



# UNDP Insurance and Risk Finance Facility

## Protecting Lives, Building Resilience and Driving Inclusive Economic Growth



Supporting governments in more than **34** countries, with additional demand in **35**



Partnering with the private sector to develop and scale insurance and risk finance solutions



Focusing on bespoke country-level solutions, backed by global advocacy research and evidence



Financed by the German Government, the Bill & Melinda Gates Foundation, Generali Insurance and the Ocean Risk and Resilience Action Alliance



Aligned with InsuResilience Vision 2025 targets

### Background

The challenge to ensure that no one is left behind in the drive to achieve the Sustainable Development Goals (SDGs) remains significant. Economic growth has not reduced poverty or inequality nor created decent livelihoods at a sufficient scale. Population growth and increased urbanization, especially in low-income countries, are straining infrastructure and undermining the delivery of basic services. Climate Change is exacerbating these inequalities and disproportionately impacting the countries and communities that are the least equipped to deal with its aftermath.

Disasters, conflicts and economic instability continue to deepen vulnerabilities. Swiss Re estimates that in 2022, the global protection gap, which is the difference between financial losses incurred due to various risks and the amount of insurance coverage available, reached \$1.8 trillion in premium equivalent terms, 20 percent more of what was recorded in 2018. Since 1980, insurance coverage rates in developing countries have often been below 10 percent, and sometimes close to zero, while 43 percent of global risk in 2022 were left unprotected by insurance.

This reality is impacting the developing world like never before, with the 2022 Pakistan flooding being a proof of that. More than \$30 billion of economic losses were recorded and 33 million people affected, while much of the Indus valley was turned into an almost endless lake of flood water. Pakistan's insurance penetration rate is only 0.9 percent, (non-life 0.29 percent), putting the country in extreme financial vulnerability. Nepal, where we find the highest disaster risk profile in the world, has very little financial protection, with an insurance penetration of just 1.7 percent. The 2015 earthquake immediate economic impact were estimated at \$10 billion dollars, as much as half of the country's GDP. Only \$175 million out of these losses were

insured. Furthermore, its high vulnerability and exposure to flooding could reduce the country's GDP by between \$140 and \$210 million annually. In Ethiopia, more than 59% of the population depend on agriculture, and it is expected that its GDP could drop by 10% by 2045 due largely to climate change's impact on agriculture, while droughts continue to plague the Horn of Africa, where at least 36 million people were affected in 2022 by the most prolonged and severe drought the region has ever seen, including more than nine million women who were highly exposed to gender-based violence risks caused by such hazard.

Often, the financial burden of these disasters falls directly on countries. Between 2019 and 2021, less than half of the \$600 billion in losses from disasters were covered by insurance. This means that a sizeable proportion of recovery and reconstruction efforts had to be financed out of existing resources.

### Key Data

- **\$275 billion** - global economic losses from disasters in 2022
- Developing countries **absorb more than 40 percent** of the global economic disaster losses and often have an insurance penetration of **less than 3 percent**
- External debt of developing countries reached **\$11.1 trillion** in 2021, twice their value registered in 2009, with total debt-to-GDP ratios rising to an average of **207 percent**
- **23.7 million** people displaced due to disasters in 2021

National and family budgets have been stretched beyond breaking point, exposing the fragile life and living conditions of millions of people, with projections for the future looking dire; A record \$51.5 billion appeal for humanitarian aid was announced by the UN for 2023 and for the first time in the 32 years that UNDP have been calculating it, human development declined globally in 2021 for two years in a row, with 6 out of 7 people in the world feeling insecure.

## The Critical Role of Insurance and Risk Financing

Insurance and risk financing play a key role tackling many of the interconnected challenges that countries and families face. They build financial resilience and reduce vulnerabilities to climate, socio-economic, health and disaster risks and shocks, providing a critical safety net for millions, and protecting assets, lives and livelihoods.

