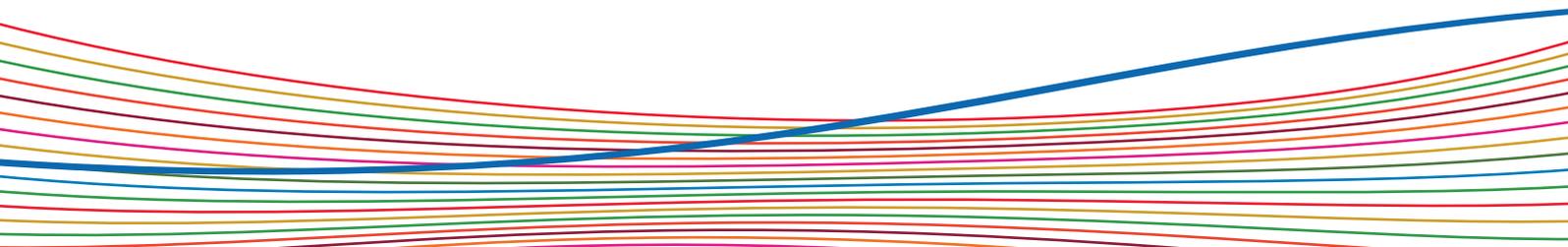




UNDP Insurance
and Risk Finance
Facility



Inclusive insurance and risk financing in Jordan Snapshot and way forward 2023



Why this report ?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Jordan in 2021-2022. The objective of this summary report is to present a high-level overview of the following information for Jordan:

1

Key risks,
especially
climate risks

2

The current
state of
**inclusive
insurance**

3

The current
state of
**disaster risk
finance**

4

**Recommendations
to advance** inclusive
insurance, disaster risk
finance and overall
development.

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

IRFF goals

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

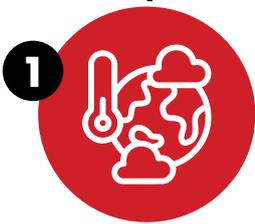
Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:

If you wish to discuss the findings and recommendations of this report, reach out to:

irff@undp.org

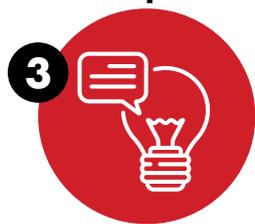
Key messages



Risks: Earthquakes, heavy rains and flash floods, frost, drought, forest fire, pests and diseases of plants and animals.



Risk finance: The current inclusive insurance market in Jordan is limited. A well-known hospital cash scheme targets low-income women, and inclusive insurance/microinsurance regulations are under development.



Key recommendations include: To develop the inclusive insurance market: build the insurance industry's capacity to develop and deliver a wider range of innovative inclusive insurance products, including through leveraging technology; support the insurance supervisor to create an enabling regulatory environment; develop demand information; and build awareness.

To develop the market for disaster risk finance: develop capacity for sharing information and applying disaster risk information appropriately; develop a strategy for DRF and integrate DRF into existing frameworks; and support next steps towards adopting sovereign DRF solutions.

Jordan's development and risk profile

Key macroeconomic and development indicators



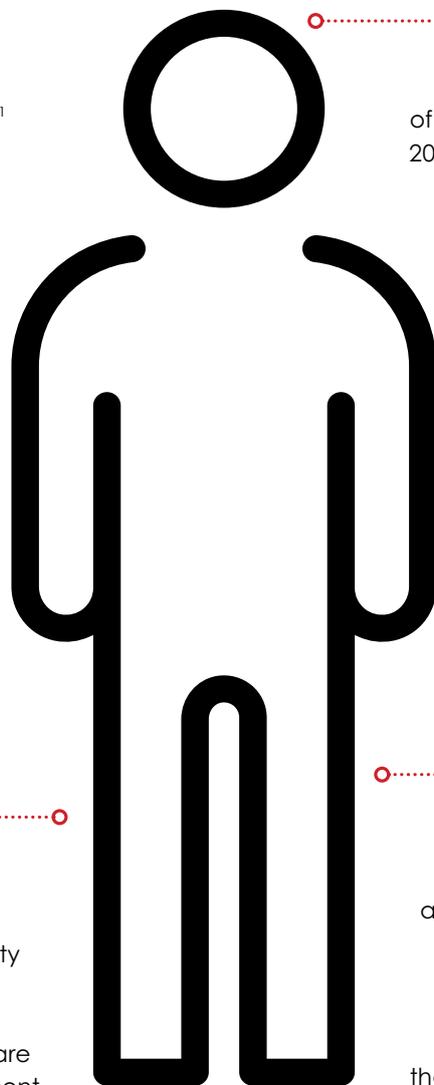
10.3 million people lived in Jordan in 2021, up from **7.3 million** in 2010, with a declining average annual growth rate of about **3.3%** between 2010 and 2021.¹



