

# *Playing your part in closing the insurance gap*

*AR!SE provides an opportunity for businesses to work with the UN to mitigate disaster risk. By playing their part in developing the necessary risk prevention and transfer capabilities, AR!SE presents insurers and reinsurers with a valuable platform for innovation and growth.*

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# The growing threat from natural hazards

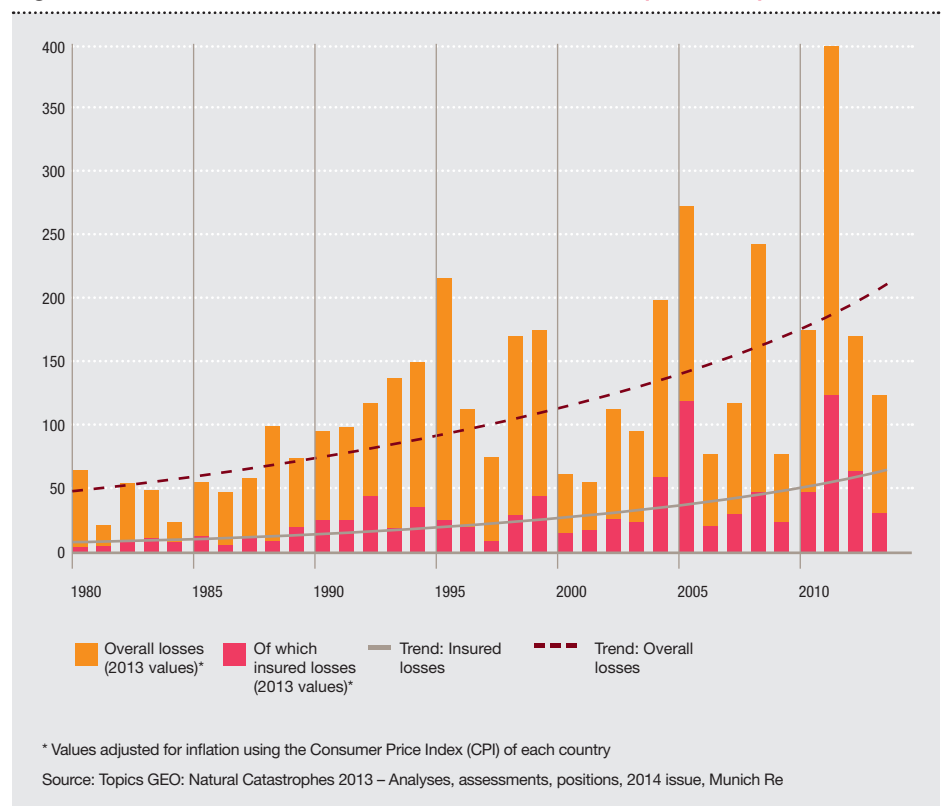
Insurers and reinsurers are very familiar with the extent to which natural disasters are becoming costlier and more frequent (see Figure 1).

At a time when supply chains are becoming ever more interdependent and once unthinkable disasters now seem almost commonplace, the direct losses, supply chain interruptions and wider effects on financial and operational performance facing businesses and governments are growing. This is a threat to long-term competitiveness and sustainability. A 2013 report by PwC in association with the UN Office for Disaster Risk Reduction (UNISDR) concluded that the toll from 'super disasters' now presents "a fundamental risk to 'business as usual'".<sup>1</sup>

The toll on emerging economies was highlighted in a Lloyd's report comparing the level of insurance penetration and natural catastrophe losses in countries around the world. The report found that 17 leading emerging economies had between them an annualised insurance deficit of \$168 billion,<sup>2</sup> creating threats to sustained economic growth, their ability to recover from disasters and lift people out of poverty over the long-term. Closing this insurance gap would open up considerable commercial opportunities for insurers, reinsurers and brokers.

Clearly this presents challenges, not least the limited data upon which to base risk evaluation and pricing. But as we've been exploring in our 'Insurance 2020 and beyond' series<sup>3</sup>, fostering the innovation and insight needed to tackle underinsurance is a key part of the continuing growth and relevance of the insurance industry. An important element of this is working with clients, governments and other agencies to develop the understanding, knowledge sharing and collaborative initiatives needed to create more resilient businesses and economies.

