RETHINKING PREMIUM SUPPORT

ENHANCING THE IMPACT AND SUSTAINABILITY OF CLIMATE RISK INSURANCE

CENTRE FOR DISASTER PROTECTION

INSIGHT PAPER

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About the Centre for Disaster Protection

The Centre for Disaster Protection works to prevent disasters devastating lives, by helping people, countries, and organisations change how they plan and pay for disasters.

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ACRONYMS

ADF	African Development Fund
ADRiFi	African Disaster Risk Financing Programme
AfDB	African Development Bank
ARC	African Risk Capacity
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
DFID	Department for International Development
DRF	Disaster Risk Finance
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
G7	Group of Seven
G20	Group of Twenty
GRiF	Global Risk Insurance Facility
GSFF	Global Shield Financing Facility
GSSP	Global Shield Solutions Platform
IDA	International Development Association
IGP	InsuResilience Global Partnership
LDF	Fund for responding to loss and damage
M&E	Monitoring and Evaluation
ODA	Official Development Assistance
PCRIC	Pacific Catastrophe Risk Insurance Company
SEADRIF	Southeast Asia Disaster Risk Insurance Facility
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollar
V20	Vulnerable Twenty Group
WFP	World Food Programme

1

INTRODUCTION

Insurance is widely recognised as a crucial tool for improving societies' financial resilience to climate and natural hazards.[1] As a pre-arranged financial mechanism, it enables countries to better plan and prepare for disasters, and can significantly increase the predictability, speed and effectiveness of responses to shocks.[2] Donor countries have been keen to expand the use of insurance as part of a mosaic of solutions in response to vulnerable countries' requests for support in managing growing climate risks, increasingly offering premium subsidies to create financial protection.

Approaches to premium subsidies have developed organically over time. Initially, donors started to support countries by channelling funding through development banks.[3] In recent years, donors have increasingly offered premium subsidies to humanitarian organisations as well.[4] The global covid-19 pandemic triggered a surge of international premium support to sovereign insurance products, mostly from regional risk pools, to create protection in times of multiple crises and shrinking fiscal space.[5] The major channels available for donors to subsidise premiums are provided by the World Bank, the African Development Bank (AfDB), the three financing facilities[6] of the Global Shield against Climate Risks

1 United Nations Framework Convention on Climate Change (UNFCCC). (2023), *Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change*. Available at: https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport23May23.pdf

2 Depending on the nature of risk, other pre-arranged financial instruments may be more suitable.

3 For instance, Haiti (see https://www.ccrif.org/news/ccrif-make-us40-million-payout-haiti-following-devastating-august-14-earthquake) received premium support up to 100% of the insurance premium through the Canadian government and the Caribbean Development Bank (CDB); in the Pacific, Japan subsidised 100% of premiums in the first year, with a decreasing scale the years after. Several countries used the World Bank's International Development Association (IDA) credits to co-finance the premium, e.g. Nicaragua secured IDA credit to fund 100% of its premiums for its first four years. See Alton et al. (2017), *Technical Discussion Paper on Concessional Insurance (English)*. World Bank Group. Available at: http://documents.worldbank.org/curated/en/269661546940030294/Technical-Discussion-Paper-on-Concessional-Insurance

4 For instance, Germany started with funding humanitarian policies of the ARC risk pool in 2018. See BMZ. (2022), 'Insurance policies against drought effects – ARC and ARC Replica'. Available at: https://www.bmz.de/en/issues/climate-change-and-development/climate-risk-insurance/arc-and-arc-replica-59528

5 For instance, in 2020, Germany provided pandemic-triggered funding for premium subsidies of the African risk pool (see https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/About-us/News/News-Details_620288.html?fbclid=IwAR0Pg4Ws2H0h_0dWXLYTycvp8ce438Ro6coVxfePPb1XGu5y3UimlWPZ3d0); and CDB, Canada (see https://www.artemis.bm/news/cdb-canada-to-fund-ccrif-premiums-for-nine-caribbean-countries/) and the EU for the Caribbean risk pool (see https://www.ccrif.org/en/news/ccrif-caribbean-members-renew-disaster-risk-insurance-policies-strengthened-european-union).

6 This includes the World Bank's Global Shield Financing Facility (GSFF), the Global Shield Solutions Platform (GSSP), hosted by the Frankfurt School), and the CVF & V20 Joint Multi-donor Trust Fund (an initiative launched by the G7 and the Vulnerable Twenty Group of Ministers of Finance (V20).

(Global Shield)[7] and the regional risk pools. Currently, the majority of international premium support is provided for products from three of the regional risk pools[8]: the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the African Risk Capacity (ARC), and the Pacific Catastrophe Risk Insurance Company (PCRIC), which together protect around forty countries.

Affordability of insurance is a key constraint, though not the only barrier to uptake.[9] Amid limited fiscal space, competing development priorities, and increasing climate risks, various actors are calling for more – and better – premium support to reduce insurance costs for vulnerable countries.[10] Recent initiatives, such as the Global Shield, jointly launched by the Vulnerable 20 Group (V20) of finance ministers of 58 climate-vulnerable economies and the Group of Seven (G7) at COP 27, and the Fund for Responding to Loss and Damage (LDF),[11] offer potential avenues for countries to access international premium support in the future. The V20 recently called for significantly increasing the Global Shield funding from USD300 million by the end of 2023[12] to USD1 billion by the end of 2024.[13] In light of these developments, it is time to rethink premium support to ensure coherence, value for money and development impact.

This insight paper aims to support policymakers and practitioners as they seek to scale up financial protection against climate-related shocks through sovereign insurance solutions. It explores the complexities (Section 4) of international premium support and identifies core problems (Section 5) with current approaches to the allocation and design of premium subsidies. It proposes some basic but vital shifts (Section 6) needed in the way premium support is designed, allocated and provided to create a more inclusive, transparent and sustainable approach – one that is fit for purpose and creates meaningful impact.

The main target groups for this insight paper are international donors and organisations offering and designing premium support. The content and ideas are also relevant to countries and humanitarian organisations that are considering using insurance and premium support to protect vulnerable communities from climate shocks. Although this guidance focuses on subsidising sovereign-level products, sections are also relevant to premium support at the micro or meso level.[14]

The authors' analysis builds on the SMART Principles on premium and capital support,[15] developed by the InsuResilience Global Partnership[16] (IGP) in 2021 with input from vulnerable countries (represented

7 The Global Shield aims to provide and facilitate more and better pre-arranged financial protection against climate- and disaster-related risks for vulnerable people and countries. This includes but is not limited to supporting insurance solutions. See Global Shield. (2022), *German G7 Presidency and V20 Concept*. Available at: https://www.globalshield.org/wp-content/uploads/2022/10/2022-Global-Shield-against-Climate-Risks_Concept-_FINAL.pdf

8 The Southeast Asian risk pool, the Southeast Asian Disaster Risk Insurance Facility (SEADRIF), does not have a dedicated premium support facility.

9 The cost of insurance coverage is typically cited as the primary barrier to uptake, but is not the only barrier. For example, Scott et al. (2022) list other factors influencing uptake, including understanding and technical capacity; availability of alternatives; perceptions of reliability; relevance of products; government processes and bureaucracy; political disincentives; and regional dynamics. See Scott et al. (2022), *The Political Economy of Premium Subsidies: Searching for Better Impact and Design*. Overseas Development Institute. Available at: https://odi.org/en/publications/the-political-economy-of-premium-subsidies-searching-for-better-impact-and-design/

10 V20. (2021), *Premium Support – Background Paper*. Available at: https://climate-insurance.org/wp-content/uploads/2020/04/Premium-Support-Background-Brief_8th-June.pdf

11 The UNFCCC's decision-text for the operationalisation of the loss and damage fund includes "insurance mechanisms, risk-sharing mechanisms, and pre-arranged finance" among the potential financial instruments it may deploy. However, the Board of the Fund still have to "develop and approve operational modalities, access modalities, financial instruments and funding structures". See UNFCCC. (2024), *Report of the Conference of the Parties on its twenty-eighth session, held in the United Arab Emirates from 30 November to 13 December 2023. Addendum. Part two: Action taken by the Conference of the Parties at its twenty-eighth session*. Available at: https://unfccc.int/documents/637067

12 Global Shield. (n.d.), 'Things you need to know about the Global Shield'. Available at: https://www.globalshield.org/resources/faq/

13 V20. (2024), *V20 Ministerial Dialogue XII Communiqué: Unlocking Growth and Prosperity through Innovations in Climate Finance and Debt*. Available at: https://www.v-20.org/wp-content/uploads/2024/04/V20-Ministerial-Dialogue-Communique-XII-Adopted-on-16-April-2024.pdf

14 Premium support to sovereign-level solutions differs from premium support to micro- and meso-level actors concerning the relationship to the insurer. For instance, sovereign insurance is mostly offered via regional risk pools owned by its member states, with profits accumulated into the member capital, in contrast to micro and meso insurance offered by private insurance companies. Further, with regard to financing premiums, sovereigns have – in contrast to households and businesses – different channels to finance premiums, such as national taxation and international crisis financing via the international financial system.

15 Toepper & Stadtmueller. (2022), *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability*. InsuResilience Global Partnership. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/

16 The InsuResilience Global Partnership, a collaboration between V20 and G20+ countries and international development and humanitarian institutions working on climate risk finance, has evolved into the Global Shield against Climate Risks since 2022.

through the V20), donors, local civil society groups and implementing partners, including premium subsidy fund holders. These principles aim to inspire a principled and coordinated approach to premium support, enhancing climate insurance through increased affordability and sustainability. Building on three years of international experience following the adoption of these principles, this insight paper takes stock of current premium support practices and identifies critical areas of enhancement.

