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Enhancing knowledge of EU green finance policies in insurance and business valuation

- Green FIB-

Intensive Course

Green Finance & Sustainability

Resilience through Insurance

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Faculty of Economy

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Resilience Through Insurance

Insurance Concept

The transfer of risk from the individual/organization to the insurance company is carried through a contractual agreement under which the insurance company, in consideration of the premium paid by the insured and his promise to abide the provisions of the contract, promises to make payment to or on behalf of the insured, for losses caused by the perils covered under the contract.

Insurance is a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable.

Insurance is a device by which an uncertain large loss is replaced by a certain small loss.

- Pooling of losses
- Payment for accidental losses
- Risk transfer
- Indemnification

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Risks transferred through insurance:

- ***Financial risk*** *and non-financial risk*
- *Dynamic risk and* ***static risk***
- *Fundamental risk and* ***particular risk***
- ***Pure risk*** *and speculative risk*

Speculative risk *– a situation in which either profit or loss is possible*

Pure risk *– a situation in which there are the possibilities of loss or no loss.*

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What types of risks does insurance cover?

- *There must be a sufficiently large number of similar and independent exposure units;*
- *The loss must be accidental and unintentional;*
- *The loss should be definite and measurable;*
- *The loss should not be catastrophic;*
- *The chance of loss must be calculable;*
- *The premium must be economically feasible*

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Risks covered by insurance

Personal risk

- Risk of premature death
- Risk of insufficient income during retirement
- Risk of poor health
- Risk of unemployment

Property risk

- Risk of destroying or damaging because of fire, storms, lighting, theft ect. Including direct and indirect loss.

Liability risk

- Risk of being legally liable if a person, professional or a company do something hat results in bodily injury or property damage to someone else.

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Types of Insurance:

Private Insurance

- Life and health insurance
- Property and liability insurance - Non-Life Insurance

Government insurance

- Social insurance

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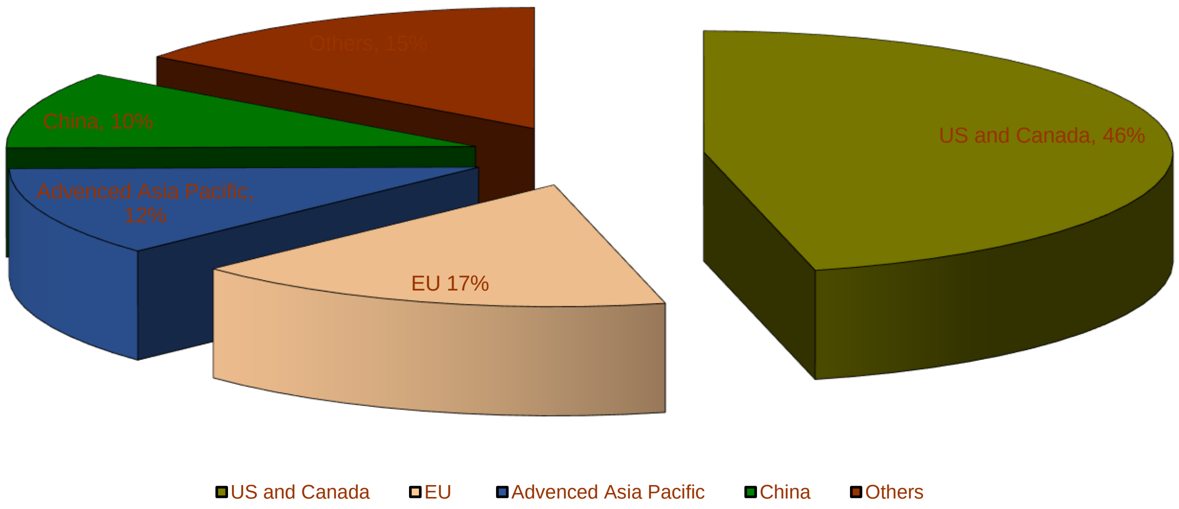
Insurance all over the world



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The world's 20 largest insurance markets by nominal premium volumes, 2022 vs 2021