52.5% of Jordan's population worked in the informal economy in 2019.²

15.7% was the national poverty rate in 2019,³ with the highest concentration of poor people living in Amman, Irbid and Zarka.⁴

760,000 refugees and asylum seekers are officially hosted in Jordan, the majority from Syria, followed by Iraq and Yemen (though the true number is estimated to be higher, since many are unregistered).⁵ Jordan has made recent progress in including Syrian refugees in the country's labour market, issuing a record **62,000** work permits to Syrians in 2021.⁶ However, the refugee crisis is increasing the population's vulnerability to disaster and climate risk.⁷



More than 90% of the population lived in urban areas in 2021,⁸ with 60% living in Amman and the three governorates adjacent to it.⁹

19% of the population lived in least developed areas in 2018,¹⁰ a figure that is rising with the influx of refugee populations.

61.2% of GDP in 2021 came from the services sector;¹¹ Jordan has a service-based economy that is relatively diversified.

5.2% of GDP in 2021 came from the agriculture, forestry and fishing sector.¹² Agriculture plays a significant role in Jordan's economy, food security and rural development. Most agricultural areas in Jordan are rain-fed, making the sector vulnerable to natural hazards (including extreme events) and climate variability and change.¹³



Jordan is one of the most water stressed countries in the world¹⁴

Key risks and hazards¹⁵

Frost

Frost and wind pose high risks for the agricultural sector.¹⁶

The Jordan Valley's total agricultural area consists of 250,000 dunums, nearly 70% of which is planted with fruits and vegetables, most of which are susceptible to damage due to frost.¹⁷ In 2008, a severe frost affected over 5,000 farmers, with damages estimated at JOD 13.6 million (\$19.2 million), of which only JOD 10 million (\$14.1 million) were compensated by the Ministry of Finance.¹⁸

Drought

Recurrent episodes of drought have caused significant economic stress, especially in the agriculture sector, with negative effects on food security and rural livelihoods.¹⁹

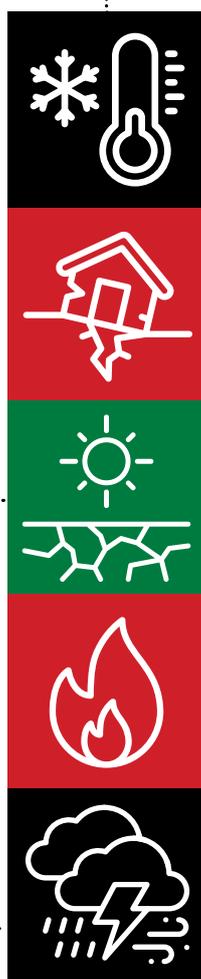
The drought in the 1998/99 season was the worst in Jordan in 50 years, directly affecting 180,000 farmers and livestock breeders and causing estimated damages of JOD 140 million (\$197 million), which led to a 25% decline in the value added in the agriculture sector.²⁰ Severe droughts also affected Jordan and adjoining Syria in 2007 and 2010.

Heavy rains and flash floods

Flood risk, especially from flash flooding, is rising, because drainage systems are inadequate and under pressure from increasing and unplanned urbanization. Households near natural drainage areas (wadis) are particularly at risk.²¹

179 people were affected by flooding during the months of February and April 2006, and were provided with compensation of 131,000 Jordanian dinar (JOD, US\$185,000).