In addition to the authors' analysis, this insight paper includes material based on interviews between February 2023 and May 2023, undertaken with more than 40 representatives (See Acknowledgments) from leading international organisations and institutions providing and/or receiving international premium support. It includes material and findings from a workshop co-facilitated with the Global Shield and key stakeholders during Bonn Climate Week in June 2023. The authors' research has further benefited from discussions held with donors and implementers of premium support during the African Development Bank (AfDB) African Disaster Risk Financing Programme's (ADRiFi) Oversight Committee meeting in Banjul in February 2024, as well as a plenary session on premium support held with the regional risk pools at the Global Shield Solution Platform's (GSSP) Climate Risk Finance Forum in Frankfurt in April 2024.

2

WHY ARE DONORS PROVIDING PREMIUM SUPPORT FOR CLIMATE INSURANCE?

Insurance enables vulnerable countries to pre-arrange finance and build financial protection before a disaster occurs, for residual risks that cannot be reduced or efficiently retained and managed on government balance sheets. By paying an amount upfront in premium payments, governments increase the likelihood of receiving timely funding to help cover disaster losses and damages and bridge the gap until additional resources are mobilised.

Since the mid to late 2000s, with rising needs due to the increased severity and frequency of climate-related shocks, development partners have invested large sums to support the development of insurance products and establish risk pools to help vulnerable countries insure themselves against climate-related disasters, in particular against tropical cyclones, droughts, and floods.[17] Despite these investments, demand for such products has been limited, particularly in Africa and the Pacific, lagging behind donors' initial expectations.[18] Low-income countries and small island states in Africa and the Pacific, for example, have rarely purchased insurance exclusively using their own resources, with many countries making very small contributions. While many middle-income countries pay for insurance, coverage has been limited and falls far short of their protection needs.

In the last decade, donors and implementers have tried different approaches to supporting insurance solutions, particularly investing capital into regional risk pools and providing technical assistance. However, they have found that these approaches are insufficient to significantly reduce insurance prices or stimulate country uptake and thereby increase the amount of protection being provided. Compared with capital and technical support, premium support directly reduces the price of insurance, and has the potential to provide a more direct route to development impact. Just a few years ago, most donors were reluctant to consider premium subsidies.

17 For instance, the UK and Germany provided capital for the risk pools, e.g. around USD100 million into ARC (see ARC (2022), *Integrated Annual Report 2022*. p.110. Available at: https://www.arc.int/sites/default/files/2024-02/ARC-IAR-2022.pdf), or general support to the World Bank's Global Risk Insurance Facility (GRiF)/Global Shield Financing Facility (GSFF), e.g. USD145 million in 2018. (See World Bank Group. (2018), 'World Bank Group, Germany, and UK Launch USD145 Million Financing Facility to Support Earlier Action on Climate and Disaster Shocks'. Available at: https://www.worldbank.org/en/news/press-release/2018/10/12/world-bank-group-germany-and-uk-launch-145-million-financing-facility-to-support-earlier-action-on-climate-and-disaster-shocks

18 For instance, in the UK Department for International Development (DFID)'s ARC business case, it was initially assumed that 'with some donor capital to kick-start the risk pool, countries will be able to afford premiums from their own revenues – perhaps in the long term, reducing reliance on humanitarian aid.' See DFID. (2014), *ARC business case intervention summary*. Available at: https://iati.fcdo.gov.uk/iati_documents/4440578.odt. In contrast, only three countries were insured after six years without premium subsidies (see ARC (2019), Annual report. p.9. Available at: https://www.arc.int/sites/default/files/2021-10/ARCLtd_2019_Audited_Financial_StatementsEN.pdf)

However, in recent years, several actors have switched their approach, and now increasingly view international premium support as a major strategy to increase uptake and coverage, to help countries better manage climate risk.[19] Underlying this approach is an assumption that cost is a key barrier that donors are able to address, and therefore by providing subsidies to reduce the cost of premiums, donors can help increase country uptake and protection.

With the same reasoning, premium subsidies can be used by donors and implementers to incentivise a government to increase their insurance coverage. With premium support, governments can trial an insurance policy to better understand its value and bridge the time to integrate insurance premiums into their budgetary cycle. Subsidies can help a country that is already a policyholder extend its use of insurance and therefore extend its protection. In both cases, subsidies can help build political buy-in and integrate disaster risks into a government's systems and processes.

Interviews with stakeholders suggested that expectations regarding how to achieve increased coverage differ depending on the country's region and income level. In the context of increasing protection for lower-income countries, such as African countries and small island states in the Pacific, premium subsidies are viewed as a tool to increase the number of countries in a risk pool, to retain customers, and bring back customers who have not renewed their policies.[20] In countries with severe constraints on their ability to purchase insurance – such as a low fiscal space, low tax ratios, high debt burdens, and significant opportunity costs when paying insurance premiums –premium support can enable insurance protection that would otherwise not be in place. In fragile settings or highly constrained contexts, or in circumstances where donors cannot provide premium support directly to governments, for instance, with governments under sanctions, subsidies to humanitarian organisations enable donors to create coverage that would otherwise not be possible. In middle-income countries, such as in the Caribbean, premium subsidies are seen as a tool to help countries who have already purchased insurance to expand their coverage; gradually enabling them to integrate increases in premium financing into their budgets, which in turn will serve to increase their overall protection.[21]

The research suggests that, in addition to directly increasing coverage, donors aim to achieve several additional outcomes through premium subsidies. For example, to support insurance as a general approach to finance disaster risks; to help with the uptake and development of new insurance products and markets; or to enable product innovations or longer return periods that otherwise would not be politically viable for governments to fund. Another outcome could be to stabilise risk pools through increasing their diversification and revenue, which improves their economies of scale. For donors with capital invested, subsidies can help protect their initial investment by bolstering the financial health of the risk pools. In the climate context, some donors consider premium subsidies as a way to demonstrate shared responsibility for climate-related losses and damages, and therefore as an important part of loss and damage funding arrangements.

19 For instance, several long-time supporters of the African risk pool started funding premium subsidies, such as Germany via support to ARC's Premium Support Facility in 2020 (see https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/About-us/News/News-Details_620288.html), 2021 (see https://www.arc.int/news/german-government-announces-eu18m-premium-support-subsidize-climate-insurance-african-risk), and 2023 (see https://www.transparenzportal.bund.de/de/detailsuche/DE-1-202136927), as well as the UK (see https://devtracker.fcdo.gov.uk/programme/GB-GOV-1-300751/projects), Switzerland (see https://www.eda.admin.ch/deza/en/home/themes-sdc/state-economic-reforms/corruption.html/content/dezaprojects/SDC/en/2021/7F10890/phase1) and the US (see https://www.usaid.gov/climate/adaptation/prepare-initiative) via AfDB's ADRiFi multi-donor trust fund since 2021. See also blog on the discussions during Bonn Climate Week in 2023: Bertram, V. & Chowdhary, J. (2023), 'From 'no-go' to 'must have': where next for premium support?' Centre for Disaster Protection. Available at: https://www.disasterprotection.org/blogs/from-no-go-to-must-have-where-next-for-premium-support.

20 For instance, the African risk pool considers premium support a solution to tackle the lack of affordability problem of countries which increases countries' participation, retains customers, or brings back customers who dropped out. See ARC. (2023), *Integrated Annual Report 2021*. p. 22 Available at: https://www.arc.int/sites/default/files/2023-10/ARC-IAR-2021.pdf

21 The Caribbean risk pool CCRIF, for instance, considers premium support with the objective to increase coverage. See CCRIF. (2023), *Annual Report 2022/23*. p. 2 Available at: https://www.ccrif.org/sites/default/files/publications/annualreports/CCRIFSPC-Annual-Report-2022-2023_lowres.pdf

3

IS PREMIUM SUPPORT LEADING TO INCREASED UPTAKE AND COVERAGE?

After some years of international premium support, insurance coverage has increased. Yet vulnerable countries appear to have rarely increased their financial contributions towards premium payments. In the Pacific and in Africa, information on subsidy levels is not publicly available,[22] but from donor spending data it is possible to observe how increasing donor contributions have led to increased coverage levels. Coverage numbers for Africa and the Pacific indicate that most increases in coverage were paid for by international support and not through additional country contributions. Vulnerable countries' share of total premium payments for ARC has remained steady (between 26% and 29%) since donors started subsidising in 2020.[23] Similarly, the Pacific risk pool received EUR10 million in 2024 from the German government with the intention to significantly subsidise insurance coverage in the Pacific.[24] Throughout Africa and the Pacific, insurance protection remains highly dependent on subsidies. In contrast, premium discounts offered in the Caribbean by CCRIF seem to have led to both increased country contributions and increased coverage levels.[25]

With vulnerable countries facing multiple crises – including the global covid-19 pandemic, increasing debt, energy and food price rises, and climate change – many countries' fiscal space has become highly constrained. As a result, the willingness to purchase insurance, even if subsidised, remains below donors' expectations, and there have even been cases of countries declining offers of 100% subsidies.[26]

It is in this context that donors have increasingly offered premium subsidies to humanitarian organisations, rather than exclusively to vulnerable country governments.[27] This is part of a wider effort to foster a shift from ex-

