Southeast Asia Disaster Risk Insurance Facility

PROTECT THE GREATEST HOME OF ALL:
OUR COUNTRIES

SEADRIF is a regional platform to provide ASEAN countries with technical advice to increase their financial resilience to climate and disaster risks.
Pooling and mutual options for public assets insurance

Facilitator: Benedikt Signer

Speakers:
Lit Ping Low | Rob Antich
Hang Thu Vu | Gary Rynsard
Objective and structure of webinars

**INTENDED OUTCOME:**
Government officials to develop strong understanding of the steps required to design, develop, deliver and operate effective financial protection of public assets, particularly through risk transfer and insurance.

- 90-minute webinar for each factsheet
- Different guest speakers
- Live polls: Please participate
- Please share questions via Q&A function
Overview of the Knowledge Series

FACTSHEETS 1 and 2
- Development of an implementation roadmap for a public asset financial protection program
- How governments can agree objectives and build consensus around priorities
- How to develop internal governance and oversight functions, and ownership at each level of the insurance program
- How risks are allocated across asset owners and operators

FACTSHEETS 3 and 4
- The importance and development of Public Assets Registries, and associated Enterprise Asset Management systems.
- How to assess and quantify asset exposure, sources of data, requirements for insurance transactions
- Introductions to the use of catastrophe analytics, burning cost / technical and market rates, tariff structures, risk based pricing methods, and underwriting.

FACTSHEETS 5 and 6
- Roles and options available to construction of cost-effective insurance, including common insurance structures and case studies, their pros and cons against considerations of budgets, risk appetites, and government priorities
- Introduction of pooling and mutualization of large scale public assets insurance programs
- Insurance/reinsurance concepts of retention, deductible and exclusion

FACTSHEETS 7 and 8
- Roles and responsibilities for the government officials within an internal insurance program, the associated stakeholders, including auditing, compliance and governance, supervisory.
- Multi year aspects such as renewals and re-assessment of exposures.
- Review of procurement considerations
- Dealing with claims management
- Incorporating innovations and technologies
Overview of the fact sheet

Lit Ping Low
Consultant, Crisis and Disaster Risk Finance, World Bank Group
The Insured Potential government structures - recap from FS5

**Government Structures**

- **Self-insurance**: Governments/agencies set aside a contingency budget to self fund insurable losses.
- **Procurement Collective**: Insurance availability and pricing is reserved with markets in advance and agencies use it based on individual agency need/appetite.
- **Risk Pool**: A cooperative group of government entities joining through written agreement to finance risk exposures. Can use risk transfer to protect financial exposure to large losses.
- **Captive**: Government, as a parent to agencies, creates a licensed insurance company to provide coverage for itself.
Risk pooling Concept

Losses

A  B  C  D

Years

10

Losses

Each contributes a premium

Years

10
Why pool risks?

Benefits

- Shared cost base
- Improved risk management
- Stronger buying power
- Budget & price stability
Challenges

- High-risk members?
- Time & effort
- Stakeholder support
## Different types of public sector risk pools

<table>
<thead>
<tr>
<th></th>
<th>Mutual / Member-driven pool</th>
<th>Pools of Last Resort</th>
<th>National risk pools</th>
<th>Regional catastrophe risk pools</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main characteristic</strong></td>
<td>Member-driven</td>
<td>Aimed to maintain insurance availability</td>
<td>Government-driven, with government agency members</td>
<td>Multiple countries</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>Similar and like-minded members</td>
<td>Provide insurance in areas that private market does not cover or are too costly.</td>
<td>Economies of scale. Negotiation power. Cover all relevant public asset and infrastructure risks.</td>
<td>Even greater risk diversification particularly on natural catastrophes. Negotiation power.</td>
</tr>
<tr>
<td></td>
<td>Economies of scale. Proceeds and surplus of the pool are typically reinvested back into the members.</td>
<td>Collate data to inform future policy decisions.</td>
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</tr>
<tr>
<td><strong>Challenges</strong></td>
<td>Lack of market pressure. Need to retain long term membership.</td>
<td>Higher risk profiles.</td>
<td>Potential lack of diversification either due to geography or nature of risks.</td>
<td>Complex, time-consuming international set-up Often requires donor seed capital</td>
</tr>
</tbody>
</table>