Moreover, scaling up insurance coverage incentivizes and drives forward economic growth by reducing budgetary pressure on governments and households through the provision of reliable financing in the wake of a crisis. This assurance allows both families and governments to invest more than they would otherwise, safe in the knowledge that critical assets and livelihoods are protected. In turn, all this new investment itself would demand more insurance to lock in resilience, again stimulating new investment.

Despite the advantages, insurance and risk financing solutions have not been fully utilized. In developing countries, only 3 to 7 percent of people with low and middle income have insurance coverage. In addition, the protection gap, between the insured and the uninsured during disasters, can be as high as 95 percent. Use of insurance and risk financing to protect lives, livelihoods and assets is far from being fully realized.

## The Insurance and Risk Finance Facility

The IRFF will deliver innovative protection solutions in 50 developing countries by 2025. Currently, the facility is operational in 34 countries. The IRFF supports the development of innovative insurance products and services that are aimed towards vulnerable people and communities, while also investing in the long-term transformation of insurance markets. The Facility works closely with industry partners to deliver policy advice, guidance, tools, methodologies and networks that boost country and community resilience towards socio-economic, health, climate and other shocks. The aim of the IRFF is to work with partners to construct robust financial resilience of families and countries, in the face of rising climate risk, through inclusive insurance, risk financing mechanisms, governance and development, advocacy, research and evidence.

UNDP's IRFF implements this work at global and country level to scale insurance and risk finance solutions in the countries that need it the most by tackling supply and demand challenges and working side-by-side with the insurance industry to seize opportunities of providing protection and building long-term resilience.

The IRFF is a flagship initiative of UNDP's [Sustainable Finance Hub](#) and is part of the wider UNDP Global Policy Network. It is the heart of UNDP's insurance and risk finance support to UNDP country offices, programme countries

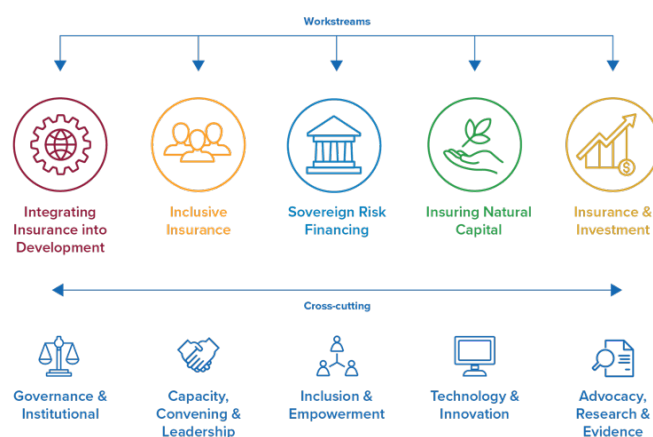
### The InsuResilience Global Partnership & Vision 2025

All UNDP's Insurance and Risk Finance work focuses on helping countries achieve the Sustainable Development Goals and the ambitious targets of Vision 2025 of the InsuResilience Global Partnership. UNDP's work, which blends advocacy, research, and evidence, with long-term governance of insurance and risk finance, and the construction of financing solutions, all contributes to those targets. Some of the targets in this vision that most aligns to UNDP's work include:

- 500 million poor and vulnerable people protected against disaster and climate risk by risk financing and insurance mechanisms
- 80 countries have comprehensive disaster risk finance strategies

and partners, providing policy and guidance, tools and methodologies, and networks and partnerships. It acts as a catalyst for the development and delivery of new insurance products, tools and services, while also investing in the long-term transformation of insurance markets, targeted at boosting country and community resilience to socio-economic, health, climate shocks and other crises.

### Workstreams



### Risk Finance

Risk financing help countries prepare for a crisis by providing the necessary finance, without compromising national budgets, by constructing financial protection strategies to secure critical productive assets, livelihoods and infrastructure.

