



# UNDP Insurance & Risk Finance Facility

## Protecting Lives, Building Resilience & Driving Inclusive Economic Growth

The [Insurance & Risk Finance Facility \(IRFF\)](#) leverages insurance and risk financing to build financial resilience and safeguard sustainable development for vulnerable people, communities and ecosystems across the world by:

- Supporting governments in more than 30 countries, both middle income and least-developed, to build family and country financial resilience in the face of rising climate risk.
- Partnering with industry to develop insurance and risk finance solutions, combined with an investment in long-term governance.
- 35 million euros of financing by the German Government, with additional donors, including the Africa Adaptation Initiative, Generali Insurance, and the Ocean Risk and Resilience Action Alliance.
- Focusing on bespoke country-level solutions, backed by global advocacy, research, and evidence.
- Aligned with [InsuResilience Vision 2025](#) targets of 500 million vulnerable people covered by insurance.

### What is at stake

The challenge to ensure that no one is left behind in the drive to achieve the Sustainable Development Goals (SDGs) remains significant. Economic growth has not reduced poverty or inequality nor created decent livelihoods at a sufficient scale. Population growth and increased urbanization, especially in low-income countries, are straining infrastructure and undermining the delivery of basic services. Our changing climate is exacerbating these inequalities and disproportionately impacting the countries and communities that are the least equipped to deal with its aftermath.

Disasters continue to deepen vulnerabilities. In 2021, global economic losses from more than 300 catastrophe events totalled \$280 billion, much of it driven by climate-related hazards. The cost of the Haiti earthquake of 2010 was 120 percent of the country's gross domestic product (GDP). In 2013, Typhoon Haiyan in the Philippines caused \$5.8 billion in losses, impacting the livelihoods of six million workers, and devastating the fishing, rice, corn and sugar industries. Drought continues to plague the Horn of Africa in 2022, yet another 13 million people face severe hunger and malnutrition. And projections for the future are dire; losses from flooding in 136 of the world's coastal port cities could reach as much as \$1 trillion annually by 2050.

Often, the financial burden of these disasters falls directly on countries. From 2019 to 2021, less than half of the \$600 billion in losses from disasters were covered by insurance. This means that a sizeable proportion of recovery and reconstruction efforts had to be financed out of existing resources.

### Global Shocks & Risks

- **\$280 billion** - global economic losses from disasters in 2021
- **\$60 billion** - annual global cost of coastal floods and storm
- **97 percent** of people in developing countries lack insurance coverage
- **31 million** people were displaced due to disasters in 2020
- **Insurance penetration in developing regions is weak. In Africa, it is 2.7 percent** compared to the global average of **7.2 percent**
- **\$1.4 trillion** in global protection gap across health, mortality, and disasters, a rise of **6.3 percent** from 2019

This protection gap extends well beyond the impact of disasters. Swiss Re estimates that in 2020, the global protection gap across health, mortality and natural catastrophe rose by **6.3% to \$1.4 trillion** amid the COVID-19 crisis.

The pandemic has deepened inequality and, in many cases, even reversed the development trajectory of many countries. It thrust almost **130 million people into extreme poverty in 2020**. National and family budgets have been stretched beyond breaking point, exposing the fragile life and living conditions of millions of people. For the first time ever **human development worldwide receded**.

## The Critical Role of Insurance and Risk Financing

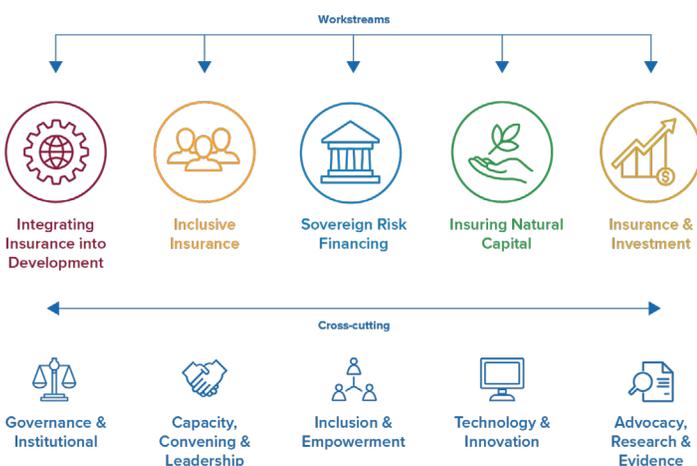
Insurance and risk financing play a key role tackling many of the interconnected challenges that countries and families face. They build financial resilience and reduce vulnerabilities to climate, socio-economic, health and disaster risks and shocks, providing a critical safety net for millions, and protecting assets, lives, and livelihoods.