- Gary Rynsard
  Marine mutuals
- Rob Antich
  Australia Comcover
- Hang Thu Vu
  SEADRIF and other pools
Checklist when considering a risk pool

Design
- What are the main objectives or drivers to pool risks?
- What are the desired tangible and intangible benefits for members?
- What types of risks are suitable for risk pooling?
- What mandates or buy-in are required from prospective pool members?

Development
- What pooling structure best suit the needs of the members?
- What is the scope, boundaries and scale of pool members and assets?
- What types of data are required for risk assessment for the risk pool?
- What are the legislative, operational and administrative steps in establishing a risk pool?

Delivery
- What are effective operational and claims procedures required for the pool?
- What is an effective pricing structure?
- What types of data are required from pool members?
- How can the program support wider benefits for the members?

Renewal
- How does the risk profile change as the pool changes over time, e.g. more or less members, changing individual risk profiles?
- How can the risk pool achieve better price stability over time?
What are the key reasons your country would pool risks as an asset protection strategy? (select all that apply)

- Costs savings and improved efficiencies
- Price and budget stability
- Stronger buying power
- Added services for members
- Improved asset/risk management
Lessons learnt from a government risk pool: Comcover (Australia)

Rob Antich
Former General Manager of the Australian Government’s Comcover fund
Consultant, Crisis and Disaster Risk Finance, World Bank Group
Established 1998
- Australian Government assets and liabilities
- 170 members
- $AUD 90 billion in assets
- $AUD 140 million premium

1997 Government review recommended aggregating risks to increase transparency of expenditure and improve risk management.

Comcover’s two objectives:
1. promote best practice risk management for members, and
2. provide a comprehensive insurance fund to protect against insurable losses.
Learnings

- Self-funding (reinsurance 1998-2007 only)
- Small and stable premium increases (5-10%)

Efficient delivery of member services:
- Claims management
- Insurance advice & broking
- Training & benchmarking
- Data gathering & analysis

- Improved risk management maturity
- Improved government risk awareness
What are the key reasons your country would pool risks as an asset protection strategy? (select all that apply)

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- Stronger buying power
- Added services for members
- Improved asset/risk management
Lessons learnt from (Regional) Sovereign Risk Pools

Hang Thu Vu
Senior Financial Sector Specialist, Crisis and Disaster Risk Finance, World Bank Group
Regional Sovereign Cat Risk Pools

Who are they?

- Cambodia
- Lao PDR
- Indonesia
- Myanmar
- Philippines
- Singapore
- Cook Islands
- Marshall Islands
- Samoa
- Vanuatu
- Niger
- Senegal
- The Gambia
- Anguilla
- Antigua & Barbuda
- Barbados
- Belize
- Cayman Islands
- Dominica
- Grenada
- Haiti
- Jamaica
- St Kitts & Nevis
- Saint Lucia
- St. Vincent & the Grenadines
- Trinidad & Tobago
- Turks & Caicos Islands
- Nicaragua
- Burkina Faso
- Mali
- Mauritania
Learnings

- **Political commitment** by member countries

- **Operational design** to minimize operating costs and create public good

- **Financial sustainability** to provide cost-efficient solutions

  **Sharing more than risks**
  - PCRAFI – Private Sector Window to help domestic insurers access international reinsurance markets
  - ARC – Replica Coverage offered to UN agencies and other humanitarian actors to match ARC country policies
  - CCRIF – New Insurance Products: excess rainfall insurance, fisheries insurance
Cat Risk pools—sharing more than risk

A DRF Platform for ASEAN+3 Countries. Tailored to diverse perils, size, income level

www.seadrif.org

Regional Sovereign Risk Pools
Lessons Learnt from Marine Mutuals

Gary Rynsard
Executive Director and Board Member, SEADRIF Insurance Company
Gary Rynsard