22 For instance, in risk pools' annual reports or the premium support programme documents.
23 ARC. (2023), *Integrated Annual Report 2021.* p. 36. Available at: https://www.arc.int/sites/default/files/2023-10/ARC-IAR-2021.pdf and ARC. (2024), *Integrated Annual Report 2022.* p. 9. Available at: https://www.arc.int/sites/default/files/2024-02/ARC-IAR-2022.pdf
24 Frankfurt School of Finance and Management. (2024, 17 April), 'Global Shield supports the climate-vulnerable population of the Pacific island states' https://www.frankfurt-school.de/en/home/newsroom/news/2024/April/Global-Shield-.html. Information on the significant increase in subsidy share was shared during the panel on premium support at the Climate Risk Finance Forum in April 2024.
25 See figure 5.5. in Plichta, M. and Poole, L. (2024), *The state of pre-arranged financing for disasters 2024.* Centre for Disaster Protection [forthcoming].
26 Scott et al. (2022), *The Political Economy of Premium Subsidies: Searching for Better Impact and Design.* Overseas Development Institute. Available at: https://odi.org/en/publications/the-political-economy-of-premium-subsidies-searching-for-better-impact-and-design/
27 For instance, the US decided to start providing premium subsidies in 2022, providing a much higher share of USD9.3 million for the humanitarian programme ARC Replica than the total amount of USD2.5 million for countries via ADRiFi. See AFBD, (2021), 'African Development Bank's Africa Disaster Risk Financing Program receives USD2.5 million pledge from United States', AFBD. https://www.afdb.org/en/news-and-events/press-releases/african-development-banks-africa-disaster-risk-financing-program-receives-25-million-pledge-united-states-46718

post to ex-ante approaches in humanitarian finance. Subsidies to humanitarian organisations enable donors to create protection and provide response capabilities in fragile settings or highly constrained contexts, or in circumstances where donors cannot provide premium support directly to governments. Further, there is some evidence demonstrating that humanitarian actors have distributed insurance payouts to affected populations considerably faster than governments.[28]

Subsidies to humanitarian organisations now represent a significant share of overall premium support. From 2018, donors started funding the purchase of insurance by humanitarian organisations in Africa, which reached 40% of ARC's total premium income by 2022.[29] In 2023, additional donor funding of USD35 million from the World Bank's GSFF to the UN World Food Programme (WFP) and UN International Children's Emergency Fund (UNICEF)[30] included premium subsidies, with an aim to expand insurance protection in the Caribbean and the Pacific.[31] For humanitarian organisations, premium support presents an opportunity for them to access new types of donor funding, in the context of shrinking budgets from their traditional funding sources. It is unclear whether increased subsidies to humanitarian organisations have substituted subsidies to countries.

28 Oxford Policy Management. *Independent Evaluation of the African Risk Capacity* [forthcoming].

29 ARC's 2022 annual report reports USD9.1 million premium income from the humanitarian organisations WFP and Start Network/Save the Children (with a total premium income of USD23.1 million). See ARC. (2024), *Integrated Annual Report 2022*. p. 55. Available at: https://www.arc.int/sites/default/files/2024-02/ARC-IAR-2022.pdf

30 Foreign, Commonwealth and Development Office (FCDO). (2023), *Annual Review (D0003634) 300751*. https://devtracker.fcdo.gov.uk/programme/GB-GOV-1-300751/documents

31 WFP has used premium subsidies since 2022 in the Caribbean (See Artemis. (2021, 31 December), 'CCRIF & WFP link parametric insurance with social protection in Dominica'. Available at: https://www.artemis.bm/news/ccrif-wfp-link-parametric-insurance-with-social-protection-in-dominica/), and has committed USD1 million of premium subsidies for coverage in the Pacific (see World Food Programme. (2024, 25 March), 'Pacific Catastrophe Risk Insurance Company and WFP Partner to Reinforce Disaster Risk Financing in the Pacific Region.' Available at: https://www.wfp.org/news/pacific-catastrophe-risk-insurance-company-and-wfp-partner-reinforce-disaster-risk-financing).

4

WHAT MAKES PREMIUM SUPPORT DESIGN SO COMPLEX?

Multiple layers of decisions

When providing premium support, multiple decisions need to be taken. The initial decision should always focus on the primary purpose and objective of the subsidy as this then has implications for all following decisions. Decisions include:

- **Purpose:** What is the main purpose or objective of the subsidy?
- **Eligibility:** Who is eligible to receive a subsidy?
- **Allocation:** How should the available funds be allocated between eligible countries and/or humanitarian organisations?
- **Amount/share:** What subsidy size is adequate? What should be the country's share, and can it be drawn from development banks' country envelopes?[32]
- **Duration:** How long should the subsidy last? Should it decrease over time, and if so, at what rate?
- **Conditions:** What conditions should be linked to the subsidy to achieve the intended objective and ensure development impact?

Design decisions tend to be agreed upon at a programme level by donors in conjunction with chosen intermediary implementing institutions[33]. Eligibility is typically pre-defined and influenced by a donor's considerations; for example, Official Development Assistance (ODA) requirements, or exclusions for countries under sanctions or political constraints. Subsidy terms will be shaped by a programme's eligibility criteria and allocation rules, as well as the availability of donor funding for a country or region.

In recent years, attention has largely focused on the issue of subsidy size – determined by eligibility and regional or global allocation – compared with other

32 For example, the World Bank's IDA or AfDB's African Development Fund (ADF).

33 Implementing institutions providing premium support include development banks – particularly the World Bank and the AfDB, the latter with a dedicated premium support programme (ADRiFi) – the Global Shield financing facilities, and the regional risk pools.

important considerations in premium support design.[34] To date, there has been no real public discussion on ensuring that the size of subsidies (whether regionally or globally allocated) adequately addresses the needs of the recipient country or serves to create meaningful protection.[35] Considerations of the subsidy share to be provided by the recipient government, its duration, and whether it can be drawn from development banks' country envelopes, have sparked little meaningful discussion at the international level – despite serving to critically influence, shape and incentivise future uptake by governments. Which conditions should be placed on a subsidy is an open question. Conditions may include requirements that delivery systems are in place, or to track impact, for example. These discussions typically happen between donors and implementers as part of a negotiated process behind closed doors. It is unclear to what extent they are based on mutually aligned objectives to incentivise future uptake and how they best promote the recipient country's development impact.

Multiple actors, misaligned incentives and conflicting objectives

Another source of complexity in premium support design is the range of actors involved and their different institutional environments, incentives and objectives.

Multiple stakeholders have engaged at different points in time in the creation of insurance products and the set up and evolution of the regional risk pools, each with different approaches to premium subsidies. This has proved a major contributing factor in determining the different trajectories in how subsidies have been provided across different regions. For example, the regional risk pools in the Caribbean and Africa began with very little or no access to premium subsidies, while countries in the Pacific received high levels of support from the beginning. This has had implications, for example, on a country's expectations of premium support levels.

Donors have used multiple channels to reach recipients, impacting how decisions have been made. Most often, subsidies are channelled through an intermediary implementing organisation, such as a development bank or regional risk pool. These intermediaries manage funds that provide grants for premium subsidies; they typically propose the rules around premium subsidies, which donors then approve. Donors can also provide premium subsidies directly to a country or humanitarian organisation. In this case, the donor typically takes the decisions on funding allocation, directly negotiating with the recipient.

Differences in risk pool participation requirements have shaped donor expectations regarding the conditions they attach to premium subsidies. For instance, when subsidising ARC insurance via ADRiFi, donors made contingency planning from subsidised policies a pre-condition following the pre-conditions set for participating in the risk pool. In contrast, in the Caribbean and the Pacific, regional risk pools do not require such steps as part of the insurance policy, and donors have typically not insisted they be included in the subsidy arrangement.

The multiple actors' objectives and incentives can be misaligned at times, potentially leading to premium support criteria and conditions that undermine each other. Therefore, it is critical to be aware of potentially differing incentives:

34 A major proportion of premium support has been provided to regional risk pools, where eligibility and allocation were the first questions to address. The IGP published a paper on global allocation decisions, but there has been no guidance on other dimensions, such as subsidy share, duration, and conditions. Panwar, V. et al. (2022), *Methodological guidance to determine the 'size' of premium and capital support (PCS) at macro level.* IGP research report, Overseas Development Institute. Available at: https://odi.org/en/publications/methodological-guidance-to-determine-the-size-of-premium-and-capital-support-pcs-at-macro-level/

35 A criterion-based allocation decided on the global/regional level does not necessarily result in an amount that supports the goal of the subsidy. Participants in interviews shared, for instance, that when allocations were made among countries that were insured in the past, the allocation rule might lead to cases where the allocated amount replaces country contributions paid in the past. They also shared that an allocation might result in a small subsidy amount, which would – if the country does not top it up significantly – result in low coverage and insurance payout levels that would not demonstrate the value of insurance in case of a payout.

Donors	Donors may wish to protect as many countries as possible, leading to the lowest possible subsidy per country. Alternatively, they may wish to leverage their support as much as possible, e.g. by subsidising a country's increase in coverage. They may favour countries with closer bilateral relationships. These approaches may lead to high subsidy amounts for a few selected countries. In terms of duration, donors are incentivised to aim for shorter periods and to conduct discussions about when to exit. Donors may seek reassurance that the subsidy's development objectives can be met, for example, through conditionality on reporting in the case of an insurance payout.
Implementers	Implementers of premium support may have different incentives depending on their mandate: For ***development banks***, incentives for premium support may be influenced by their internal incentive structures, which might promote lending products rather than insurance.[36] If they have grant funding that can be used for their own technical assistance[37] and for premium support, they might be incentivised to maximise the amount spent on their own services rather than allocations for premium support. Both scenarios can result in lower amounts available to provide premium support and insurance protection. Development banks may be strongly incentivised to determine country selection, allocation decisions, and terms and conditions, to fit their own institutional framework. For ***risk pools***, ultimately mandated to sell the insurance products, they may be incentivised to maximise their business through either leveraging the subsidy to the greatest extent possible or through seeking to diversify the pool. If the risk pool faces pressure to grow quickly, they may rush to use up all subsidies early on, rather than spread them over several years. Facing annual income targets, they might also be less incentivised to have conversations about who will pay in the future and about conditions that ensure the impact of development.
Recipients	***Countries*** – although limited in their ability to shape premium support design – are likely to want to secure the highest possible subsidy, for as long as possible, to enable the highest possible protection for themselves. They may not be willing or well-positioned to have conversations about who will pay in future. They may present themselves as keener to take over premium payments in future than they actually are, in order to secure the subsidy in the present. For the same reason, countries may be less willing to have frank conversations about their actual preferences on duration and delivery channels, or about their institutional and capacity-related limitations. ***Humanitarian actors*** might similarly seek to secure as much funding as possible for their institution or programme. They may want to maximise flexibility on how they spend their funding, for instance, when deciding how much programme funding will be spent on premium support versus their own operational costs to prepare for the policy and the disaster, potentially leading to lower protection through premium support. They may not be willing to enter conversations about how premium payments will be paid in future.