The IRFF's work in risk financing supports the Tripartite Agreement by collaborating with the industry to construct financing solutions for key geographies, sectors and populations in 22 priority countries. In parallel, the IRFF also supports in long-term institutional management and application of risk financing mechanisms to protect populations and assets.

This is complemented by technical support to countries, in institutional and regulatory reform, financial decision-making, risk modelling and analysis, and the development of comprehensive risk financing strategies, sector-by-sector, hazard-by-hazard.

## Inclusive Insurance

Inclusive insurance works where risk is felt most acutely, in the daily lives of individuals, families and businesses, providing individual solutions to reduce vulnerability to shock, from the death of a family member to damage to crops and from health incidents to housing damaged by cyclones.

UNDP works with government, industry and consumers in inclusive insurance. A strong focus is to help industry reach the huge percentage of underserved people in developing countries. UNDP does this through a market transformation process that engages both public and private sectors. With the public sector, technical assistance improves regulation for inclusive insurance and the integration of insurance into social and economic programmes. With the industry, engagement provides capacity building for growing sustainable businesses, matched with actuarial capability for pricing.

In each country, UNDP works with industry in developing and distributing new and scaled up insurance products that contribute towards strengthening family and business financial resilience.

## Integrating Insurance into Development

In many countries, insurance and risk financing are relatively new additions in countries' efforts to deliver development and leave no one behind. Key frameworks and decisions often do not consider the role of risk-transfer in building financial resilience and removing uncertainty from investments.

UNDP provides technical assistance to countries to integrate insurance and risk financing, including modelling and risk analysis, in key developmental processes, such as countries' Nationally Determined Contributions, National Adaptation Plans, and decisions on public financing.

## Natural Capital

Our planet's natural capital supports and protects human and financial capital, but it is being consumed at a rate that the Earth cannot replenish. Scaling insurance and risk financing can protect and develop our oceans, forests, biodiversity, air, soil and many more natural assets.

UNDP's IRFF is developing coral reef protection through insurance in various countries in Asia, including Indonesia, Viet Nam, and the Philippines, with financing provided by the [Ocean Risk and Resilience Action Alliance](#) (ORRAA).

IRFF has also been supporting UNDP's Biodiversity Finance Initiative (BIOFIN) to integrate insurance and risk finance into biodiversity initiatives, such as the usage of insurance solutions for low-income farmers that suffer from the loss of their crops and property due to human-wildlife conflict.

## Insurance and Investment

Global insurers collectively manage more than \$40 trillion in assets and their engagement in the sustainable finance ecosystem is critical for the achievement of the SDGs. The workstream focuses on ways in which insurers can better align their assets under management (AUM) with the SDGs, such as through low-carbon and climate resilient infrastructure investments, as well as how they can use their underwriting capacity to de-risk and incentivize investments in energy and resilience.

In 2023, the workstream will also focus on how insurance can be used to de-risk energy projects and on opportunities for insurance to incentivize resilient investments and natural capital.

## Advocacy, Engagement, Research and Evidence

Insurance and risk financing often remain underutilized due to lack of awareness, knowledge about this area, inadequate research and evidence, and weak advocacy.

UNDP underpins its technical work at the country level by investing in building the global ecosystem for insurance and risk financing. This includes advocating for expanded global, regional and national usage of insurance and risk finance for delivering on development; the expansion of research and evidence to inform decision-making, turning intellectual capital into country-level transformation; engaging with and helping drive forward key global forums and processes such as the [Insurance Development Forum](#), [InsuResilience Global Partnership](#), [MicroInsurance Network](#), and ORRAA.

In each country where the IRFF works, a detailed diagnostic examines the current risk and development dynamics, and how insurance and risk financing are helping build family and country financial resilience. Summaries of the reports on [Argentina](#), [Colombia](#), [Ghana](#), [Uzbekistan](#), [Thailand](#), [Viet Nam](#), [Nigeria](#), [Indonesia](#) and [Tanzania](#) are available with Algeria, Egypt, and Jordan being released by the end of this year.



