actors these demand studies.

1.2

Supply and distribution. Inclusive insurance is limited and not very innovative. Greater capacities are needed for the development of inclusive insurance in Ecuador, as well as incentives for the private insurance sector to be able to enter into this type of insurance. The subsidized CampoSeguro program has not managed to expand to meet the needs of small farmers.

Enhance the supply and distribution of inclusive insurance and microinsurance.

- New pilots should be developed to create inclusive insurance capacity and build on lessons learned in Ecuador with non-traditional products and/or distribution channels.
- Joint inclusive insurance initiatives or pilots between several companies or through industry bodies should be considered.
- Incentives from the public sector should be considered to achieve the development of new inclusive insurance initiatives, with a social benefit.
- Comprehensive solutions should be developed that combine the benefit of inclusive insurance with other value added services and state programmes.

Support CampoSeguro to expand its reach and address existing challenges.

- Develop analysis and proposals for possible institutional configurations between public and private actors to improve program governance.
- A feasibility study should be conducted to expand the scope of the CampoSeguro programme and explore options for new parametric products.
- The possibility of piloting a parametric version of the product should be evaluated.

Build the capacity of inclusive insurance actors in Ecuador.

- An inclusive insurance course in a local institute should be created and supported.
- Actors should be supported to participate in global inclusive insurance courses (e.g. MicroInsurance Masters Programme, ILO courses for inclusive insurance, etc.).

1.3

Enabling environment. Until new microinsurance regulations are implemented, existing laws lack a definition of and regulations for microinsurance. The national financial inclusion strategy has only a limited focus on inclusive insurance.

Strengthen the enabling environment for a thriving inclusive insurance market.

- For the development of microinsurance and inclusive insurance regulations.
- For the development of specific regulations for parametric insurance.
- For the implementation of ENIF 2023-2027, promoting the central role of insurance across the strategy's five policy areas as well as proposing concrete actions to promote inclusive insurance.
- The JPRF is the key entity for developing a broader strategic approach to insurance in Ecuador, with an emphasis on inclusion.

2 Recommendations for the development of sovereign disaster risk finance

2.1

Measuring and understanding risk. Data on risk and their impacts are limited and need to be better systematized.

Improve the coordination of existing data and promote better analysis of disaster risk and impact.

- Coordinate and make available existing information from various data sources from both public and private institutions.
- Model the economic impact of potential disasters that the country could face, with emphasis on the most recurrent.
- Develop greater capacity in local entities to collect information on risks and analysis of effects and impacts.

2.2

Governance and strategy. A clear institutional approach to the coordination of disaster risk financing is absent. The existing national Disaster Risk Financing Strategy has not been implemented.

Promote the official adoption of a disaster risk financing approach by the Ecuadorian government.

- Promote the creation of a unit within the MEF focused on the issue of disaster risk, as proposed by the Disaster Risk Financing Strategy. Provide training and technical support for this unit.
- Develop an action plan for the implementation of the Disaster Risk Financing Strategy.

2.3

Disaster risk financing tools. Financial instruments for disaster risk financing, including insurance, are not used effectively and ex post mechanisms are heavily relied on. Some existing tools with high potential are limited in capacity and impact.

Promote a more complete and effective range of disaster risk financing tools for the country.

- An analysis of the disaster risk financing gap in Ecuador should be conducted, including an exercise to quantify the State's contingent liabilities and the availability of current funds. Based on this, a cost-benefit analysis should be carried out to identify the most appropriate combination of disaster risk financing instruments for the country.
- Ministries and decentralized autonomous governments should be provided with capacity-building on disaster risk financing.
- Identify risk transfer mechanisms (insurance, reinsurance, bonds, contingent credit facilities, compensation mechanisms) at both national and local levels to promote the expansion of the offer in the public and private sectors.

Promote the role of the private insurance sector in disaster risk financing.

- Public assets that require insurance by law should be adequately defined and the possibility of expanding that list to other assets with high social impacts should be explored.
- Strengthen the capacity of public officials and politicians in risk management and in alternative mechanisms such as insurance, including the incorporation of a focus on risk transfer in university courses related to public governance.
- Technical support should be offered to the Directorate of Risk Management and Agricultural Insurance at MAG, which has a mandate and interest in expanding agricultural insurance but lacks technical capacity to do so.
- Innovation in and expansion of private disaster-related insurance should be supported, especially to underserved populations.
- Opportunities for alignment between public programmes and insurance should be explored.
- Opportunities for dialogue should be generated between the private insurance sector and the public sector to enable cooperation in the use of insurance in disaster risk financing.

Support the Quito Subnational Disaster Fund (Fondo Subnacional de Quito) to address existing challenges.

- A review should be conducted of the governance, policies and fund activation processes of the fund to facilitate faster responses.
- The feasibility of implementing insurance (possibly parametric) should be evaluated to improve the Municipality's capacity to respond to catastrophic events outside the scope of the Fund.

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Acknowledgements

Author
MicroInsurance Centre at Milliman - Alice Merry (independent consultant and research lead), John Caroll (MIC@M consultant), Johan Rozo Calderón (independent consultant), and Mariah Mateo Sarpong (MIC@M consultant). The research team was overseen by Katie Biese and Michael J. McCord from MIC@M.

Coordination and review
Nury Bermudez and Jorge Luis Morillo (UNDP Ecuador)

Editing and peer review by UNDP IRFF
Lauren Carter, Miguel Solana and Marcelo Borré

Copy editor
Justine Doody

Graphic design
Nattawarath Hengviriyapanich

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