

# Speech: Lord Bates speech to the International Insurance Society Global Insurance Forum

Ladies and gentlemen, good morning. I would like to thank our hosts, the Insurance Development Forum and the International Insurance Society for bringing us all together, and for inviting me to speak.

Our shared ambition is to build the resilience of the world's poorest people to natural disasters. Almost one and a half million people have died in natural disasters over the past 20 years. This year, millions of people across Somalia, south-eastern Ethiopia, and northern Kenya continue to struggle in crippling drought conditions.

Levels of global humanitarian assistance are at record levels but still cannot meet growing demand.

## **Disasters and Poverty**

Natural disasters have a massive economic impact. The total costs of natural disasters faced by developing countries are equivalent to one third of all official development assistance. Research by Risk Management Solutions puts these costs at \$29 billion a year across 77 countries. It's like taking three steps forward and one step back.

International assistance absorbs only a portion of this – 8% – the rest is borne by people, businesses and governments. While in rich countries like the UK, over 40% of the costs are covered by insurance; in the poorest countries less than 5% are covered. Pressure on families and government budgets mean development stalls.

## **Disaster risk reduction**

What really frustrates us all is that these risks can be anticipated. These are not total surprises. Yet, globally investment in reducing risk from natural disasters is still only a small fraction of that spent on international response – we need to shift the balance.

This is why managing disaster risk is a central part of our approach to Humanitarian Reform. We know that for every £1 spent on working to prevent a disaster saves at least £3 in humanitarian assistance – in addition to the lives saved.

Our International Climate Fund has already helped over 21 million people to cope with the increasing risk of drought and floods. This includes work to build resilient communities and advance early warning systems.

## **Early Action**

Today, I want to focus on the other part of this story – how we respond when a disaster strikes.

In an emergency, time costs lives. Globally, international assistance still takes too long to arrive. A more proactive approach is needed.

Earlier action saves lives and can more than halve the costs of responding to an emergency.

## **Insurance**

Over the past week, a lot of people have asked why we would talk to the insurance industry about this. Some in the development and humanitarian world are nervous about working with insurers. My response is – why wouldn't we talk to the insurance industry about managing risk? You've been doing it for more than 300 years!

From the early days of captains insuring their ships at Edward Lloyds' coffee house – you are experts in managing risk. The insurance industry is a global risk pool – with trillions in capital that can cost-effectively absorb the costs of big, rare shocks like natural disasters. Our job as development partners is to support countries to develop and use the instruments are right for them in managing their own risks.

Let me be completely clear. I am not saying that insurance is always or the only solution, but for the special case of natural disasters it can play a role. It's about speed. In an emergency, time means lives. So-called parametric insurance is triggered automatically when a storm or flood strikes, so can deliver finance quickly, reliably and cheaply within days. Weeks ahead of other forms of aid. Insurance provides speed but also greater certainty. It doesn't replace the need for humanitarian assistance, but this quick finance can get lifesaving assistance to people fast, helping to stop a flood or drought spiraling into a disaster.

We've seen this work in practice. UK aid has supported regional risk insurance pools in the Caribbean, Pacific and Africa. Last year, the Caribbean facility paid out to 4 countries after Hurricane Matthew. In 2014, African Risk Capacity paid for food, cash and animal fodder that helped 1.3 million drought-stricken people.

The potential is clear.

## **Not just insurance**

Of course, insurance is not the only tool in the toolbox. Countries need a basket of options to manage their risks. This year, the World Bank made its contingent credit instrument for disasters available to the poorest countries for the first time. Others are doing the same. What is great about insurance and contingent credit is that they are pre-arranged, meaning that countries have certainty of being able to access rapid finance if a disaster strikes. This allows them to plan and prepare.

Cutting-edge science now allows us to forecast extreme weather, weeks or even months in advance. Organisations like the Red Cross Climate Centre and the Start Network of NGOs have pioneered a new approach, linking pre-arranged funds to weather forecasts to trigger and then deliver even earlier action. Early results look promising. In Mali last year, START members were able to get out ahead of floods and reduce the impact on communities. We are building this into our own systems.

The way finance is delivered – being pre-arranged and on-standby when needed – can make a big difference. But the details matter. Finance is just one part of the story. We need the right plans and systems in place to ensure that the right aid gets to the right people quickly and effectively in an emergency.

It's chicken and egg. It's hard to develop delivery mechanisms if the finance is not in place. We need to do both, and we are doing both.

We are on the cusp of something really exciting. But to make progress we need to bring together the right people from across the development, humanitarian, science and finance communities, government, civil society and the private sector must work together.

## **The Centre**

This is exactly what the new Centre for Global Disaster Protection will do. It will bring together the best and brightest people from each of these areas to build the capabilities, systems and knowledge needed to get aid to the people that need it earlier and more effectively.

There has been some misreporting of what the centre will do, so let me be clear...

It is about investing in the data, research and cutting-edge science to analyse risk and design systems that work well for the poorest people.

It is about providing training and sophisticated analytics to help decision makers make informed decisions.

It is about pre-disaster planning, including bringing vulnerable people into the dialogue about how support should flow in an emergency.

It is about providing neutral advice – supporting countries in making decisions about which financial instruments are right for them.

For the very poorest and most drought-stricken countries, it can also offer grant support to help meet the costs of insurance coverage. Value for money and impact will be central on this.

Finally, it is about innovation – looking at new ways of working and building new collaborations across the finance and humanitarian communities, to design financial instruments that work for developing countries.

At its heart, this is about risk assessment, good planning and public financial management. This is vital if we want to support countries to build

their own systems for managing disasters. This is why I am so pleased that the World Bank will join us in this venture. The World Bank's unique strategy of working with the full range of low-, middle- and high income member countries allows for the transfer of knowledge, experience, and resources across the World.

Success for the Centre is not about setting up new risk instruments, but about seeing them delivered to the right people at the right time. In the next 5 – 10 years, we believe that more risk can and should be financed through government-led systems wherever possible.

Right now, we need all the partners round the table to find new ways to finance and deliver assistance more quickly. The Centre is just one part of this.

We are not alone in this vision. In 2015, Germany united the G7 behind the InsuResilience target to help 400 million poor and vulnerable people access climate risk insurance by 2020. Germany's leadership at the G20 earlier this month pushed the agenda forwards, building a global partnership that will include not just governments but also civil society, multilaterals and the private sector, focussed squarely on strengthening resilience and response to crises. We welcome this approach and will work with Germany to advance this.

And just as important, is our collaboration with industry. The Insurance Development Forum is to be commended for the work that they have done in support of this agenda, especially convening us here today. Working with industry is vital if we are to successfully extend the use of insurance and its related risk management capabilities to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks.

This is just the beginning. By working together globally across governments, humanitarian agencies, the scientific community, civil society and the private sector, we can drive change.

We can shift the aid system to become more proactive, investing more in reducing risks, and putting in place systems to get aid more quickly to people who desperately need it.

The stakes are immense but the opportunity is enormous. Let's aim high.