The IRFF also launched four themed reports, targeting a better understanding on how insurance can deliver financial resilience and sustainable development, regardless of the sector or industry:

[Insuring Nature to Reduce Risk](#) was published in cooperation with ORRAA with funding from the Government of Canada and highlights the issues and the opportunities for risk transfer solutions for protecting coral reefs and improving their resilience.

[Insurance and telemedicine in Africa: A moonshot in response to COVID-19](#) examines the potential for telemedicine and insurance to enhance affordability and access to health services in Sub-Saharan Africa for vulnerable people.

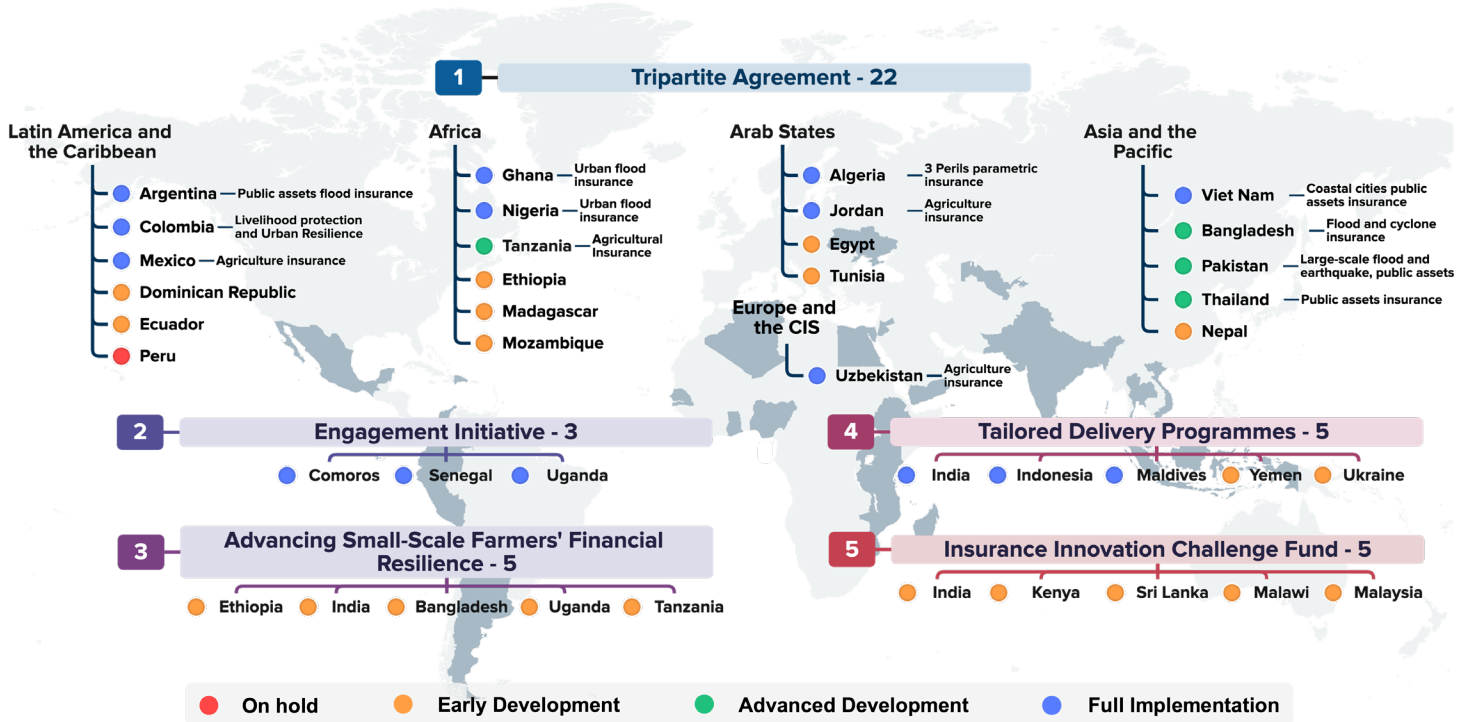
[Modelling Secondary Impacts of Health Crises: Lessons from the COVID-19 Pandemic](#) discusses the modelling of major secondary impacts, such as disruption of public services, business and education, unemployment, food insecurity, poverty, gender inequality and mental health.

