

A NEW PILOT PROGRAM ASSISTS NEIGHBORHOODS THAT ARE LESS FINANCIALLY RESILIENT IN TIMES OF NATURAL DISASTER



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Natural disasters have major consequences for all affected communities, but the impacts to low-to-moderate income (LMI) households are particularly acute. The unexpected costs of basic goods and services immediately after a disaster can evaporate savings and creates financial stress.

Insurance is a vital source of adequate and available funds that helps individuals and communities finance post-disaster recovery and rebuilding. Unfortunately, too few within LMI neighborhoods have the means to afford adequate coverage. Research shows that LMI households are disproportionately impacted by disasters. Insufficient liquid savings, the inability to access lines of credit and lack of adequate insurance exacerbate the negative impact of disasters and cause significant disruption, particularly for less affluent communities.

As the frequency and severity of storms continues to increase, the protection gap will likely widen, leaving millions of people exposed to disaster risk either uninsured or underinsured. Although the gap is a pressing issue, city leaders are balancing fiscal challenges from competing needs and require cost-effective solutions. Moreover, many communities do not receive disaster relief in a timely manner and are not incentivized or financed to enhance their resilience, exacerbating the resilience gap. The more slowly a community begins to recover from a disaster, the larger the financial impact. Community-level solutions are critical to support efforts designed to promote resilience and sustain economic vibrancy across communities. Community based catastrophe solutions (CBCS) is a framework where any community organization, special-

purpose district, or public entity can expand financial protection and develop risk mitigation strategies on behalf of its members.

A key component of CBCS is its ability to support de-risking of municipal and community balance sheets. By expanding insurance coverage, CBCS results in quicker recoveries for the insureds and supports post-disaster economic revitalization by guaranteeing funds post event. Guaranteed and promptly-distributed funds create faster community economic recoveries, ultimately producing savings, which can be reinvested into risk reduction and resilience planning. Transferring risk into private markets enables decision making to occur through a risk analytics lens that can capture and quantify the benefits of the risk reduction measures. Accurate quantification of risk is the foundation from which CBCS can lend support to the disadvantaged and help advance social equity.

Earlier this year, Marsh McLennan collaborated with the Center for NYC Neighborhoods (CNYCN), a non-governmental organization in New York City, to launch the first CBCS program. Funded by the National Science Foundation and working with partners at Environmental Defense Fund, SBP, and Marsh McLennan, CNYCN purchased a parametric product that will finance emergency grants to in-need community members

immediately following a disaster. This 1-year contract will provide CNYCN up to USD 1.1 million in recovery funds in the event of a significant precipitation or flooding event. The recovery funds will be distributed to community members through relatively small grants (less than USD 15,000) and are designed to cover immediate expense incurred after a disaster.

After super-storm Sandy, CNYCN was tasked with providing financial support for impacted households. They realized quickly that there was a significant insurance gap, leaving many households to turn to public assistance. This gap was, and continues to be, particularly acute in LMI neighborhoods. When directing residents to public assistance programs, there was a recognition that traditional sources of assistance take too long to come online and are insufficient to address the immediate needs of the community. The best way to support LMI community members was to provide cash assistance to enable residences to return to the community and start contributing to the community as they did prior to the event. LMIs often provide the backbone for small business, and if residents are not able to return to the community after the event, business, and therefore the community, suffer. CNYCN turned to a CBCS program because it addressed both of these concerns: by acting at the community level, CNYCN is able to reach a number of residents that have been locked out of the traditional

insurance marketplace. And by structuring the program as a parametric, it can guarantee payments are distributed immediately after a major event.

While this is a small pilot, CBCS offers the potential to scale and reach the growing number of uninsured or underinsured communities, critically important, as the more slowly a community begins to recover from a disaster, the larger the potential for long-term economic harm.

Addressing the widening protection gap requires an “all of the above” approach. While traditional insurance products are a helpful component, they are not sufficient to address all communities, especially those with low-to-moderate incomes. The CBCS framework offers a flexible solution for communities looking to increase their resilience and leverage their size to bring value to their constituents. Additionally, by expanding the pool of people participating in the risk transfer market, communities help foster a culture of risk management that can help support mitigation efforts prior to events and effective emergency response after an event.

Guy Carpenter and Marsh McLennan stand ready to join forces with governments, local authorities and community groups in understanding risks and exploring solutions.

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