Rank	Market	Total premium volumes (USD bn)			Global market share	
		2022	2021	% change	2022	2021
1	**US**	2 960	2 725	8.6%	43.7%	40.3%
2	**China**	698	696	0.2%	10.3%	10.3%
3	**UK**	363	374	−2.8%	5.4%	5.5%
4	**Japan**	338	398	−15.1%	5.0%	5.9%
5	**France**	261	293	−10.7%	3.9%	4.3%
6	**Germany**	242	272	−11.3%	3.6%	4.0%
7	**South Korea**	183	193	−5.3%	2.7%	2.9%
8	**Canada**	171	166	2.8%	2.5%	2.5%
9	**Italy**	160	192	−16.5%	2.4%	2.8%
10	**India**	131	123	6.5%	1.9%	1.8%
11	**Taiwan**	86	113	−23.8%	1.3%	1.7%
12	**Netherlands**	84	92	−9.2%	1.2%	1.4%
13	**Brazil**	76	63	20.7%	1.1%	0.9%
14	**Australia**	72	72	−0.7%	1.1%	1.1%
15	**Hong Kong**	69	73	−5.6%	1.0%	1.1%
16	**Spain**	68	73	−6.7%	1.0%	1.1%
17	**Switzerland**	56	58	−3.2%	0.8%	0.9%
18	**Sweden**	54	59	−8.5%	0.8%	0.9%
19	**Singapore**	47	45	3.9%	0.7%	0.7%
20	**South Africa**	46	50	−7.9%	0.7%	0.7%
	Top 20 markets	**6 165**	**6 131**	**−0.5%**	**91.0%**	**90.7%**
	World	**6 782**	**6 765**	**0.3%**		

Source: Swiss Re Institute

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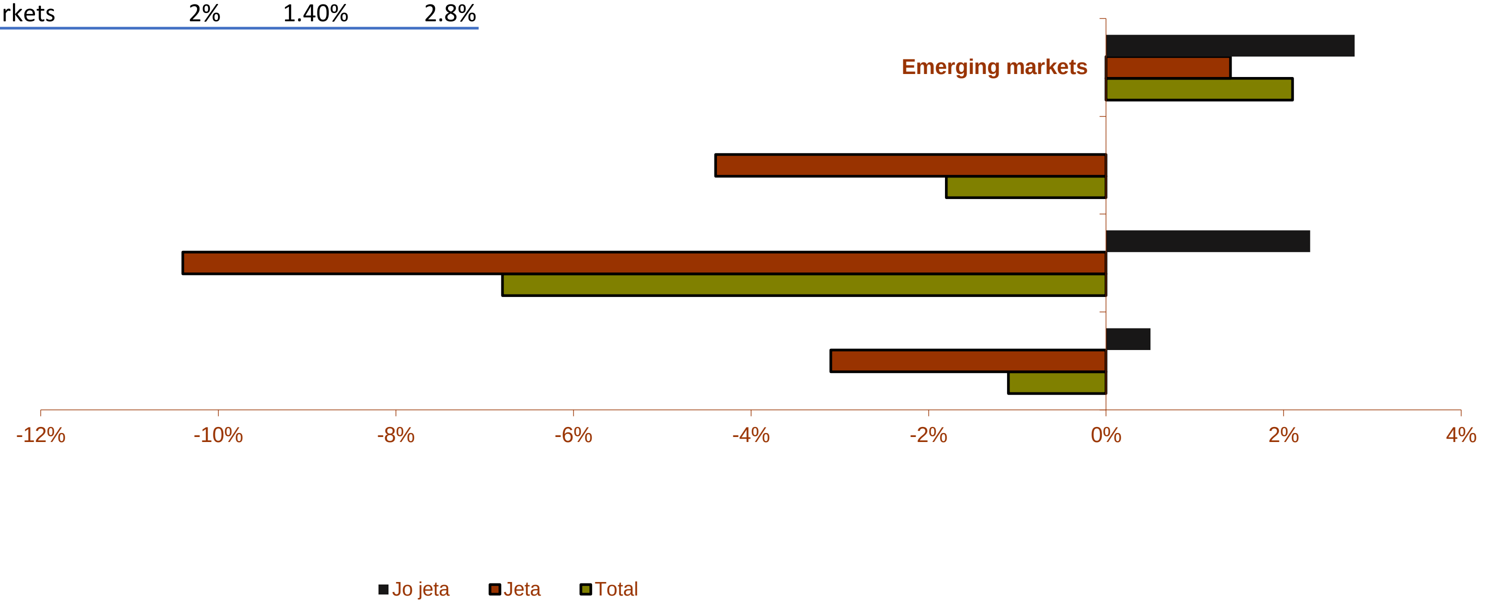
Insurance real growth rate - 2022

	Total	Life	Non-life
World	-1%	-3.1%	0.5%
EU	-7%	-10.40%	2.3%
Advanced markets	-2%	-4.40%	0.0%
Emerging markets	2%	1.40%	2.8%