In terms of flood risk, at least 17.6 % of Jordan's area is categorized into "high" class hazard severity.²²



Earthquake

Earthquake is the leading hazard in Jordan, since 80% of the population live in earthquake-prone zones.²³ Jordan lies along the Dead Sea Transform fault, which experiences frequent seismic activity, and major cities are located very close to the Dead Sea fault system.

The last significant earthquakes were in 1995, with a magnitude of 7.3, and in 2004, with a 5.2 magnitude.²⁴ All well-documented earthquakes in the Eastern Mediterranean region during the past 2000 years have been of an estimated magnitude between 5.2 and 7.5. There is a lack of detailed data on losses caused by these earthquakes.

Forest fires

Forest fires are mostly natural wildfires due to drought and high summer temperatures, though some are human-caused, including accidental cross-border fires coming from the Israel side in the Jordan valley, where farmers burn remaining crops after cultivation.²⁵

Forest fires due to hot dry climate and illegal logging are the main threats to Jordanian forests. In 2021, more than 200 forest fires were reported by the Forestry Department in Jordan.²⁶

Between 2001 and 2022, fire caused Jordan to lose 4 hectares of tree cover, with a further 3 hectares lost due to other factors. In 2004, Jordan lost 2 hectares to fire – two-thirds of all tree cover loss for the year.²⁷

Potential risks were prioritized at a 2016 workshop (see below table) organized by the National Centre for Security and Crises Management (NCSCM)²⁸

Prioritized risk in Jordan as per inform index (NCSCM, 2016)



Source: UNDP, the Hashemite Kingdom of Jordan and the National Centre for Security and Crises Management, Jordan National Natural Disaster Risk Reduction Strategy 2019–2022.

Inclusive insurance²⁹: Status

Enabling environment³⁰

Highlights from the enabling environment for inclusive insurance in Jordan



Stakeholders

Government and regulatory bodies that support inclusive insurance growth

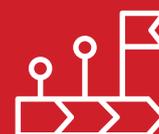
The **Central Bank of Jordan (CBJ)** has regulated the insurance sector since 2020. Before that, the insurance sector was regulated by the Insurance Commission, which was dissolved and merged with the Ministry of Industry, Trade and Supply.³¹

In addition to the CBJ, key stakeholders interested in supporting the advancement of inclusive insurance and resilience against climate risks are the Ministry of Agriculture, the Ministry of Environment and the Jordan Insurance Federation.

Insurance Regulatory Law No. 12 of 2021

The Insurance Regulatory Law No. 12 of 2021 replaced the previous Insurance Act No. 33 of 1999. It aims to update the regulatory frameworks by enabling the Central Bank to supervise the sector in line with global best practices.³² The new Law has limitations in terms of regulations on the contractual relationship between insurance companies and policyholders, which could make consumer protection difficult. One provision states that the Board of Directors of the CBJ can issue instructions regarding insurance companies' microinsurance business (Article 24), but there are no other specific inclusive insurance provisions.

Regulations



Policies and Plans

National Financial Inclusion Strategy 2018–2020

The **National Financial Inclusion Strategy (NFIS)** did not include specific actions for insurance, but rather focused on microfinance and digital payments as key financial services.³³ A CBJ-mandated financial inclusion diagnostic study was carried out in 2022, focusing on new areas related to financial inclusion that were not addressed in the prior NFIS, including insurance.³⁴

Inclusive insurance related regulations

Microinsurance/inclusive insurance regulations are currently being developed as one of the new projects embedded in the new law for supervising the insurance sector.³⁵



Supply-side snapshot

Total Insurance (traditional + micro) market: Fast facts³⁶

JOD 862 million

(\$1.2 billion) was the total value of gross written premiums (GWP) in 2021, an increase of 3.5% compared to the previous year. Life insurance business made up 15% of total written premiums while non-life accounted for 85%.³⁷

24 insurance companies are active in the sector: 1 life insurance company, 8 general insurance companies and 15 composite companies, in 2022.

2 companies carry out Takaful (Islamic insurance) business.