Moreover, scaling up insurance coverage incentivizes and drives forward economic growth by reducing budgetary pressure on governments and households through the provision of reliable financing in the wake of a crisis. This assurance allows both families and governments to invest more than they would otherwise, safe in the knowledge that critical assets and livelihoods are protected. In turn, all this new investment itself would demand more insurance to lock in resilience, again stimulating new investment.

Despite the advantages, insurance and risk financing solutions have not been fully utilized. Barely 3 percent of people in developing countries have any insurance coverage. In addition, the protection gap, between the insured and the uninsured during disasters, can be as high as 95 percent. Use of insurance and risk financing to protect lives, livelihoods, and assets has not been fully realized.

## The Insurance & Risk Finance Facility

The IRFF will deliver innovative protection solutions in 50 developing countries by 2025. Currently, the facility is operational in 27 countries. The IRFF supports the development of innovative insurance products and services that are aimed towards vulnerable people and communities while also investing in the long-term transformation of insurance markets. The Facility works closely with industry partners to deliver policy advice, guidance, tools, methodologies, and networks that boost country and community resilience towards socio-economic, health, climate and other shocks. The aim of the IRFF is to work with partners to construct robust financial resilience of families and countries, in the face of rising climate risk, through inclusive insurance, risk financing mechanisms, governance and development, advocacy, research, and evidence.



## The InsuResilience Global Partnership & Vision 2025

All UNDP's Insurance and Risk Finance work focuses on helping countries achieve the Sustainable Development Goals and the ambitious targets of Vision 2025 of the InsuResilience Global Partnership. UNDP's work, which blends advocacy, research, and evidence, with long-term governance of insurance and risk finance, and the construction of financing solutions, all contributes to those targets. Some of the targets in this vision that most aligns to UNDP's work include:

- 500 million poor and vulnerable people protected against disaster and climate risk by risk financing and insurance mechanisms
- Of those, 150 million people are directly covered through microinsurance
- 10 percent of the average losses caused by climate change impacts and disasters are covered by pre-arranged risk financing insurance mechanisms
- 80 countries have comprehensive disaster risk finance strategies

UNDP's IRFF implements this work at global and country level, to scale insurance and risk finance solutions in the countries that need it the most by tackling supply and demand challenges and working side-by-side with the insurance industry to seize opportunities of providing protection and building long-term resilience. The Facility aims to help transform the lives of 500 million people by 2025.

The IRFF is a flagship initiative of UNDP's [Sustainable Finance Hub](#) and is part of the wider UNDP Global Policy Network. It is the heart of UNDP's insurance and risk finance support to UNDP country offices, programme countries and partners, providing policy and guidance, tools and methodologies, and networks and partnerships. It acts as a catalyst for the development and delivery of new insurance products, tools, and services, while also investing in the long-term transformation of insurance markets, targeted at boosting country and community resilience to socio-economic, health, climate shocks and other crises.

## The Tripartite Agreement

### Industry & UNDP: Hand in Hand

The Tripartite Agreement sits at the centre of UNDP's work on risk financing. Signed at the UN Secretary General's Climate Action Summit in 2019, this agreement brings together the German Government, UNDP, the Insurance Development Forum and 10 of the world's largest insurance and reinsurance companies, in building risk financing solutions for critical countries. Agriculture, education buildings, transport, assets, health facilities and more are all potential sectors for coverage. Here, industry provides technical assistance in developing financial solutions, alongside \$5 billion of risk capital. UNDP supports industry through convening and stakeholder management, institutional and government reform, and the integration of risk financing into government decision-making.