[The Inclusive Insurance Navigator](#) addresses the needs of insurers, distribution channels and other stakeholders interested in developing inclusive insurance products and markets, to be used by practitioners of all experiences.





## Country Footprint - 34



## Programmes

The following are the IRFF's main programmes and partnerships, covering work in 34 developing countries. The Tripartite Agreement is currently working in 22 countries and is expected to protect 64 million people (subject to successful implementation), with industry partners already committing up to \$2.2 billion of risk capacity under the first 10 countries.

### Tripartite Agreement

Signed at the UN Secretary General's Climate Action Summit in 2019, [the Tripartite Agreement](#) brings together UNDP, the German Government and the Insurance Development Forum (IDF), along with 17 of the world's largest insurance and reinsurance companies, to build the financial resilience of 22 climate-vulnerable countries through risk finance solutions. Crops, livestock, private and public assets, schools, health care facilities and transportation infrastructure are all potential sectors for coverage. In each country, the insurance industry provides technical assistance in developing risk financing solutions, alongside offering up to \$5 billion of risk capacity. UNDP supports industry through coordination, project management and stakeholder convening while working with government on institutional capacity for insurance and risk finance, insurance market development and the integration of risk financing into policy decision-making.

The work under the Tripartite Agreement is estimated to provide financial resilience to 64 million poor and vulnerable people, alongside the substantial investments in long-term financial resilience.

### Engagement Initiative

In order to support countries where the insurance industry has been historically reluctant to engage, UNDP has [launched the Engagement Initiative](#), which focuses on least-developed countries (LDCs) and V20 climate-

vulnerable countries and highlights how insurance and risk financing can best support and safeguard countries' development. The initiative is rooted in UNDP's long-term work on governance and development in the least-developed countries, as well as the growing work of UNDP and its national and international insurance industry partners to develop insurance and risk financing solutions. Engagement Initiative countries are also those where the insurance industry sees real and perceived challenges, like issues of demand, legislative and regulatory environment, financial governance, ability to finance premiums etc. The first three Engagement Initiative countries are funded by the German Government and the initiative aims to secure funding to expand to 20 countries by 2025.

### Advancing Small-Scale Farmers' Financial Resilience

In the last quarter of 2022, [UNDP announced substantial funding](#) from the Bill & Melinda Gates Foundation for the IRFF to enhance the financial resilience of smallholder farmers in five countries in Africa and Asia, while also building a global platform that acts as a catalyst for increased collaboration, partnerships and resources. Smallholder farmers and their families are facing numerous risks to their livelihoods and productivity, fueled by more than a century of global emissions. More than ever, smallholders must adapt to the growing threat of climate change risks, particularly as recurring disasters reduce their income and harvest outputs. Under the five-year project, UNDP will drive partnerships to develop agricultural insurance products that help farmers to adapt and build resilience to floods, droughts, storms, pests and disease outbreaks, all of which are exacerbated by climate change. A major external-facing component will look to expand the work to more countries, increasingly drawing in additional technical and financial resources, and showcase the most effective, efficient uses of risk transfer to protect small-scale farmers.

## Tailored Delivery Programmes

UNDP's work on insurance and risk financing continues into a set of diverse, tailored programmes of technical support for UNDP country offices and partner countries. Two of the most substantial of these are for India (working on a range of risk financing solutions across the country) and for Indonesia (focus on insurance, risk financing and the blue economy). Other work includes insurance to reduce the impact of human-wildlife conflict, working to reduce the costs of food importation in fragile states (working with industry to reduce premiums), building insurance on natural capital, such as reefs, and working with the insurance industry to bring more of its \$40 trillion of assets under management into low-carbon risk-informed infrastructure financing.