3,156 insurance policies from licensed insurance companies per 10,000 adults in Jordan were outstanding at the end of 2021, up from 3,142 at the end of 2020 (not including health insurance provided via the Ministry of Health and Royal Medical Services).³⁹

60.9% of adults had some form of insurance in 2022.⁴⁰

1.9% was the insurance penetration rate (GWP as a percentage of GDP) in 2021.³⁸

Distribution

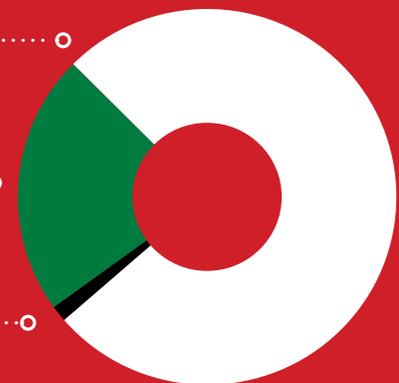
There were **672** insurance agents, **196** brokers and **13** banks licensed to engage in bancassurance at the end of 2019.⁴¹

In the MENA region, Jordan has emerged as an information and communications technology (ICT) hub with around 600 tech companies and 300 start-ups. Opportunities for growth and innovation exist in mobile, broadband, export-oriented ICT products and services, venture capital funds and e-commerce.⁴² Currently, this potential is not being leveraged by the financial services and insurance sectors to reach low-income populations.

672
Insurance agents

196
Brokers

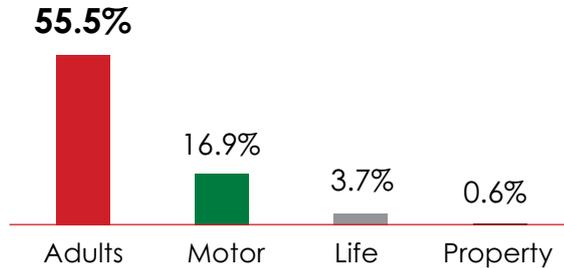
13
Banks



Insurance products: Fast facts

Traditional products⁴³

Insurance ownership as of 2022 was driven primarily by health insurance, held by **55.5%** of adults (primarily via government schemes), followed by motor (**16.9%**, primarily the compulsory minimum), life (**3.7%** insured by a policy) and property (**0.6%**).



Agriculture insurance is currently not offered on a commercial basis, with lack of data and lack of qualified agriculture experts cited as key barriers.

Apart from motor and health insurance, all other types of products are held only by a small proportion of the population, mainly upper-income segments. No information is available on the extent to which products reach lower-income or vulnerable populations.



The high coverage rate for insurance is partly because most adults receive insurance automatically in some fashion – whether through government programmes for low-income families, via their employer, or in connection with another financial product such as a loan. The share of policyholders who have bought and paid for the product voluntarily is low.

Inclusive insurance products

Though the private inclusive insurance market is virtually non-existent, a well-known scheme called Caregiver (or *Afiyatuna*) is offered by a national insurer in partnership with a microfinance institution. The product provides coverages for expenses incurred in case of hospitalization (a fixed lump sum of JOD 15 per night spent in a hospital), plus a basic term life and credit life coverage.⁴⁴ The number of outstanding policies was estimated at **250,000** as of mid-2022.⁴⁵

Demand assessment



Formal financial inclusion in Jordan is low compared to high-income countries, but it is improving and better than average when compared to other developing countries in the MENA region. Priority segments for continued financial inclusion in Jordan include women, low-income households, refugees, youth, and micro and small enterprise owners, with insurance being a top priority for refugees and microenterprises in particular.⁴⁷

Though no major demand study specific to inclusive insurance or microinsurance has been carried out in Jordan, the following are relevant insights from recent studies and publications:



Trust. As of 2017, **38.3%** of adults in Jordan “somewhat” or “completely distrust” insurance companies, **27.1%** distrust banks and **47.3%** distrust microfinance institutions.⁴⁸

Emergencies. According to the Global Findex Database 2021, in Jordan, almost half of respondents would struggle to come up with emergency funds within 30 days: **21%** say it is “not possible”, while **27%** say it is “possible and very difficult.” Most respondents (**53%**) would rely on family and friends as a main source for emergency funds if needed within 30 days, while only **5%** would rely on loans from a bank, employer or private lender.⁴⁹