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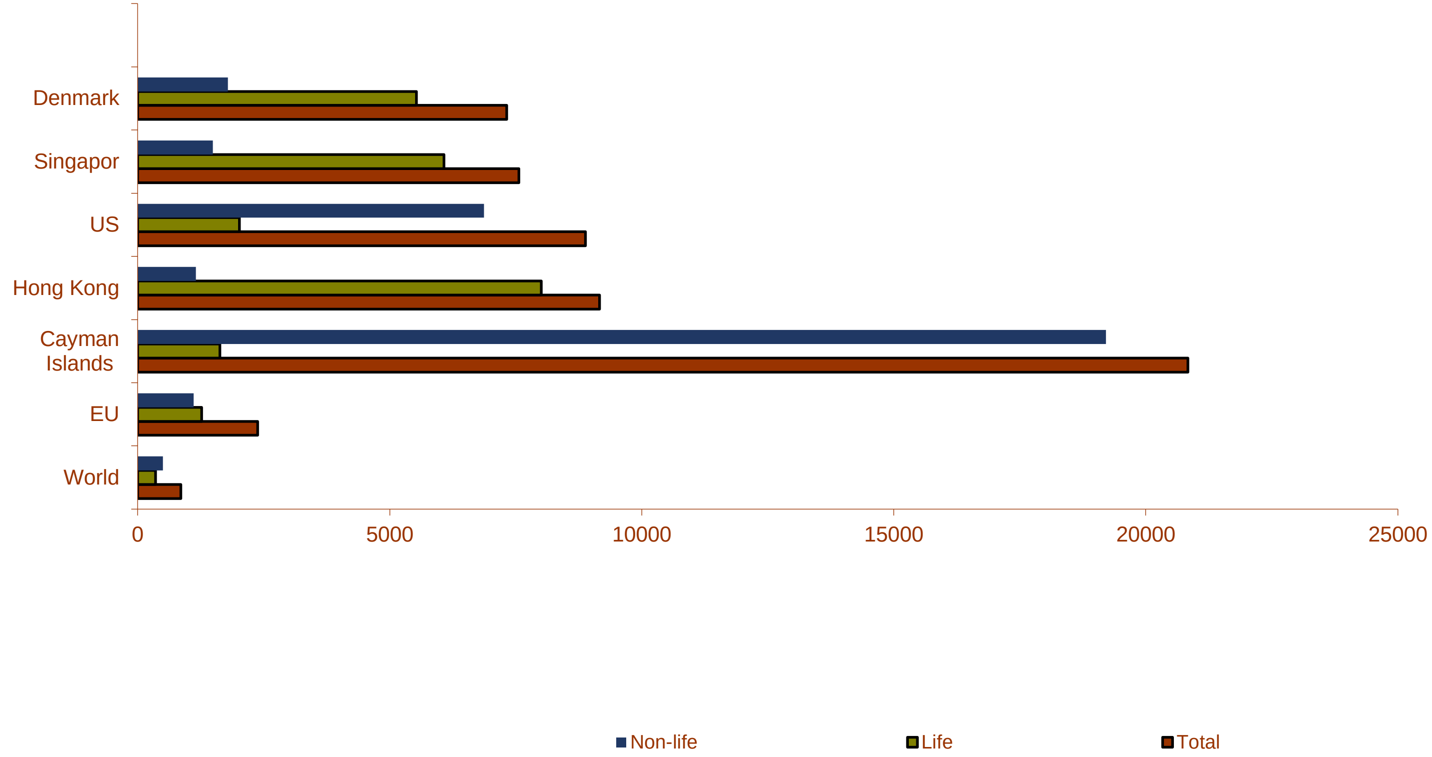
Resilience Through Insurance

Insurance Density rates



	Total	Life	Non-life
World	853	354	499
EU	2377	1269	1108
Cayman Is	20834	1627	19207
Hong Kong	9159	8007	1152
US	8885	2017	6868
Singapor	7563	6074	1489
Denmark	7320	5532	1788