### Global Training and Networking

UNDP's commitment is to significantly raise the profile of insurance and risk financing and help those across both public and private sectors make informed choices about products, supervision, technology and more. Training will be rolled out across the entire UNDP country offices and programme countries in 2023 and beyond.

## The Insurance Innovation Challenge Fund

To facilitate and incentivize the development and launch innovative insurance products and services for underserved population segments, new markets and risks, UNDP's IRFF has developed the Insurance Innovation Challenge Fund (IICF). More than 40 projects will be financed over its full three years of implementation. Insurers, intermediaries, distribution channels and other insurance related private sector actors, [can apply to the IICF through a call for proposals for financial support](#), that will be complemented with technical assistance, to develop, improve and scale up innovative insurance solutions. UNDP country offices will support the solution development locally.

## Partnerships with Industry

The IRFF is continuing to prioritize partnerships with the private sector to enhance financial stability for of vulnerable communities in this increasingly uncertain world. In 2022, the IRFF signed multi-year agreements with three major insurance industry partners, progressed collaboration with industry within the Tripartite Agreement and advanced collaborations with UN agencies. Several more are in advanced discussion.

### Generali

Generali, a leading global insurer, [has pledged technical and financial support to the IRFF under a three-year partnership](#). The focus is to enhance the financial resilience of businesses in the world's vulnerable countries and communities. The partnership will focus on designing digital parametric insurance solutions for vulnerable families and small businesses, creating cost-effective large-scale risk finance solutions, and advancing thought leadership on human development and resilience of small and medium-sized enterprises (SMEs) through social innovation.

### Milliman

The IRFF and Milliman Inc., a leading global actuarial firm, have [teamed up to enhance actuarial expertise in developing countries](#). The goal of the three-year, \$6 million partnership is to predict and prepare for risks in a rapidly changing world. The initiative will empower insurers, pension funds and social security administrators to better manage risks and offer innovative, affordable insurance solutions for all. Milliman's technical expertise will support the growth of actuarial services in IRFF's intervention countries, strengthening the functioning of insurance markets, risk management and fair risk pricing, ensuring the development of more appropriate and affordable insurance solutions.

## International Cooperative and Mutual Insurance Federation (ICMIF) Foundation

UNDP's IRFF and the ICMIF Foundation have [launched the Insurance Innovation Challenge Fund](#) to strengthen financial resilience of low-income populations. The fund, with \$600,000 initial funding, will support mutual insurance organizations in creating and distributing innovative, affordable insurance products for the most vulnerable. India, Kenya, Sri Lanka, Malawi and Malaysia are the first countries to receive funding under this challenge fund. The fund brings together the inclusive insurance expertise and closeness to vulnerable communities of the ICMIF Foundation, which is currently serving three million households living on average with less than \$5 per day, with UNDP's long-term focus on building the financial resilience of communities and countries.

## Leveraging UNDP's Global Reach and Country Presence to Close the Protection Gap

UNDP's work on insurance and risk financing extends beyond the countries with IRFF-led projects. The IRFF is also building capacity within UNDP, across headquarters, regional hubs and country offices, to unlock its institutional potential to close the protection gap by leveraging the power of insurance and risk financing to secure development gains and build financial resilience for communities and countries. This will be complemented by securing resources in key areas such as natural capital and insurance investment, and widened work in Least Developed Countries (LDCs), Small Island Developing States (SIDS) and more.

**Current financing to UNDP's IRFF will enable the Facility to work in 34 countries, but given the scale of need, rapidly growing interest in the work and additional demand from 36 countries for IRFF services, the ambition is to have started work in 50 countries by 2025 and 75 by 2030, helping close the protection gap of hundreds of millions of people by the end of the decade.**

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