



Focus on Asia Pacific Risks

Closing The Gap: Insurance Penetration and Public Sector Risk Financing in Asia Pacific

In recent years, the issue of low penetration in catastrophe insurance across the growing economies of Asia Pacific, and the critical protection gap between economic losses caused by natural disaster events and insurance-covered losses are receiving the attention they merit. The insurance industry can play a significant role in narrowing the gap to help ensure sustainable economic development in one of the most dynamic regions of the world, according to Michael Schwarz, Head of Public Sector – Asia Pacific, Guy Carpenter.

“Our industry should be a critical contributor to increasing community resilience against volatility and shocks to their environments caused by catastrophic events and disruptions brought to economic development,” says Schwarz. “Given the pace of growth across the Asia Pacific region, the (re)insurance industry should become more dynamic to keep up with urbanization and growth rates.”

The United Nations Economic and Social Commission for Asia and the Pacific predicted that economic losses from natural disasters and weather catastrophes will reach USD 160 billion per year by 2030 and only 8 percent of losses are likely to be covered by insurance.

“Dealing with this challenge requires new forms of public-private partnerships. However, progress in bringing the value-add of insurance to those exposed to risk has been limited,” Schwarz adds. “Dynamics in the Asia Pacific region create a challenging environment for narrowing the gap and point to the necessity for expanded public-private partnership and innovation to address the issue.”

“Property damage and business interruption losses to corporates are only part of the wider picture – the protection gap needs to be tackled on various levels. In addition to losses to residential homeowners and rural communities, the impacts of catastrophic events are manifold, ranging from destroyed infrastructure and damaged physical state assets, to costs related to immediate disaster response and relief measures.

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Moreover, in many instances, the bill for taxpayers will be further increased as governments tend to provide financial assistance to affected population groups," Schwarz says. In Asia Pacific the lion share of the economic losses are absorbed by the public sector across different levels of sovereignty.

This matter is critical not only to economic sustainability in the Asia Pacific region but also bears consequences for the (re) insurance industry. Schwarz explains: "The industry jeopardizes its relevance if it does not make progress on the issues of insurance penetration and narrowing the public sector risk financing gap. The industry in the Asia Pacific region must understand buyer needs and recognize the barriers that have to be overcome in positioning risk transfer solutions."

The industry, Schwarz says, should implement better strategies that:

- Continuously aim towards increasing insurance penetration among exposed urban and rural population; while in parallel
- Providing customized solutions directly to the public sector, thereby allowing governments on sovereign, state and municipality levels to better shield their state budgets against the financial consequences of natural disasters.

"These types of public-private risk-transfer partnerships offer a huge opportunity for the insurance industry to grow. Some governments in the region, for instance the Philippines or in the Pacific Islands have already started to transfer natural catastrophe risk to the (re)insurance and capital markets."

The industry offers access to analytics and tools that facilitate risk transfer. Insurance-linked securities coupled with available

(re)insurer capacity can provide abundant risk capital to benefit communities. Recent functional risk transfer mechanisms are using data, analytics and modeling to spur change in the landscape around flood, droughts and other perils.

Guy Carpenter and GC Securities* are working with over 100 public entities around the globe, seeking to narrow the protection gap by bringing private sector risk capital to bear. "We are committed to expanding our industry's role in managing risk for the public sector and reducing taxpayer burden for unfunded exposures," says Schwarz.

About Guy Carpenter

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