Seadrif Insurance Company
Executive Director 2020

Streamship Mutual Underwriting Association Ltd 1978-2020

POSITIONS HELD:

- Chief Executive Officer
- Chairman of Management Company
- Chairman of Risk Committee
- Head of Legal/Claims
- Head of Underwriting
- Deputy Head of Finance and Investment

- Head of Asia including experience in following countries:
  China, India, Indonesia, Japan, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam
Steamship Mutual Underwriting Association Limited

One of the largest mutual marine insurance companies in the world providing insurance to shipowners for 3rd party liabilities including:

- Oil pollution
- Death, injury and illness of crew and passengers
- Loss or damage to cargo
- Collision with other ships
- Damage to docks and other objects
- Fines
Definition: a “mutual” insurance company is one where the members are both the insured and the insurers.

The first marine mutuals were hull mutuals. They were formed for the following reasons:

- As a reaction against the previous monopoly.
- As local associations in which local shipowners could take an informed view of the quality of management.
- To simplify administration as a type of self-governance.
Third Party liability mutuals, so called “Protection and Indemnity or P&I Club” were formed in response to increases in liabilities for instance in respect of:

- Collisions of ships.
- Death/Injury of crew.
- Negligent damage to ports.

These were areas which the commercial market was reluctant to cover. The first P&I club was established in **1855**.
History: Conventional Insurance market

PREMIUM

Insurance company

Insured

CLAIM
Structure of P&I Club

Marine Mutuals

Insured

Insurer

PREMIUM

Ship owner

CLAIM
A P&I Club consists of individual shipowner members—typically several hundred.

Each member pays a premium which is individually assessed on the basis of risk exposure and record.

Each member may claim for losses and liabilities which fall within the scope of the cover.

The day-to-day management of the club is carried out either by employed staff or an independent management company.

The club will retain part of the risk, pool some of the risk with other P&I Clubs and together with other clubs purchase reinsurance on the commercial market.

The club will hold capital to pay claims and build reserves to smooth out good and bad underwriting years. Any excess capital may be returned to the members. In the event of insufficient capital the club may call upon the members to provide further capital.
Mutual insurance was a reaction to the inability or unwillingness of commercial insurance to provide solutions to expanding liabilities. It remains a key aspect of mutual insurance today.

Mutuality requires equity amongst the insured. Fairness and reasonableness are necessary attributes of the mutual system.

Mutuality encourages high standards of loss prevention since every assured is affected by the behaviour of their fellow assureds. There is a common benefit in prudent behaviour.

Lean Management and cost control were important from the first beginnings of mutual clubs and have remained a key area of focus.
Mutual of Mutuals

International Group

P&I clubs
International Group of P&I Clubs

P&I Clubs decided they could offer greater cover if they formed a “pool” with similar mutuals.

- 1899 first pool established consisting of six British clubs.
- Today the International Group of P&I Clubs consist of 13 clubs based in Japan, Norway, Sweden, United Kingdom, United States of America.
- Also non-International Group Clubs based in China and South Korea.
- The International Group of Clubs provide insurance for over 90% of the world ocean-going fleet.
The International Group is a Mutual of Mutuals. It exists to:

- Pool risks amongst the clubs.
- Provide a means to purchase reinsurance.
- Each individual club retains the first $10 Million of anyone accident or occurrence. In excess of this figure the pool covers liabilities up to $100 Million, reinsurance is purchased for the layer up to $3.1 Billion, thereafter liabilities are re-pooled up to approximately $8 Billion (the largest claim paid to date is approximately $2 Billion – Costa Concordia).
- The International Group is a vehicle for sharing experience and expertise over the areas of maritime liabilities and claims.
- The International Group is a lobbying group to further the interests of shipowners with governments and international organizations.
Characteristics of Mutual Insurance – Non-Profit Making