## Work Areas in Detail

### Risk Financing

Risk financing help countries prepare for a crisis by providing the necessary finance, without compromising national budgets, by constructing financial protection strategies to secure critical productive assets, livelihoods, and infrastructure.

The IRFF's work in risk financing supports the Tripartite Agreement (see box) by collaborating with the industry to construct financing solutions for key geographies, sectors, and populations in all its priority countries. In parallel, the IRFF also supports in long-term institutional management and application of risk financing mechanisms to protect populations and assets.

This is complemented by technical support to countries, in institutional and regulatory reform, financial decision-making, risk modelling and analysis, and, where needed, the development of comprehensive risk financing strategies, sector-by-sector, hazard-by-hazard.

### Inclusive Insurance

Inclusive insurance works where risk is felt most acutely, in the daily lives of individuals, families, and businesses, providing individual solutions to reduce vulnerability to shock, from the death of a family member to damage to crops, from health incidents to housing damaged by cyclones.

UNDP works with government, industry, and consumers in inclusive insurance. A strong focus is to help industry reach the huge percentage of underserved people in developing countries. UNDP does this through a market transformation process that engages both public and private sectors. With the public sector, technical assistance improves regulation for inclusive insurance and the integration of insurance into social and economic programmes. With the industry, engagement provides capacity building for growing sustainable businesses, matched with actuarial capability for pricing.

In each country, UNDP works with industry in developing and distributing new and scaled up insurance products that contribute towards strengthening family and business financial resilience.

### The Challenge Fund

#### Incentivising Innovation and Market Development

In 2022, the IRFF Challenge Fund will be launched as a dedicated resource for industry, NGOs, insurance associations, and other stakeholders to put forward innovative solutions for building financial resilience at the country level, with significant technical assistance to UNDP country offices.

The Challenge Fund initiative will cover issues like digitalization, new perils, developing unique insurance products that are accessible and more.

### The Tripartite in Action

**Ghana:** UNDP is working with government and industry partners (Allianz and Swiss Re) to develop a parametric flood insurance solution targeting low-income communities in urban areas, by enabling authorities to quickly re-establish economic activity. This financing solution could protect up to two million people.

**Colombia:** With four industry partners (AXA, Guy Carpenter, MunichRe, and SwissRe), UNDP is working with government on an initiative to protect smallholder farmers in particularly vulnerable regions. This initiative aims to protect one million people in four departments (Chocó, Cundinamarca, La Guajira, and Meta).

## Integrating Insurance into Development

In many countries, insurance and risk financing are relatively new additions in countries' efforts to deliver development and leave no one behind. Key frameworks, and decisions often do not consider the role of risk-transfer in building financial resilience and removing uncertainty from investments.

UNDP provides technical assistance to countries to integrate insurance and risk financing (including modelling and risk analysis when appropriate) in key developmental processes, such as countries' Nationally Determined Contributions, National Adaptation Plans, and decisions on public financing.

### Natural Capital

Our planet's natural capital supports and protects human and financial capital, but it is being consumed at a rate that the Earth cannot replenish. Scaling insurance and risk financing can protect and develop our oceans, forests, biodiversity, air, soil, and many more natural assets that make life on earth possible.

UNDP's IRFF is developing coral reef protection through insurance in various countries in Asia, including Indonesia, Viet Nam, and the Philippines, with financing provided by the [Ocean Risk & Resilience Action Alliance](#) (ORRAA).

Together with UNDP's [Biodiversity Finance Initiative](#) (BIOFIN), the IRFF is working to integrate insurance and risk finance into biodiversity initiatives. This includes the usage of insurance solutions for low-income farmers that suffer from the loss of their crops and property due to human-wildlife conflict.