36 For instance, development banks' key performance indicators might set incentives to support contingency loans or only offer premium subsidies in countries where loans are either not possible or already in place.
37 For instance, costs for product development or risk finance education.

Risks and trade-offs in the allocation and design of premium support

It is important to acknowledge the risks and trade-offs to consider when making decisions around premium support. Deciding to offer certain terms and conditions may have unintended consequences that undermine the long-term objectives in offering premium support. Similarly, differing objectives may work to counter rather than reinforce each other. For example, a donor or regional risk pool may wish to incentivise new country uptake with premium subsidies, but also be keen to keep existing countries within the pool. In another instance, they may wish to provide humanitarian organisations with premium subsidies to utilise effective delivery channels or create protection in fragile contexts; but simultaneously wish to support country uptake, strengthen government systems, and facilitate conversations with government about risk ownership. These different objectives may not necessarily align comfortably with each other.

Table 1 sets out possible trade-offs when making decisions around premium support, identified through discussions with stakeholders.

Table 1: Premium support design choices and possible implications

DESIGN CHOICE	POSSIBLE IMPLICATIONS AND TRADE-OFFS	
Eligibility and allocation		
Countries already insured / in the risk pool (having previously funded premiums themselves) are considered eligible for subsidies	Countries and loyal customers might feel **treated fairly**, which might ensure their continued participation, if at risk.	This might **reduce** country willingness to pay for premiums and **might not maximise coverage and protection.**
Only new countries or countries adding to their existing coverage are eligible for subsidies	This might **incentivise new countries** and **maximise coverage and protection.**	It might lead to loyal customers feeling **unfairly treated,** and could potentially act as a disincentive for them to take out insurance, which could decrease coverage and protection.
Allocation is purely the result of global/regional allocation criteria, without considering the country context	Countries receive a consistent and coherent criteria-based allocation share, leading them to feel **fairly treated.**	Countries might **feel unfairly treated** because they find the criteria too complex or biased against them, believing it does not consider their context. The resulting allocated size might **not incentivise a country or lead to meaningful or long-term coverage** as it does not sufficiently consider the country's specific context.

DESIGN CHOICE	POSSIBLE IMPLICATIONS AND TRADE-OFFS	
Donor's / country's share of premium payment		
High donor share of total insurance premium	This could be **a high incentive for the country to buy insurance** and create protection at once.	This could be a **low incentive** for the country to **integrate premium payments** into the government's budgetary systems and **to pay in the future.**
High country share of total insurance premium	This could be **a high incentive** for the country to **integrate premium payments** into the government's budgetary systems and **to pay in the future.**	This could be a **low incentive for the country to buy insurance** and create protection at once.
Duration		
Multi-year duration	This **increases the chance of a payout** for the recipient country, demonstrating the value of insurance and giving more time for advocacy, capacity building, and **integrating premium payments into** the government's **budgetary systems.**	Compared with using up all the funds for subsidies in one year: For the recipient country: this might lead to **lower annual support and protection.** For the pool of countries: this might lead to **fewer countries receiving support.** For risk pools: this might lead to **lower premium income in the current year.** For donors: It might be **difficult to commit** because of constraints in donors' budgetary rules and available funding.
Short-term duration	Donors might have **ad hoc opportunities,** such as using unspent funding toward year end for premium support, which could create **quick coverage.**	This **might not help a country** understand the value of insurance and integrate premium payments into government systems **to pay beyond the subsidy period.**

DESIGN CHOICE	POSSIBLE IMPLICATIONS AND TRADE-OFFS	
Conditions		
Conditions on the product quality and the country systems' readiness[38]	These might **ensure** that the **country's systems** are ready to **deliver impact.** It might help to **prevent funding poor-quality** products or inefficient delivery channels.	This might lead to the **exclusion of capacity-constrained countries.**
Conditions for monitoring, reporting and evaluations	These might **show the impact** of insurance payouts and enable **continuous improvement** through learning loops.	This might **discourage or exclude capacity-constrained countries,** or countries might not be able to comply with agreed conditions.
Insured institution to receive premium support		
Premium support to national governments	These might **improve the country's systems** and understanding of climate risks and financial risk management, and **build ownership.**	If a country has a low level of readiness and the insurance product is not linked to a reliable money-out system, this might **negatively affect the efficiency and effectiveness of the delivery** of insurance payouts.
Premium support to humanitarian actors instead of national governments	This might **improve the insurance product's quality and the insurance payout's efficiency and effectiveness.** It might also improve capacities within countries if humanitarians collaborate with the national government. It can enable insurance **protection in difficult contexts**, e.g. fragile settings, where protection is otherwise not feasible.	This might **discourage the country's government** from taking out or paying for insurance.

There is little available research or transparency on how these trade-offs play out in practice and exactly how governments make decisions around purchasing climate insurance. The key point to emphasise is that actors should be mindful of these possible trade-offs and proceed with caution in designing premium support to be sure they do not inadvertently create disincentives that undermine their core objectives — and may serve to undermine development impact in vulnerable countries.

38 Conditions used in premium support programmes were, for instance, criteria related to the government's disaster risk management and policies. For instance, the AfDB requests the development of DRF strategies as part of the premium subsidisation within its ADRiFi programme. See country-specific ADRiFi appraisal documents, for instance, Mauritania: African Development Fund. (2020), *Africa Disaster Risk Financing Programme in Mauritania: Appraisal Report*. Available at: https://www.afdb.org/en/documents/mauritania-africa-disaster-risks-financing-programme-adrifi-appraisal-report

5

WHAT ARE THE PROBLEMS WITH CURRENT APPROACHES TO PREMIUM SUPPORT?

Our research identified a range of problems with the way premium support is allocated, designed, and administered. It has been three years since the SMART Principles were introduced to provide foundational guidelines around enhancing risk finance effectiveness through greater affordability and sustainability (see overview of the principles in Annex[39]; in that timeframe we have found that many donors and implementers find them hard to follow. Currently, none of the international premium subsidy programmes meet all of these basic guardrails.[40]

Decision-making remains dominated by global actors

Premium support allocation, eligibility criteria and rules are mostly driven by donors and intermediary organisations at global and regional levels. Some of these terms may be pre-determined by their institutional framework and the type of funding available, such as a donor's ODA requirements, an intermediary development bank's institutional allocation framework, or country/ regional funding envelopes. Typically, premium support is decided on a programme- or project-level, with discussions around premium support mainly approached from the donor or fund holder's perspective, without sufficiently accommodating the country's context and voices. This often leads to a one-size-fits-all approach that does not take into account specific barriers, development needs and priorities within the country.

Our research suggests that honest conversations about the recipient countries' political contexts, barriers, and possibilities are not happening between all critical stakeholders, including donors, implementers, and recipient countries. This involves discussions regarding premium subsidy objectives, responsibilities and commitments on subsidy terms, as well as conditions and future payment of premiums. This can serve to create a high risk of protection collapse after subsidisation, due to unrealistic assumptions.

Countries who stand to receive premium subsidies are not adequately represented in decision-making fora on premium support. The SMART Principles call for transparency towards recipient countries around governance structures and decision-making, and for

39 Toepper & Stadtmueller. (2022), *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability.* InsuResilience Global Partnership. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/

40 Some implementers have followed some of the criteria; for instance, PCRIC follows the SMART principles on eligibility and allocating premium subsidies. See Global Shield. (2024, 12 June), 'Pacific Island Countries to receive premium support from Global Shield'. Global Shield Available at: https:/www.globalshield.org/news/pacific-island-countries-to-receive-premium-support-from-global-shield/

flexibility to allow for context-specific adjustments.[41] Countries are too often unaware of this and have neither a say in the rules and conditions around premium support, nor a route to challenge what they consider to be inappropriate for their country context or poor practice. This may lead to a disconnect between the subsidy term's offer and the country's needs.

It is important to note here that the success of a subsidy – in terms of designing a package that truly incentivises continued country uptake, maximises coverage, and ensures development impact – cannot be achieved without in-depth consideration of a country's political and fiscal context, its risk profile, technical capacities, and development path. There must be flexibility to course-correct the design if a subsidy does not meet the country's needs or undermines the subsidy's goals.

In current processes around premium support, power asymmetries mean that governments are typically kept at arm's-length in a largely passive role. This can lead to support that is based on unrealistic assumptions and expectations, such as timelines within which governments will be willing and able to take on the premium costs themselves. If there is a significant disconnect between the goals of the subsidy, the terms and conditions offered and the country's needs, the likelihood of future uptake and impact is at risk.

Lack of transparency and information

Using information in the public domain, it is not currently possible to find basic information about who is providing subsidies to whom, on what basis[42], under what terms and conditions, and with what objective. Typically, only piecemeal or aggregated information is available on how premium support has been provided for a region or particular project. There is a general lack of transparency on how decisions are made, including on eligibility, allocations, terms and conditions, and on application and negotiation processes.