- **Cost:** No profit element for investors or providers of capital.
- **Desire to pay claims:** Not avoid payment.
- **Service Level:** Technical expertise, speed of payment, oversight by members via Board.
- **Scope of cover:** Member driven.
- **Political acceptability:** Absence of the profit motive makes mutuality attractive to a wide spectrum of political views.
### Characteristics of Mutual Insurance – Discretionary Cover

<table>
<thead>
<tr>
<th><strong>Omnibus Rule</strong></th>
<th>Directors may cover liabilities/costs/expenses which are unforeseen but which they decide, within their discretion, should be covered.</th>
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<tbody>
<tr>
<td><strong>Insurance Contract</strong></td>
<td>Within the contractual terms the Directors or Executive Management are afforded a discretion to cover claims.</td>
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<tr>
<td><strong>Terms of Cover</strong></td>
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</table>
## Characteristics of Mutual Insurance – Capital

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<th>Capital replenishment</th>
<th>A mutual has the ability to call upon the members to replenish Capital by way of an additional call.</th>
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<tr>
<td>Return of Capital</td>
<td>Mutuals have the ability to return capital to the members.</td>
</tr>
<tr>
<td>Level of Capital</td>
<td>Originally mutual clubs ran on low capital levels because of their ability to levy additional capital by way of additional call. Recently, risk-based capital models used by Regulators have necessitated higher levels of capital. The mutual’s own capital plan will set out the company’s own risk appetite and therefore capital requirement.</td>
</tr>
</tbody>
</table>
# Characteristics of Mutual Insurance –
## Further Factors

<table>
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<tr>
<th><strong>Member sophistication</strong></th>
<th>The members of a Marine Mutual are usually sophisticated in the areas of risk analysis and risk management.</th>
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<td><strong>Member – Executive Management relationship</strong></td>
<td>In a Marine Mutual the relationship between a member and the executive management is usually very close. Mutuality works best when the members consider the executive management of the mutual to be an integral part of their risk management team.</td>
</tr>
<tr>
<td><strong>“Ownership” of a Mutual</strong></td>
<td>It is very important that members believe that the mutual “belongs” to them and not to the executive management or any other party.</td>
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</table>
Characteristics of Mutual Insurance – Protection against Moral Hazard*

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<tr>
<th><strong>Notice of Termination</strong></th>
<th>The Mutual will reserve the right to terminate the entry within 30 days notice.</th>
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<td><strong>Prudent uninsured</strong></td>
<td>There is an obligation on each member to act as if they were not insured.</td>
</tr>
<tr>
<td><strong>Imprudent or unlawful trading</strong></td>
<td>There will be no recovery under the contract for any trade which in the opinion of the Directors is imprudent/unsafe, unduly hazardous or improper.</td>
</tr>
<tr>
<td><strong>Willful misconduct</strong></td>
<td>There will be no recovery for any loss caused by willful misconduct on the part of the member.</td>
</tr>
<tr>
<td><strong>Management audits and condition surveys</strong></td>
<td>The Directors/Executive Management have the right to order management audits and condition surveys of the insured objects.</td>
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</table>

*Defined as an insured failing to act reasonably and prudently in reliance on being insured against the consequences*
Major causes of the failure of a marine mutual would include the following:

- Persistent failure to price the risk appropriately.
- Loss of market due to mispricing or service failure.
- Failure of reinsurance. This might be due to financial failure of the reinsurer or denial of cover due to a breach such as material non-disclosure or an assertion that claims fall outside the scope of cover.
- Financial weakness of the members and the inability of the mutual to be able to collect premiums including any additional premiums called forward to refinance the mutual. An aspect of this might be preferential treatment afforded to individual members or a class of members by way of “phony” mutuality, i.e. an exemption from additional calls to refinance the mutual.
Questions and Answers

USE THE Q&A FUNCTION
Thank you

SEADRIF
SOUTHEAST ASIA
DISASTER RISK INSURANCE FACILITY

An ASEAN+3 Initiative
In partnership with The World Bank