Concerns. According to the Global Findex Database 2021, **54%** of respondents are “very worried” about not being able to pay for medical costs in case of a serious illness or accident; **30%** said this was their most worrying financial issue.⁵⁰

Agricultural risks. Farmers in Jordan have said that their most important agricultural risks, regardless of the agricultural activity they engaged in, included changing rainfall patterns, drought, frequency of heat waves, erosion risks, pests and diseases and increased salinization.⁵¹



Sector initiatives

The Central Bank of Jordan and the German development agency GIZ published a financial inclusion diagnostic study in 2022 that gives an overview of the current state of financial access, regulatory frameworks, payments, microfinance, SME finance, financial literacy, consumer protection and emerging topics. For the first time, insurance was given equal weight as a product category, providing information on policy ownership and outreach, as well as some analysis and recommendations on the enabling environment for advancing inclusive insurance.⁵²

Disaster risk financing⁵³: Status

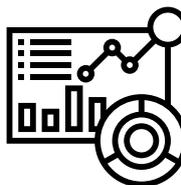


Disaster data, information and assessments⁵⁴

Neither data collection on climate risks, damages and costs nor risk assessments are carried out systematically. When they are carried out, they are often completed in isolation as one-off projects with limited collaboration between actors or sectors. No standard protocol was reported for exchange of information among key stakeholders in the public and private sectors. Key institutions and systems that collect data related to disaster risks include:



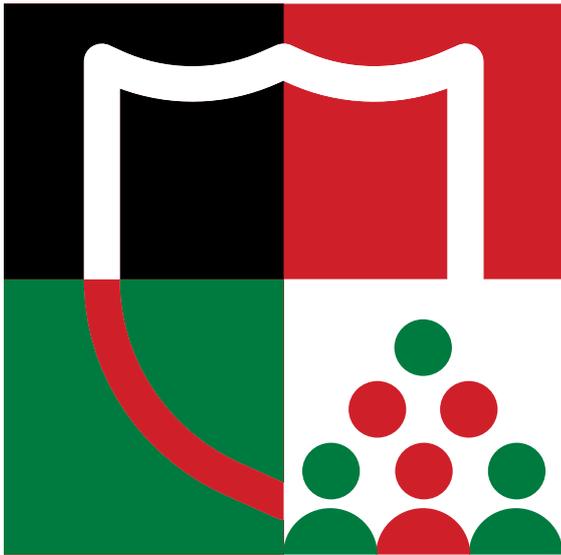
National Agricultural Research Centre (NARC) optimizes the accessibility of disaster risk information for public and private stakeholders in the agriculture sector (including loss and damage data, water and vegetation cover data) National Agricultural Research Centre (NARC) optimizes the accessibility of disaster risk information for public and private stakeholders in the agriculture sector (including loss and damage data, water and vegetation cover data).



NCSCM has a **national database** that monitors nine security threats (earthquake, epidemics, social violence, energy crisis, fires, environment pollution, terrorism, refugees influx and water scarcity).



Two additional on-going initiatives to build a risk information management system include the INFORM Risk Index and the **Royal Jordanian Geographical Centre MOPIC GEO-PORTAL**.⁵⁵