**Figure 1: Overall losses and insured losses 1980 - 2013 (in US\$ bn)**



*“Economic losses from disasters are out of control and can only be reduced in partnership with the private sector.”*

Ban Ki-moon, United Nations Secretary-General

1 'Working together to reduce disaster risk', published by PwC, May 2013

2 Lloyd's and the Centre for Economics and Business Research, Global Underinsurance Report, November 2012 ([www.lloyds.com/news-and-insight/riskinsight/underinsurance-report](http://www.lloyds.com/news-and-insight/riskinsight/underinsurance-report))

3 [www.pwc.com/insurance](http://www.pwc.com/insurance)

# Resilient solutions

What can be done to mitigate the impact of disaster risk and put business operations on a more resilient footing? One answer is ARISE.<sup>4</sup>

ARISE is a global initiative led by UNISDR, which aims to improve awareness of disaster risks within governments and the business community and harness collaborative efforts to reduce the risks to individual businesses and the economy as a whole, with objectives to:

- 1 Strengthen the ability to withstand disasters
- 2 Improve early warning and response, and
- 3 Strengthen insurance coverage so businesses and economies can get back up and running quicker.

ARISE brings together six connected communities (see Figure 2), all of whom are affected by natural hazards and who have the expertise and resources to strengthen disaster risk management (DRM). The focus is very much on developing practical, tangible and collaborative ways to reduce vulnerability and mitigate the impact in line with the Sendai Framework for Disaster Risk Reduction.<sup>5</sup>

Figure 2: ARISE



4 The United Nations Office for Disaster Risk Reduction Private Sector Alliance for Risk Sensitive Investments

5 Sendai Framework for Disaster Risk Reduction 2015-2030, see [http://www.unisdr.org/files/43291\\_sendaiframeworkfordrren.pdf](http://www.unisdr.org/files/43291_sendaiframeworkfordrren.pdf) and [http://www.preventionweb.net/rise/sites/default/files/Sendai%20Framework%20%26%20RISE\\_Point%20of%20View\\_pwc\\_April%202015\\_0.pdf](http://www.preventionweb.net/rise/sites/default/files/Sendai%20Framework%20%26%20RISE_Point%20of%20View_pwc_April%202015_0.pdf)

# Making a difference

At present, the steps taken to prevent, prepare for and respond to disasters (including providing contingent financing) are hampered by a generally fragmented approach, in which businesses and public authorities take too little account of the threat from natural disasters in their investment decisions. Typical questions that aren't being adequately addressed might include:

- How likely is it that the electricity grid would go down if the area were to be struck by a hurricane or typhoon?
- What is the potential impact on business activity?
- How can the threat be reduced and how can we get the grid back up and running quicker if it is put out of action?

AR!SE focuses on three ways that businesses and public authorities can become more informed about the threats and build them into their business plans and operational management:

- 1 Information:** providing access to a standardised local and global risk information set
- 2 Application:** creating practical tools for the application of this risk information
- 3 Education:** incorporating the risk information and the practical tools into education.

**Figure 3: The AR!SE themes**



The initiative is structured around seven themes (see Figure 3). As no government, organisation or company can address all of the underlying risks, on its own AR!SE brings together a range of businesses, academic, public sector and other organisations. Recognising the importance of new thinking and collaboration in promoting risk understanding and resilience, PwC is at the forefront of this initiative, leading two themes:

- 1 Strategies** – looking at how to improve businesses' capacity to manage disasters in areas such as the sharing of best practice
- 2 Benchmarking & standards** – seeking to encourage different industries to adopt voluntary codes of conduct to help reduce disaster risk (e.g. construction standards to make vulnerable buildings more earthquake resistant).

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# *Why the contribution of insurers and reinsurers could be so valuable*

The insurance industry clearly has the expertise and commercial interest to support ways to improve the understanding, prevention and mitigation of disaster risk. AR!SE offers an especially relevant opportunity to share information, and improve the basis for catastrophe analytics and underwriting, as well as collaboration on risk mitigation and management. Among the projects we at PwC have been working on is an initiative in the Brazilian market that brings together the government, insurers and universities in Brazil to assess the quality and practical accessibility of the available risk data. The aim is to create a new centralised risk database for Brazil, which would help to improve the basis for underwriting and highlight gaps in insurance coverage.

As vital links in the risk transfer chain, insurers, reinsurers and brokers are also well placed to develop and propose innovative solutions across the client businesses and industries they serve. The direct commercial benefits go beyond reducing economic losses to include demonstrating your values, creating new business openings and helping to deliver the objectives set out in the Sendai Framework for Disaster Risk Reduction.<sup>5</sup>

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<sup>5</sup> [http://www.preventionweb.net/rise/sites/default/files/Sendai%20Framework%20%26%20R%21SE\\_Point%20of%20View\\_pwc\\_April%202015\\_0.pdf](http://www.preventionweb.net/rise/sites/default/files/Sendai%20Framework%20%26%20R%21SE_Point%20of%20View_pwc_April%202015_0.pdf)

# Contacts

*For more information about ARISE and how your business can contribute please get in touch with your usual PwC contact, or visit [www.theriseinitiative.org](http://www.theriseinitiative.org).*

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