Through the agreement and endorsement of the SMART Principles, the international community has agreed on the importance of transparency towards recipients, the public, and among providers. This includes the governance of subsidies, project documentation, including documentation on terms and conditions, money-out processes, and monitoring and evaluation (M&E).[43] Critical information on whether premium subsidies lead to the intended outcome, whether they incentivise countries to insure or increase their contribution, including country and donor share of the premium over time, would be necessary to understand whether subsidies work. This transparency would also enable the drawing of critical lessons to adapt and optimise the premium support and the insurance product over time.

Information on the impact of premium subsidies is equally difficult to source, such as what additional coverage has been created through premium support; to what extent does it lead to increased levels of coverage and insurance payouts; and whether this coverage is sustained. This relates to a general lack of public and independent evaluation of donor-supported climate risk insurance, which makes it difficult to understand and demonstrate the outcomes and impacts of subsidised insurance policies. The exception is the UK FCDO independent evaluation of the African risk pool, ARC. This evaluation assesses the outcomes and impacts of insurance in several African countries, although it does not explicitly evaluate premium support.[44]

Beyond the lack of transparency regarding the subsidies themselves and their impact, interviewees shared concerns about the transparency of M&E information from insurance providers and recipient countries about the subsidised insurance product and the implementation of the insurance payouts. Such a lack of

41 Toepper & Stadtmueller. (2022), *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability.* InsuResilience Global Partnership, p. 9 and p. 18f. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/

42 A recent exception on information on allocation was the publication of the allocation methodology used by PCRIC to allocate USD10 million of funding among its member states. See Global Shield. (2024, 12 June), 'Pacific Island Countries to receive premium support from Global Shield'. Global Shield. Available at: https://www.globalshield.org/news/pacific-island-countries-to-receive-premium-support-from-global-shield/

43 Toepper & Stadtmueller. (2022), Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability. InsuResilience Global Partnership, p. 9 and p. 18f. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/

44 The independent impact evaluation of ARC includes an overview of donor commitments to the African risk pool in its assessments of the development impact of ARC insurance, but not at the outcomes and impact levels of the subsidy itself. (See Oxford Policy Management. (n.d.) *Independent evaluation of the African Risk Capacity.* Available at: https://www.opml.co.uk/projects/independent-evaluation-african-risk-capacity). Another evaluation from the OPM team will be published in 2024, focusing on impact.

transparency breeds confusion and creates risks for the continued success of premium support.

The current lack of information and clarity on objectives, terms and conditions, and critical trade-offs (see also Table 1) makes it difficult for stakeholders to take decisions that consider all the complexities of premium support, coordinate and align terms and conditions, and course-correct when necessary. This poses several risks that threaten the efficiency, effectiveness and impact of the subsidy and the subsidised product. Table 2 shows a range of possible risks raised by research participants that could undermine a subsidy's efficiency and effectiveness, and suggests how transparency from donors, implementers, recipients and the insurance industry could help mitigate these risks.

Table 2: Transparency measures to mitigate risks with premium support

RISKS	...CAN BE MITIGATED BY TRANSPARENCY
Related to the subsidy	
Unclear criteria and decision-making could lead to countries feeling treated unfairly compared to others, which might decrease the country's desire to insure.	*From* donors/implementers *to* countries *on* decision-making processes and criteria for eligibility and allocation.
Countries are uncertain about what future support they can expect, which may decrease the country's desire to insure at once.	*From* donors/implementers *to* countries *on* criteria and conditions for future premium support, to create clarity and reliability.
Unclear concessional levels of premium support prevent comparative analysis of risk finance instruments and lead to suboptimal choice by countries.	*From* donors *to* implementers, *among* different implementers of risk finance instruments, and to countries on terms and conditions, to allow coordination and alignment of donors/implementers on concessional terms and create clarity for country's decisions.
The globally/regionally allocated subsidies and the national contribution lead to a very low level of coverage, so insurance value will not be demonstrated in case of a payout.	*From* implementers *to* donors *on* coverage level resulting from allocated subsidy and on minimum subsidy levels that would create meaningful coverage, to allow for course correction of subsidy before final offer to countries.
The globally/regionally allocated subsidy to a country is higher than previous national premium payments and undermines national ownership.	*From* implementers *to* donors *on* previous national contributions, to allow for course correction of subsidy before final offer to countries.
The availability of multiple subsidies with conflicting goals leads to competition and lower standards and criteria, creating adverse incentives and unsustainable terms.	*Among* donors/implementers *on* subsidy terms and conditions, to allow for coordination and alignment before final offer to countries.
Subsidy offset by market pricing due to private sector rent-seeking.	*From* the (re-)insurance industry *to* implementers/donors on pricing composition, to allow for a comparative assessment.
The subsidy does not achieve the intended outcome, such as incentivising countries to increase their contribution.	*From* implementers *to* donors *to* allow for course correction of subsidy over time.
Low demand for subsidised insurance product without the subsidy.	*From* countries *to* donors *regarding* the need and demand for insurance beyond subsidisation.
Related to subsidised insurance	
Subsidised insurance products do not pay out.	*From* implementers *to* donors/countries/public *on* insurance product quality, including triggers and basis risk.
Insurance payouts from subsidised policies do not reach or address the needs of the most vulnerable people – misuse or misdirection of payouts.	*From* countries/implementers *to* donors/public *on* money-out processes and the use of payouts.

Lack of focus on quality and impact

The SMART Principles recommend that subsidies fund risk-transfer products that offer good value for money and are coupled with effective, development-oriented delivery systems to achieve development impact.[45] When preparing funding for premium support, donors typically focus on the subsidy itself, and do not verify whether the quality of the subsidised product is sufficient to lead to its intended development impact. Their decision to fund is built on the assumption of the adequacy and quality of the insurance product ('money-in') and the efficiency and effectiveness of the delivery channels ('money-out'). Both these elements are critical to ensuring the insurance policy pays out when it should and that it will provide timely support to disaster-affected people. By not verifying the quality of the subsidised product and its delivery channel, donors risk scaling products or channels which do not lead to a timely response and the intended development impact.

When acting as intermediary organisations, development banks generally aim to address insurance product quality during the preparation of premium support or via accompanying technical support. However, this does not appear to be consistently undertaken following a rigorous process. Regional risk pools as intermediary organisations may have vested interests in their role as insurance sellers, which subsequently prevents them from conducting impartial quality assessments when requesting donor support or offering premium subsidisation to countries.

This issue is, in part, linked to the problem mentioned previously: that information on product quality, outcomes and development impact is typically not tracked or publicly available. With the exception of ARC[46], all other risk pools release payouts to governments as general budget support, with limited self-reporting on how payouts impact affected communities. For most premium subsidies, this means there is no direct line of sight over how payouts have reached vulnerable communities.

Uncoordinated, unaligned approaches

Most premium support is uncoordinated and unaligned – a consequence of it being drawn from multiple funding sources, with potentially conflicting development objectives. Without a strategically coordinated approach, donors' can unintentionally create competition and lower standards for criteria of what will get funded. This potentially undermines long-term goals of sustainable premium financing. For climate-vulnerable countries, this may lead to support that is unclear, unpredictable and unreliable.

One reason for this is that premium subsidy approaches have developed organically over time. At first, donors used several funding channels through development banks. With a surge of premium support due to the covid-19 pandemic, they increasingly used project- and programme-level approaches, through multi-donor trust funds, separate funds linked to the risk pools, or as a direct payment for coverage on behalf of a recipient country. This project and programmatic approach typically gave more freedom to shape a programme's design according to the donor's objectives and country needs, while contributing to fragmentation and misalignment of premium support.

Against this background, different methodologies have been tested for allocating and designing subsidies, sometimes within the same region. Approaches have ranged from paying a small share right up to paying 100% of the premium costs; from one-off subsidies for a single year to trialling sliding scales with reducing subsidies as part of multi-year agreements; and from only using subsidies for existing clients to only offering subsidies to new clients to create coverage.

On a macro level, premium support is not always well-aligned to donors' other crisis financing instruments and approaches. Most crisis finance is ad hoc, ex-post support, rather than pre-arranged. A case in point can be seen between 2017 and 2021, when donors spent only 2.2% of their total crisis financing on pre-arranged

45 Toepper & Stadtmueller. (2022), *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability.* InsuResilience Global Partnership, p. 9, and p. 13f. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/

46 Oxford Policy Management. (n.d.) *Independent evaluation of the African Risk Capacity.* Available at: https://www.opml.co.uk/projects/independent-evaluation-african-risk-capacity

financing, including premium support.[47] This figure shows that rather than sitting within a coherent strategy and context, subsidies remain an incredibly small part of donors' overall approach to crisis financing. Even within pre-arranged finance, in the most part donors do not strategically align the different instruments they employ or support. As an example, premium subsidies are provided independently from concessional contingency loans or catastrophe bonds.

The SMART Principles advocate for a level playing field amongst pre-arranged financing instruments and a value-for-money comparison of premium support with alternatives to help countries choose the best approach for their needs and development goals.[48] In practice, however, countries' choices can be easily swayed by funding availability for specific instruments and differing levels of concessionality, serving to distort decision-making and potentially undermining optimal resource allocation.

It seems that donors and implementing organisations are often unsure of the best approach to take when it comes to providing premium subsidies in this complex environment, especially when faced with multiple actors and institutions, and different country contexts. This lack of coordination leaves recipient governments unclear about what exactly is being offered, and importantly, under what conditions – rendering them less able to make well-informed decisions.