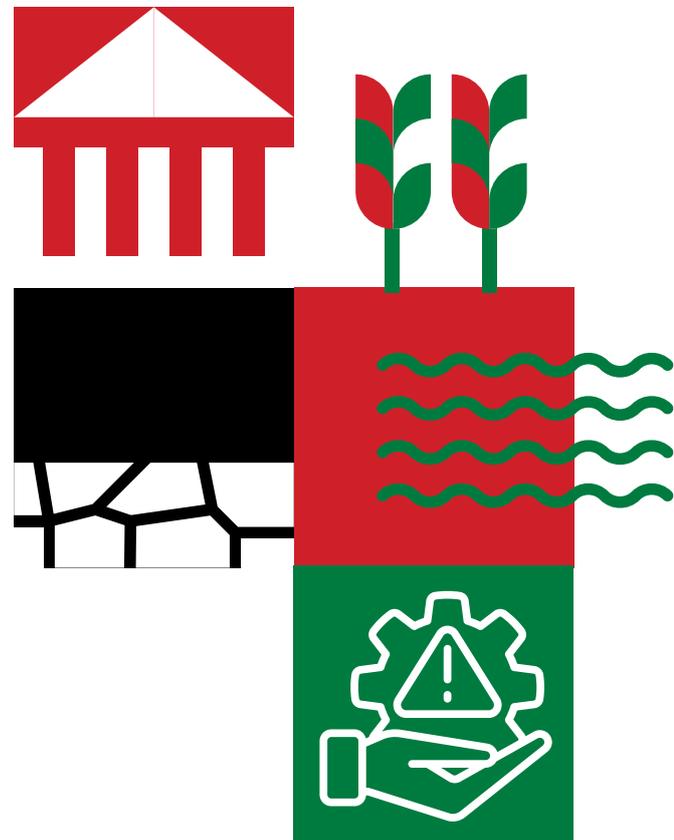
Existing institutional frameworks

Responsibilities for disaster prevention, preparedness, response and recovery are centralized and concentrated. Overlap and lack of clarity exist on the roles and responsibilities for DRM between central and local level institutions.⁵⁶ The following are key public institutions involved in or recommended to be involved in disaster risk finance activities:

- **NCSCM** is currently the designated authority determining disaster risk reduction goals and targets for Jordan.⁵⁷
- **The Ministry of Finance and the Ministry of Planning and International Cooperation** “should ensure that Ministries/Departments make provision for prevention, mitigation and preparedness programmes in National Development Plans and budgets.”⁵⁸

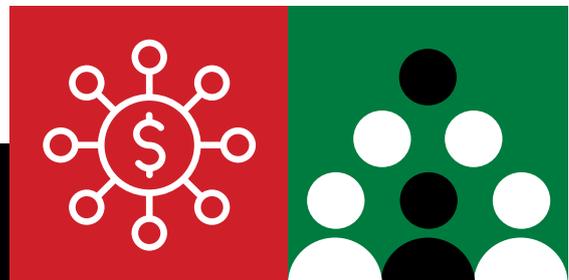
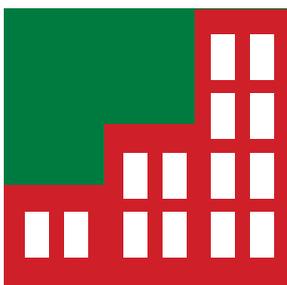
Existing disaster risk finance mechanisms and instruments

- As of 2018, there was no predictable budget for response and recovery after disasters, though the Prime Minister's Office can allocate resources as needed.⁵⁹
- No sovereign risk finance solutions are currently in place in Jordan.
- The Agriculture Risk Fund was established in 2009. It is empowered by the By-Law on Agriculture Risk Funds issued in 2016, which makes provision for a national budget allocation of JOD 15 million over a three-year period.⁶⁰ The Fund provides some compensation for damage/ losses of horticultural products due to frost in the Jordan Valley and is currently in the process of developing database management tools.