## Research and Evidence Driving Transformation Diagnostic Challenges and Outlining Opportunities

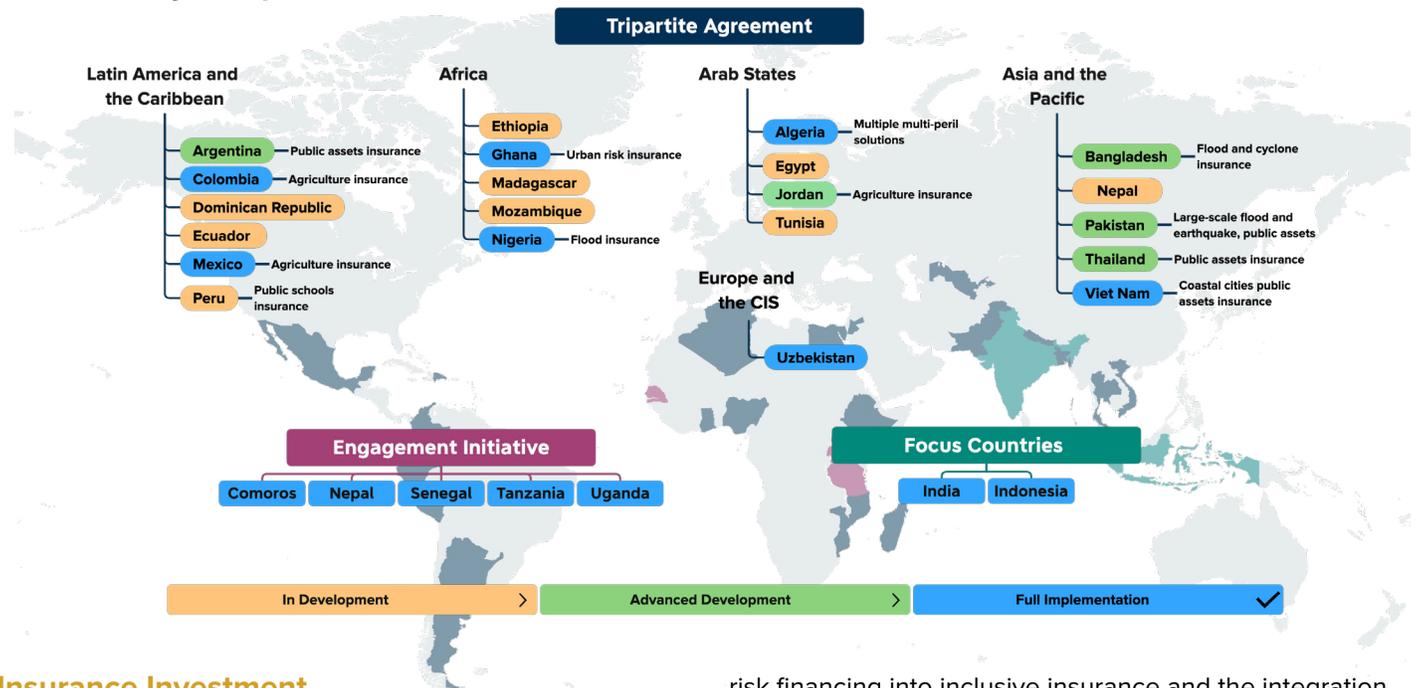
In each country where the IRFF works, a detailed diagnostic examines the current risk and development dynamics, and how insurance and risk financing are helping build family and country financial resilience. This guides and targets implementation.

Summaries of the first seven country diagnostics – Algeria, Argentina, Colombia, Ghana, Pakistan, Uzbekistan, and Vietnam – will be followed up with a composite report that draws lessons and trends from all.

### Mapping the Landscape of Inclusive Insurance

In partnership with the Microinsurance Network, UNDP will (for the next three years) produce and co-finance the Landscape of Microinsurance report that maps out the status, markets and governance of inclusive insurance, worldwide. The first report in the series can be [read here](#).

## IRFF Country Footprint



### Insurance Investment

The investment workstream focuses on insurers' assets under management and how they can better align their investment capital with the SDGs and use their underwriting capacity to de-risk investments and incentivize investments in resilience through innovative resilience finance instruments such as resilience bonds and insurance-linked loan packages. The workstream will also focus on how insurance can be used to de-risk energy projects and opportunities for insurance to incentivize resilient investment, in coordination with groups such as the [Coalition for Climate Resilient Infrastructure](#) (CCRI).