Short-term approaches

The SMART Principles suggest premium support should be provided for a minimum of three years – although one-off subsidies for a single year have happened, particularly when donors are motivated to respond to a particular need or are required to use up their budget underspends at year end. During the global covid-19 pandemic, for example, there was a sharp increase in ad hoc, short-term donor funding, where donors experimented with premium support to create quick protection in times of multiple crisis. However, this was done without a clear plan or intention to extend such protection into long-term support for climate- and crisis-vulnerable countries.

Three years is a short timeframe within which to transform governments from 'unwilling purchasers' to 'regular customers', especially if they are expected to contribute heavily during this period. Governments may go for many years without seeing the benefits of a payout. For example, if a product pays out once every 10 years, there is a more than 70% chance of receiving zero payouts over a three-year period. A scheme must run for more than 20 years to have a 90% chance of at least one payout.

A short-term approach is even less likely to succeed in countries facing severe fiscal distress, such as highly indebted nations, or low-income and fragile states. After three years of premium subsidisation, AfDB's mid-term review found that "a five-year time period for supporting countries with premium payments is not enough time' and recommends lengthening the time period it provides financial support in each country, requesting 'more systematic, long-term donor support".[49]

The SMART Principles further recommend varying durations based on country-specific circumstances. These include long-term subsidies for countries in fiscal distress, and medium-term subsidies determined by a plan for future premium payments from potential self-purchasing countries. This suggested differentiation depending on the country context, however, has not typically been followed. Instead, durations are usually determined by donor commitments or standardised terms by the regional risk pools through a region-wide approach.

Regardless of a country's development path, donors have emphasised the importance of exit strategies for premium support, wanting to be sure there really is some nascent demand and they will not be expected to subsidise insurance indefinitely. This emphasis on exit is much more pronounced compared to other sectors, such as social protection, where donors are more cognisant of a country's development trajectory and willing to accept much longer timescales for government to take forward

47 Plichta, M. and Poole, L. (2023), *The state of pre-arranged financing for disasters 2023*, Centre for Disaster Protection. Available at: https://www.disasterprotection.org/publications-centre/the-state-of-pre-arranged-financing-for-disasters-2023

48 Toepper & Stadtmueller. (2022), *Smart Premium and Capital Support: Enhancing Climate and Disaster Risk Finance Effectiveness Through Greater Affordability and Sustainability*, InsuResilience Global Partnership, p. 9, p. 15, p. 18. Available at: https://www.insuresilience.org/publication/smart-premium-and-capital-support-enhancing-climate-and-disaster-risk-finance-effectiveness-through-greater-af-fordability-and-sustainability/,.

49 African Development Bank. *ADRiFi Mid-Term Review: Strategy Note for Implementing the ADRiFi Programme, Final Report*, p. 4 [forthcoming].

responsibility for financing.[50] This preoccupation with exit strategies may hamper open, robust conversations with governments about their likely contributions in both the short- and medium-term.

In recent years, premium support has mostly been offered by risk pools as a standalone offer, without linking it to more sustainable, longer-term sources, such as development banks' institutional country envelopes. While this had initially reinforced a short-term approach, this trend now seems to be changing. For instance, since 2019, the AfDB's ADRiFi programme has offered countries to use their concessional African Development Fund (ADF) allocations for three-year premium financing for African risk pool policies. Despite this shift, the complementary ADRiFi multi-donor trust fund still predominantly allocates short-term subsidies on an annual basis.

Donor budgetary rules also continue to hinder longer-term approaches. For example, many donor budget laws mandate that their funding be spent within the same fiscal year. This requirement makes it challenging for donors to offer multi-year offerings to countries, especially when they use unspent funds towards the year's end for premium subsidies. Providing multi-year premium support often proves more challenging, especially as it frequently requires exceptional approvals within donor bureaucracies. However, it is possible: for example, FCDO provided a multi-year subsidy in Somalia in 2023.[51]

50 See, for example, donors' support to Kenya's Hunger Safety Nets programme which only focused on government financing in its third phase after a decade of funding, or Malawi's Social Cash Transfer Programme where donors have provided 95% of funding annually since 2016/17: UNICEF. (2023), *Malawi 2023/24 Social Protection Budget Brief.* Available at: https://www.unicef.org/malawi/media/10131/file/Social%20Protection%20Budget%20Brief%202023-24.pdf

51 The UK gave its first multi-year support to Somalia via ADRiFi (see African Development Bank. (2023, 12 December), 'COP28: United Kingdom commits £7.4 million additional funding to African Development Bank's Africa Disaster Risk Financing Programme'. Available at: https://www.afdb.org/en/news-and-events/press-releases/cop28-united-kingdom-commits-ps74-million-additional-funding-african-development-banks-africa-disaster-risk-financing-programme-67026), and Germany provided multi-year funds to Pacific Island countries in 2024 (Frankfurt School of Finance and Management. (2024, 17 April), 'Climate vulnerable communities of Pacific Island Countries supported by the Global Shield'. Available at: https://www.frankfurt-school.de/en/home/newsroom/news/2024/April/Global-Shield-.html).

6

WHAT NEEDS TO CHANGE TO IMPROVE PREMIUM SUPPORT?

Shifting power in decision-making to countries

Currently, the rules and conditions for premium support are typically set by intermediaries such as development banks and regional risk pools, and then approved by donors. Discussions around premium support are approached from the donor or fund-holder's perspective; the countries under consideration are too often excluded from the process and unaware of the rules. This has led to a donor-driven focus on allocating global funding to eligible countries; neglecting, for instance, how the resulting premium support allocation size aligns with the recipient country's realities and needs – insights essential for creating a sustainable path to premium financing and protection.

As with any development effort, premium support should be based on mutual accountability with a shared objective, for which both the country and international development partners will be jointly accountable.[52] Premium support needs to integrate a country's perspectives into decision-making around allocation rules and their design. Country voices must be central to consider what works and what does not. As a first step, honest exchanges must take place about how premium payments could be financed in future, including embedding them within budget processes or covering them from different financing sources, such as development finance from international financial institutions. Research participants suggested this

52 OECD. (2005), *Mutual Accountability under Paris Declaration on Aid Effectiveness.* Available at: https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm

could be supported by the joint development of a plan between the recipient country and the donor and/or the implementing organisation, defining how a country will increase its financing share over time. As suggested by the SMART Principles, premium support programmes could offer different terms and conditions for different country categories.

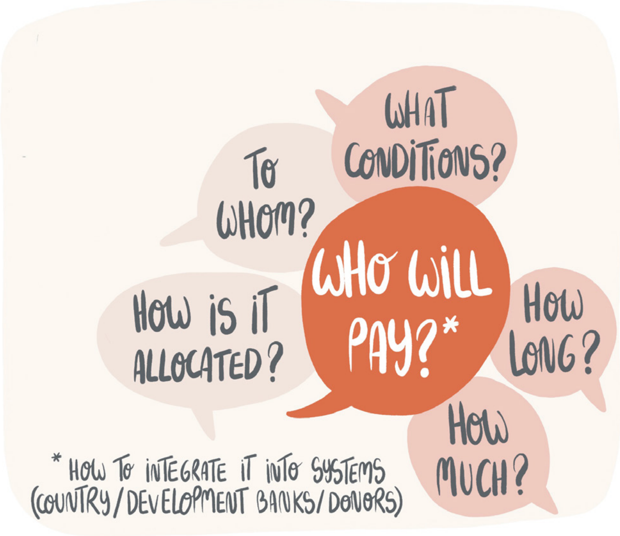
Recipient countries must be ensured a seat at the table when premium support eligibility criteria, allocation rules, and terms and conditions are made; to challenge and be sure that their views are considered. A first step for implementing organisations could be inviting recipient country representatives to committee meetings of subsidy funds. This approach aligns with the principles of country ownership highlighted in the wider loss and damage discourse at COP 28, in which the LDF noted that it "will involve developing country Parties that are particularly vulnerable to the adverse effects of climate change during all stages of the Fund's programme and project cycle, insofar as their respective projects are concerned."[53]

Prioritising country ownership ensures that premium support is not only designed with jointly agreed objectives, but is based on realistic assumptions and, importantly, mitigates critical risks, such as protection collapse, after the subsidy is withdrawn.

Improving transparency and accountability

Too little is publicly known about how subsidies are allocated and designed, and what their impact has been or could be. This bears high risks for the efficiency and effectiveness of premium support and subsidised insurance protection. We need a significant shift towards higher transparency and accountability to create more clarity and reliability for countries. This would also enable implementers and donors to take better-informed decisions for higher development impact.

Premium support should be transparently reported to recipients, including the criteria and decision-making processes on eligibility, allocation, and key terms and conditions. Among all decision makers, relevant



information should be shared that is necessary to make comparative assessments and to coordinate and align support, including subsidy objectives, criteria, and critical trade-offs (see Table 1) and risks (see Table 2). One possibility to enhance accountability and mitigate conflicts of interest is using independent parties to develop objective criteria-based allocations that are publicly shared. PCRIC recently used an independent third party to determine the allocation of regional premium subsidy funding to countries.[54]

Increased transparency on the outcomes and impact of subsidised insurance products can help us understand – and trust – that these products work and lead to the intended development impact. Information on outcomes and impact is also critical to enable continuous improvements in the way premium support is provided. This includes sharing information about who finances what share of premiums over time, and how insurance payouts from subsidised policies help disaster-affected people. Without clearly showing where and how premium support leads to the intended objectives and impact, there is a high risk that donors could reduce or stop their support in the future.