Existing legal frameworks and policies

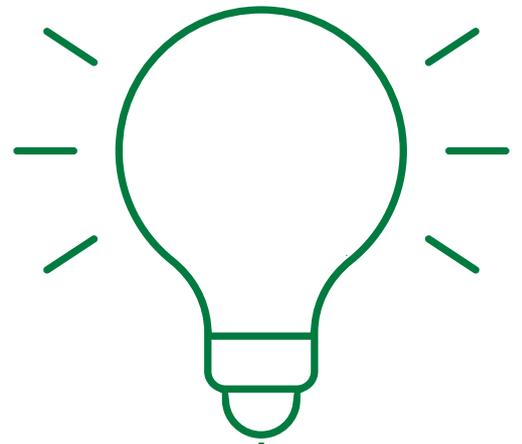
- No legislation covers the availability of disaster risk information for public and private sector stakeholders, at national or at local level.
- The first edition of the **Jordan National Natural Disaster Risk Reduction Strategy** ran from 2019 to 2022 and the second will cover 2023 to 2030.⁶¹ The strategy aligns with the Sendai Framework for Disaster Risk Reduction's priorities for action and aims to create coordinated and integrated efforts for disaster risk reduction, stakeholder collaboration and innovative uses of skills, technologies and resources. The first version of the strategy outlined specific goals for the country to achieve by 2022, as well as implementation activities to achieve them. The second edition complements and updates the information from the original strategy and is the result of a collaborative effort among partners.
- Jordan is committed to the Sendai Framework for Disaster Risk Reduction and the Sustainable Development Goals (SDGs).⁶²
- Several sector-specific strategies have plans for disaster risk management, including the **National Water Strategy** (2016–2025), the **National Food Security Strategy** and the **National Rangeland Strategy**; however, disaster risk financing mechanisms are not discussed.⁶³
- **The Jordan Economic Growth Plan 2018–2022** foresees significant investments in public urban infrastructure (housing, water and sanitation, schools and hospitals), agriculture and tourism.⁶⁴ Jordan's Disaster Risk Reduction Strategy aligns with and is built around this Growth Plan.



Funding gap analysis

The potential funding gap due to disasters is unknown. There is already a large public debt due to a small tax base and a large public sector, but the authorities remain committed to reducing public debt/GDP to 80% by 2027.⁶⁵ Due to lack of data on damages and losses from disasters and climate change, as well as limited technical skills in climate modelling and its applications, no estimates exist of potential financial impacts of disaster risks, and thus of required funding levels.

Way forward for inclusive insurance and disaster risk financing



The following recommendations support the development of inclusive insurance and disaster risk financing in Jordan.

1

1.1

Inclusive insurance outreach is low. Insufficient information is available on consumer demand for insurance.

Support the development of public and private inclusive insurance demand information.

- The CBJ and/or appropriate partners need to undertake a detailed market research study to understand the needs, perceptions and motivations of inclusive insurance target markets. This may also benefit from the findings and learnings from the CBJ and GIZ Financial Inclusion Diagnostic Study in Jordan (in particular on the priority segments identified: low-income households, refugees, youth, micro and small enterprises and women.⁶⁶
- Larger insurers should be encouraged to effectively leverage data to develop valuable and sustainable products for the inclusive insurance target segments.

1.2

The level of awareness and trust in insurance services and insurers is believed to be low.

Build awareness in the market.

- The CBJ, policymakers and donors need to support raising public awareness of insurance products, particularly inclusive insurance, building on the recommendations of the Financial Inclusion Diagnostic Study in Jordan.
- Build greater awareness of insurance products beyond compulsory motor insurance and public health insurance schemes, so that consumers are better able to understand the terms and conditions of the products
- Embed financial education within the customer journey by developing financial education programmes that advance the skills of priority segments for financial inclusion in understanding risk management and insurance, delivered within the national financial inclusion strategy
- Provide specific support for the development of training modules addressing the financial education needs of vulnerable target groups, such as low-income households, women, etc.

1.3

Inclusive insurance and microinsurance regulations have not been implemented but are currently being developed.

Support the insurance supervisor in creating an enabling regulatory environment for inclusive insurance.

- The CBJ and the national insurance industry should be supported to identify regulatory barriers to inclusive insurance and develop action plans, including measures for enhanced access to digital finance.
- Policy dialogue should be carried out with relevant stakeholders on implementing regulatory measures and policies to improve the inclusiveness of the insurance sector and support gender-sensitive regulatory practices, for example by ensuring proportionality and alternative distribution channels are addressed in new regulations, as well as by minimizing disclosure requirements.
- The CBJ may also benefit from various inclusive insurance-related activities, such as the A2ii Supervisory Exchange (webinars), A2ii's trainings on inclusive insurance and the Sustainable Insurance Forum's activities.

1.4

Inclusive insurance in Jordan is still in its infancy and needs technical and financial support to advance. Traditional retail insurance products are concentrated on health and motor, with little innovation and evolution to different product types. There is a shortage of technical competencies in actuarial sciences.

Build capacity of the insurance industry to develop a wider range of innovative inclusive insurance products, including Takaful.