### Advocacy, Engagement, Research and Evidence

Insurance and risk financing often remain underutilized due to lack of awareness, knowledge about this area, inadequate research and evidence, and weak advocacy.

UNDP underpins its technical work at the country level by investing in building the global ecosystem for insurance and risk financing. This includes advocating for expanded global, regional and national usage of insurance and risk finance for delivering on development; the expansion of research and evidence to inform decision-making, turning intellectual capital into country-level transformation; engaging with and helping drive forward key global forums and processes such as the [Insurance Development Forum](#), [InsuResilience Global Partnership](#), [MicroInsurance Network](#), and [Ocean Risk and Resilience Action Alliance](#).

### Looking Ahead

With just over a year of full implementation, the UNDP Insurance & Risk Finance team continues to deliver on its objectives while launching exciting new initiatives, including the Engagement Initiative, a Challenge Fund, a global training package on insurance and risk financing, and a set of new partnerships with industry. The Facility started to increasingly focus on a wider range of work, beyond

risk financing into inclusive insurance and the integration of insurance and risk financing into development. This has been complemented by an expansion of the presence well beyond 20 countries, with the addition of eight new Tripartite and three new Engagement Initiative countries.

### Engagement Initiative

In order to support countries where the insurance industry has been historically reluctant to engage, UNDP has launched the Engagement Initiative, which focuses on least-developed countries (LDCs) and V20 climate-vulnerable countries and highlights how insurance and risk financing can best support and safeguard these countries' development. The initiative is rooted in UNDP's long-term work on governance and development in the LDCs, as well as the growing work of UNDP and its national and international insurance industry partners to develop insurance and risk financing solutions. Engagement Initiative countries are also those where the insurance industry sees real and perceived challenges, like issues of demand, legislative and regulatory environment, financial governance, ability to finance premiums etc. The first five Engagement Initiative countries are funded by the German Government and the initiative aims to secure enough funding to expand to 15 countries by 2025.

### Focus Countries

UNDP is also working to develop bespoke insurance and risk financing solutions in both India and Indonesia, recognizing the significant challenges they face from rising climate risks, and also their leadership in addressing these issues well beyond their borders.

### Partnerships with Industry: UNDP and Generali

Partnerships are central to the work and impact of the IRFF, and partnerships with industry in particular will be critical to the overall success of the Facility. UNDP itself is not an insurer so industry expertise and ability to construct and

manage insurance products and services will be critical to UNDP's own work. In addition, industry has significant technical and overall capacity in critical ancillary work related to their business, for example in the modelling and analysis of risk.

UNDP's partnership with Generali, [launched in 2022](#), is one of the first partnerships that has reached full agreement. Under this agreement, the partnership will provide financial and technical resources to design digitally enabled parametric insurance solutions that aims to protect vulnerable families and small businesses, develop large-scale risk finance solutions with a focus on cost effectiveness, and promote thought leadership on human development and social innovation.

### Global Training & Networking

UNDP's commitment is also to significantly raise the profile of insurance and risk financing and help those across both public and private sectors make informed choices about products, supervision, technology and more. Training will be rolled out across the entire UNDP Country Offices and programme countries in 2022 and beyond.

### Leveraging UNDP's Global Reach and Country Presence to Close the Protection Gap

UNDP's work on insurance and risk financing extends beyond the countries with IRFF-led projects. The IRFF is also building capacity within UNDP, across headquarters, regional hubs, and country offices, to unlock its institutional potential to close the protection gap by leveraging the power of insurance and risk financing to secure development gains and build financial resilience.

The IRFF team is currently advising on a wide spectrum of projects across the organization, including agricultural index insurance in Burkina Faso, conflict-related insurance in Yemen, Takaful in Muslim-majority areas of fragile states, insurance and risk financing helping protect biodiversity, and financial inclusion and insurance across East Africa.

Current financing to UNDP's IRFF will enable the Facility to work in 27 countries, but given the scale of need and rapidly growing interest in the work, the ambition is to have started work in 50 countries by 2025 and 75 by 2030, helping close the protection gap of hundreds of millions of people by the end of the decade.

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