More transparent conversations will pave the way for accountability and will instigate open, inclusive dialogue between relevant stakeholders to jointly aim for development impact. Opening up a premium

53 UNFCCC. (2023), *Operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 of decisions 2/CP.27 and 2/CMA.4. Report by the Transitional Committee.* Available at: https://unfccc.int/documents/632319

54 Global Shield. (2024, 12 June), 'Pacific Island Countries to receive premium support from Global Shield'. Available at: https://www.globalshield.org/news/pacific-island-countries-to-receive-premium-support-from-global-shield/

support ‘black box’ may lead to some uncomfortable questions, such as why some countries or humanitarian institutions have received support and others have not. However, transparency does not necessarily mean every detail has to be shared publicly: commercially sensitive information, for example, could be protected. The act of transparency will ultimately help mitigate critical risks and actively guard against adverse incentives associated with the subsidy, securing the likelihood that premium support will achieve sustainable impact.

Integrating consideration of both quality and development impact

All actors need to recognise that providing or receiving an insurance subsidy entails a responsibility to ensure the quality of the product and its potential for development impact. There is a risk that premium support scales up poor-quality insurance and delivery systems that fail to create meaningful development outcomes. While ultimate ownership lies with the recipient country, donors, implementers and humanitarian institutions share significant responsibilities. This responsibility increases with higher subsidy levels and lower capacities in the recipient country. In addition, when a risk pool acts as the intermediary for premium support, a conflict of interest arises in assessing the quality of their own product. In such cases, donors, development banks, and humanitarian institutions bear a greater responsibility for securing product quality.

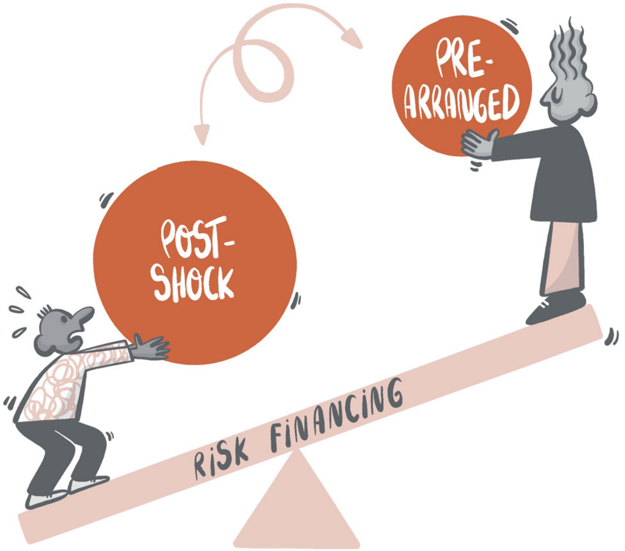
To fulfil these responsibilities regarding quality of the subsidised product, donors, development banks or humanitarian institutions could ask for evidence that the product provides good value for money. This could be in the form of quality assurance or impartial assessments before, or as an implementing condition for, providing subsidies. This could be, for example, a value-for-money analysis of the insurance product, including its product pricing. To ensure quality of the delivery channel linked to the subsidised product, donors, development banks or risk pools could facilitate assessments of proposed delivery channels; or checks that the underlying theory of change links products to reasonable development impacts. This may require more explicit consideration of the extent to which a country’s public financial management policies, practices, and procedures enable it to respond efficiently and effectively to disasters without loss of integrity and accountability.[55] Implementing organisations could be required to regularly report on their assessments of quality and impact, and ensure they have appropriate expertise within their teams. If products and delivery systems need to be improved, donors could provide complementary funding lines, for example, to help improve product quality, strengthen national processes, or build supporting systems. In conclusion, donors, humanitarian institutions and implementers of premium support should establish clear standards and support insurance solutions only when confident they will deliver development impact.

Levelling the playing field of risk financing

International crisis financing is heavily skewed toward post-shock financing. As noted previously, between 2017 and 2021, donors spent a mere 2.2% of their total crisis financing on pre-arranged financing, including premium support.[56] Although donors have invested significant amounts in support of climate insurance and disaster risk finance, this is still vastly outweighed by the amount of international crisis finance that is arranged post-shock.

This approach leaves countries in a situation where it becomes almost nonsensical to invest scarce time

55 For instance, donors and implementers could check the results of diagnostic tools such as the World Bank’s Disaster Resilient and Responsive Public Financial Management assessment, where available.
56 Plichta, M. and Poole, L. (2023), *The state of pre-arranged financing for disasters 2023*, Centre for Disaster Protection. Available at: https://www.disasterprotection.org/publications-centre/the-state-of-pre-arranged-financing-for-disasters-2023



and resources in insurance, undermining their interest in insurance. Why should they go to all the effort of agreeing and negotiating a premium subsidy and annual insurance policy, when much larger amounts of money are likely to be available if a shock occurs? This calls for a major shift in the share of crisis finance that is pre-arranged.

The example of Cyclone Freddy in Mozambique illustrates this strongly. Following the tropical cyclone, the government was able to access USD300 million in grant financing from the IDA's Crisis Response Window, whereas, in contrast, a World Bank-subsidised insurance policy paid out less than USD1 million.[57] Without a major shift in the share of crisis finance that is pre-arranged, it is hard to incentivise greater risk ownership amongst governments and any type of premium support is likely to have limited long-term effects.

This shift to increasing levels of pre-arranged finance needs to be pursued by both donor and recipient country governments, for example, when negotiating multilateral development bank reforms or collaborating with the LDF or the Green Climate Fund. More development banks could include premium subsidies as an option for countries to purchase with their country envelopes (e.g. IDA, ADF).[58]

This shift should be accompanied by a deeper understanding of how the different pre-arranged financing instruments compare and can complement each other within a coherent strategy. A lack of transparency from providers of pre-arranged financing still hinders meaningful comparison of instruments that could enable countries to choose their optimal suite of risk finance tools. As insurance protection remains limited, lending products may appear more accessible; for instance, between 2020 and 2022, contingency lending accounted for 65% of pre-arranged finance, while insurance coverage accounted for only 33%.[59] From a recipient country's perspective, the development of disaster risk diagnostics and strategies could help to build a deeper understanding of how different pre-arranged financial instruments compare and can complement each other to meet country needs. Paying more attention to comparing and aligning instruments, including concessionality levels such as subsidy terms and conditions, would enable donors and countries to work jointly towards levelling the playing field of risk finance instruments and ultimately enable countries to select instruments that best meet their needs and priorities.

Thinking of premium support as a long-term solution

Our research shows that previously, a major concern of donors and implementers has been who will take over future payments, and how to quickly and responsibly exit premium support. This view now seems to be changing, with more premium support providers acknowledging the need for longer-term support to protect the poorest

57 World Bank Group. (2023, 19 May), 'World Bank Mobilizes USD150 Million to Help Mozambique Recover From Cyclone Freddy'. Available at: https://www.worldbank.org/en/news/press-release/2023/05/24/world-bank-mobilizes-150-million-to-help-afe-mozambique-recover-from-cyclone-freddy; and: World Bank Group. (2024), *Proposed program restructuring of Mozambique Disaster Risk Management and Resilience Program.* Available at: https://documents1.worldbank.org/curated/en/099021224011030368/pdf/P166437110597804c18797120aa36d29b91.pdf

58 The AfDB is currently the only development bank that offers member countries to use their country allocation (ADF). This is limited to 50% of the ARC insurance premium and up to three years. ADRiFi's mid-term review in 2022 recommended removing both the cap in subsidy share and the three-year limitation to enable permanent access to premium financing via their ADF. African Development Bank. *ADRiFi Mid-Term Review: Strategy Note for Implementing the ADRiFi Programme, Final Report,* p. 4 [forthcoming].

59 See Figure 3.4. in Plichta, M. and Poole, L. (2023), *The state of pre-arranged financing for disasters 2023.* Centre for Disaster Protection. Available at: https://www.disasterprotection.org/publications-centre/the-state-of-pre-arranged-financing-for-disasters-2023

and most vulnerable people.[60] This shift is welcome where high-quality products are being subsidised, and it should continue. As one donor expressed: “It is the new reality that premium subsidies should be expected as part of the longer-term solution, rather than being offered as an interim to get disaster risk finance up and running.”

Many others who were consulted during the research – at the level of technical experts and civil servants – signalled acceptance that longer-term premium support to create direct protection is an international responsibility. This mindset shift towards a higher level of international responsibility seems driven both by the pragmatic recognition of decreasing economic growth with shrinking fiscal space in many disaster-prone countries, and possibly by the momentum behind the operationalisation of the LDF.

The more a country struggles with managing and financing their vulnerability to climate or disaster risks, the higher the responsibility of the development partner to support. In particular, low-income and fragile countries face severe limitations in financing their disaster risks and therefore rely on the support of development partners. In these cases, donors should

strive to help them overcome difficulties through the provision of multi-year reliable funding, with durations that reflect the pace of a country’s development path. While countries should focus on improving their public financial management and improving and scaling delivery systems (e.g. social protection).

Implementers and risk pools should resist the temptation to use a blanket ‘watering can’ approach of distributing funding evenly among all countries year-by-year, which maximises coverage only in the short term. Instead, they should carefully assess where and how a multi-year approach can lead to impactful outcomes in the long term, even if this means fewer countries receive support in the short term.

60 See footnote 52 with examples of multi-year support from the UK and Germany. See also blog on the discussions during Bonn Climate Week in 2023: Bertram, V. & Chowdhary, J. (2023), ‘From ‘no-go’ to ‘must have’: where next for premium support?’ Centre for Disaster Protection. Available at: https://www.disasterprotection.org/blogs/from-no-go-to-must-have-where-next-for-premium-support

7

CONCLUSION

In summary, this insight paper explores the current state of international premium support and questions why it has yet to result in an increase in countries' financial contributions towards premium payments. The path to scaling up insurance protection is through continued country uptake and financing – as has always been the primary aim for donors. However, the way premium support is currently allocated and designed does not effectively support that aim. This insight paper's central argument is that the current approach to premium support is not yet fit for purpose, and that donors and implementers need to make several key shifts to help achieve their aims of increased country uptake, to scale and sustain development impact. Taking these steps would help create a longer-term, more inclusive and impactful approach to subsidising insurance for climate risks.