- Inclusive insurance training modules should be delivered in a training of trainers model to the trainers working with the national industry (Jordan Insurance Federation), with a certification for participants.
- Direct trainings should be offered to insurers on product development with support for implementation, with a focus on priority segments such as SMEs, the tourism sector, women groups and smallholder farmers.
- An inclusive insurance innovation challenge should be launched for the insurance industry and partners and the development and piloting of winning solutions should be supported.
- The actuarial profession's capacity should be built by convening a multistakeholder task force to assess the country's actuarial needs and develop an action plan to address gaps.

1.5

Jordan is at the forefront of the ICT sector in the MENA region and has emerged as a technology hub. However, this potential has not been leveraged by the insurance sector.

Leverage ICT for inclusive insurance development and distribution.

- A study should be conducted on digital technologies, including insurtechs and fintechs, and their specific potential to support access to inclusive insurance, including client-centric and efficient mobile technology for insurance distribution as well as claims processes.
- Insurers should be supported through capacity-building to improve the efficiency of insurance operations and increase access to insurance.

2

2.1

Government and development partners have limited capacity to understand and apply available risk data to disaster risk finance activities.

Develop capacity for information-sharing and appropriate application of disaster risk information.

- The capacities of government policymakers and officials with respect to accessing and using available disaster risk data and information should be mapped and assessed.
- The practice of assessing and understanding risk should be institutionalized across government.
- Trainings should be conducted for development sector and government partners on understanding and articulating risk, particularly climate and disaster risks, and its application to disaster risk finance.
- Workshops should be held with government stakeholders to review and improve risk financing capacities.

2.2

Disaster mapping, data analysis and raw data to conduct risk assessments are available in Jordan. However, data management and sharing with appropriate stakeholders could be improved.

Set up a centralized disaster and climate risk information management system to facilitate data-sharing and accessibility of disaster data for stakeholders, especially government decision-makers.

- NCSCM should separate the disaster information database from the security information database, establishing a separate open-source disaster risk information database/platform with a sole focus on disaster risk and providing access to risk information to public and private sector stakeholders.
- Existing risk information should be built on (local risk assessments currently cover more than 80% of the population), existing datasets should be updated, and loss and damage accounting and monitoring of costs of disasters should be supported.
- Data collected on loss and damages should be shared with Jordan Crises Department as well as with the Ministry of Agriculture's cabinet on an annual basis. This will contribute to Jordan's reporting against Sendai and the SDGs and will be used to collect data and monitor the progress towards the global targets on resilience.
- A National DRR Platform should have a role in collecting and disseminating information on disaster losses, with Government able to access risk management tools and resources, such as the ones by the Global Risk Modelling Alliance, and develop the country risk profile.
- Civil society and non-governmental organization solutions for address risks related to health, climate and gender mainstreaming should be identified and supported through small grants.

2.3

Risk information is available but not systematically applied to the agricultural sector.

Establish risk information system for the agriculture sector.

- The collection of data on damage and losses due to disasters and climate change impact in the agriculture sector should be institutionalized by allocating clear roles and responsibilities to the relevant units.
- Agriculture-specific data must be systematically collected and included in national and international disaster loss databases to better inform appropriate risk reduction policies and investments for and within the sector.

2.4

Insurance and risk finance is not strongly represented in policy frameworks.

Develop a strategy for DRF and integrate into existing frameworks.

- Risk financing should be integrated into Jordan's Integrated National Financing Framework (INFF) roadmap, linking with Nationally Determined Contributions and National Adaptation Plans.
- The Government of Jordan's contingent liability of disasters should be quantified and a funding gap analysis should be performed.
- A DRF Strategy and corresponding Action Plan should be developed for Jordan to provide direction and coordination.

2.5

There are no sovereign level disaster risk financing instruments in place, including the use of dedicated government budgets.

Support next steps to adopting sovereign disaster risk finance solutions.

- Data gathering and database development should be carried out to create an inclusive and gender-responsive risk insurance solution by conducting necessary data collection surveys/tools to build the evidence base.
- The Insurance Development Forum, the Government Task Force and the national insurance ecosystem should be engaged to support a pilot.

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