Reforming premium support is all the more important given current developments with the Global Shield, which positions itself as a provider of subsidies and as a key part of the mosaic of financing approaches designed to respond to climate-induced loss and damage needs.[61] The V20 has recently called for a significant increase of the Global Shield funding[62], and there will likely be more discussions on premium support as a potential way to channel loss and damage financing in future. It is still currently unclear what role premium support will play in the new LDF. The UNFCCC document on operationalisation of the funding arrangements for responding to loss and damage lists "insurance mechanisms, risk-sharing mechanisms, [and] pre-arranged finance" among the potential financial instruments that the Fund may deploy.[63] There are, however, deeply ingrained negative connotations surrounding insurance in the loss and damage discourse that should be considered, in particular about the appropriateness of funding future shock response from the LDF.[64]

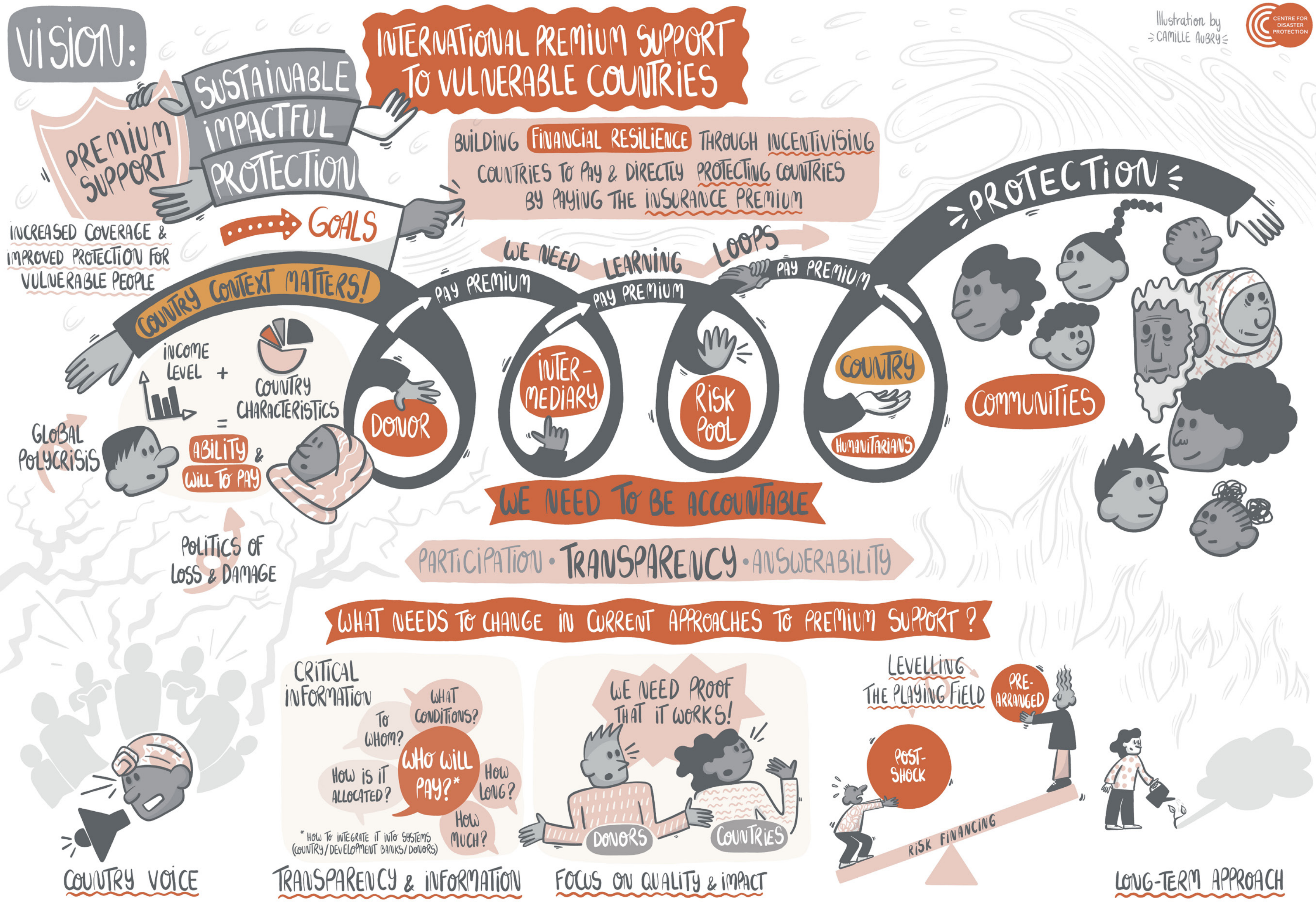
To deliver on its ambition, international premium support needs to be rethought with much greater reflection on the broader context of crisis financing, the opportunities for vulnerable country engagement, and on the need for greater transparency and accountability to ensure quality and impact. Meeting the needs and priorities of vulnerable countries should be front and centre of all future approaches to premium support.

61 V20. (2022, 25 October), *Working towards a Global Shield against Climate Risks.* Available at: https://www.v-20.org/global-shield-against-climate-risks

62 V20. (2024), *V20 Ministerial Dialogue XII Communiqué: Unlocking Growth and Prosperity through Innovations in Climate Finance and Debt.* Available at: https://www.v-20.org/wp-content/uploads/2024/04/V20-Ministerial-Dialogue-Communique-XII-Adopted-on-16-April-2024.pdf

63 UNFCCC. (2023), *Operationalization of the funding arrangements for responding to loss and damage referred to in paragraph 2, including the fund referred to in paragraph 3, of decisions 2/CP.27 and 2/CMA.4.* Available at: https://unfccc.int/sites/default/files/resource/cp2023_L1_cma2023_L1.pdf

64 Climate Change News. (2024, 3 May), 'Seismic shifts are underway to find finance for loss and damage'. Available at: https://www.climatechangenews.com/2024/05/03/seismic-shifts-are-underway-to-find-finance-for-loss-and-damage/ or: Politico. (2023, 2 July), 'Why efforts to insure the world against climate change are falling flat'. Available at: https://www.politico.eu/article/why-efforts-insure-world-against-climate-change-fall-flat/ or: Mustapha, S. & Williams, E. (2023), *Addressing loss and damage: Insights on the Fund and the Global Shield.* Centre for Disaster Protection. Available at: https://www.disasterprotection.org/publications-centre/addressing-loss-and-damage-insights-on-the-fund-and-the-global-shield



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PREMIUM SUPPORT
SUSTAINABLE
IMPACTFUL
PROTECTION
INTERNATIONAL PREMIUM SUPPORT TO VULNERABLE COUNTRIES
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BUILDING FINANCIAL RESILIENCE THROUGH INCENTIVISING COUNTRIES TO PAY & DIRECTLY PROTECTING COUNTRIES BY PAYING THE INSURANCE PREMIUM
GOALS
INCREASED COVERAGE & IMPROVED PROTECTION FOR VULNERABLE PEOPLE
COUNTRY CONTEXT MATTERS!
WE NEED LEARNING LOOPS
PAY PREMIUM
PAY PREMIUM
PAY PREMIUM
PROTECTION
INCOME LEVEL + COUNTRY CHARACTERISTICS = ABILITY & WILL TO PAY
GLOBAL POLYCRISIS
POLITICS OF LOSS & DAMAGE
DONOR
INTER-MEDIARY
RISK POOL
COUNTRY
HUMANITARIANS
COMMUNITIES
WE NEED TO BE ACCOUNTABLE
PARTICIPATION · TRANSPARENCY · ANSWERABILITY
WHAT NEEDS TO CHANGE IN CURRENT APPROACHES TO PREMIUM SUPPORT?
COUNTRY VOICE
CRITICAL INFORMATION
TO WHOM?
WHAT CONDITIONS?
WHO WILL PAY?*
HOW IS IT ALLOCATED?
HOW LONG?
HOW MUCH?
* HOW TO INTEGRATE IT INTO SYSTEMS (COUNTRY/DEVELOPMENT BANKS/DONORS)
TRANSPARENCY & INFORMATION
WE NEED PROOF THAT IT WORKS!
DONORS
COUNTRIES
FOCUS ON QUALITY & IMPACT
LEVELLING THE PLAYING FIELD
PRE-ARRANGED
POST-SHOCK
RISK FINANCING
LONG-TERM APPROACH

ANNEX

Table 3: SMART Principles for Macro-Level Insurance

S Sustainable Impact for the most vulnerable To whom? How long?	**Country Eligibility** criteria >Poverty >Vulnerability	**Duration** 3+ years	
M Value for Morney How much? At what level of Concessionatity?	**"Value": expected resilience impact** Proxies: Number of beneficiaries; protection gap reduction; product suitability	**"Money": relative P vs. C performance** and crowding in per $ (grant element)	
A Accessibility To whom? How long?	PCS to countries with **strong political commitment to DRM**; yet flexibility regarding contect and timing	Premium financing share a function of risk and **total govermment budget**	
R Resilience-Building Incentives What conditions? How much?	PCS to prevent **rent-seeking** & undue private market rents	Risk transfer only for residual risks as **part of IDRM**	Remaining **premium share payable** by the govermment to **reflect risk levels**
T Transparency & Consislency What conditions? How much?	Transparency **towards recipients** and among **providers of support**	Transparent **M&E** and public **project**	Transparent **money-out system documentation**

Source: Toepper & Stadtmueller. 2022.

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