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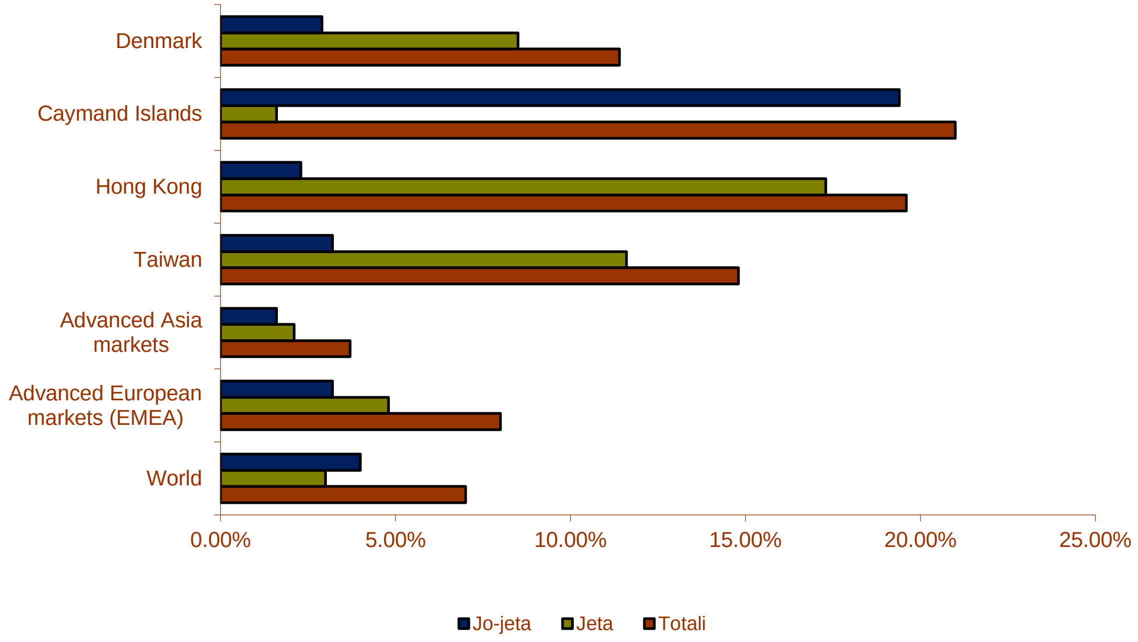
Resilience Through Insurance

Insurance penetration rates



	Totali	Jeta	Jo-jeta
World	7.00%	3.00%	4.00%
Advanced European markets (EMEA)	8.00%	4.80%	3.20%
Advanced Asia markets	3.70%	2.10%	1.60%
Taiwan	14.80%	11.60%	3.20%
Hong Kong	19.60%	17.30%	2.30%
Caymand Islands	21.00%	1.60%	19.40%
Denmark	11.40%	8.50%	2.90%

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Life insurance versus non-life insurance (2022)

World:

- 42% Life Insurance
- 58% Non-life insuran

EU:

- 54% Life Insurance
- 46% Non-life insurance

Emerging Countries:

- 25% Life Insurance
- 75% Non-life insurance

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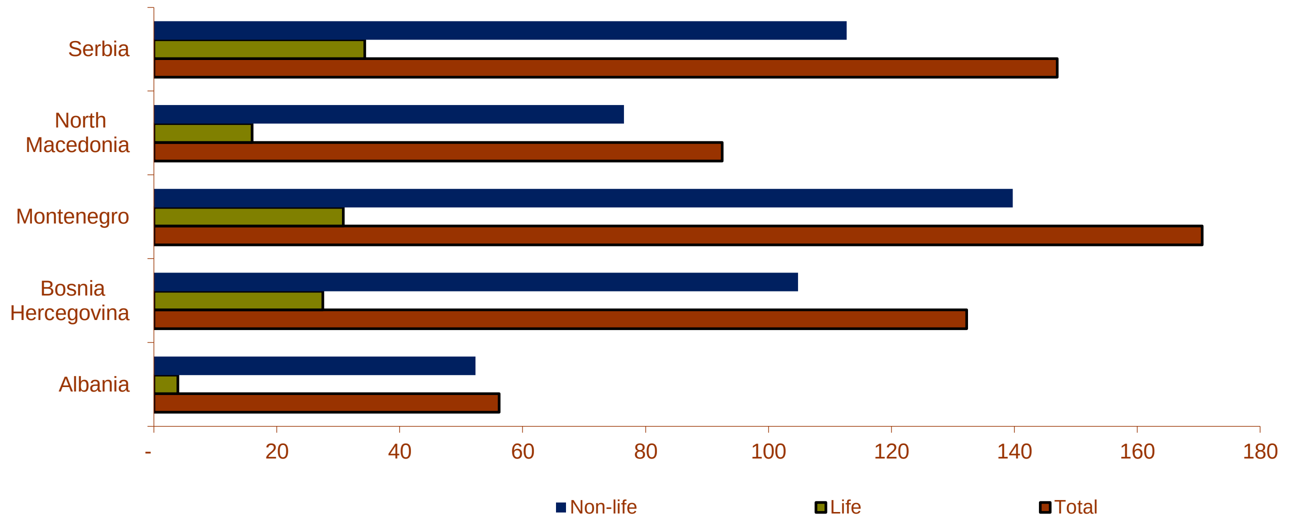
Insurance density rates in Balkan's region



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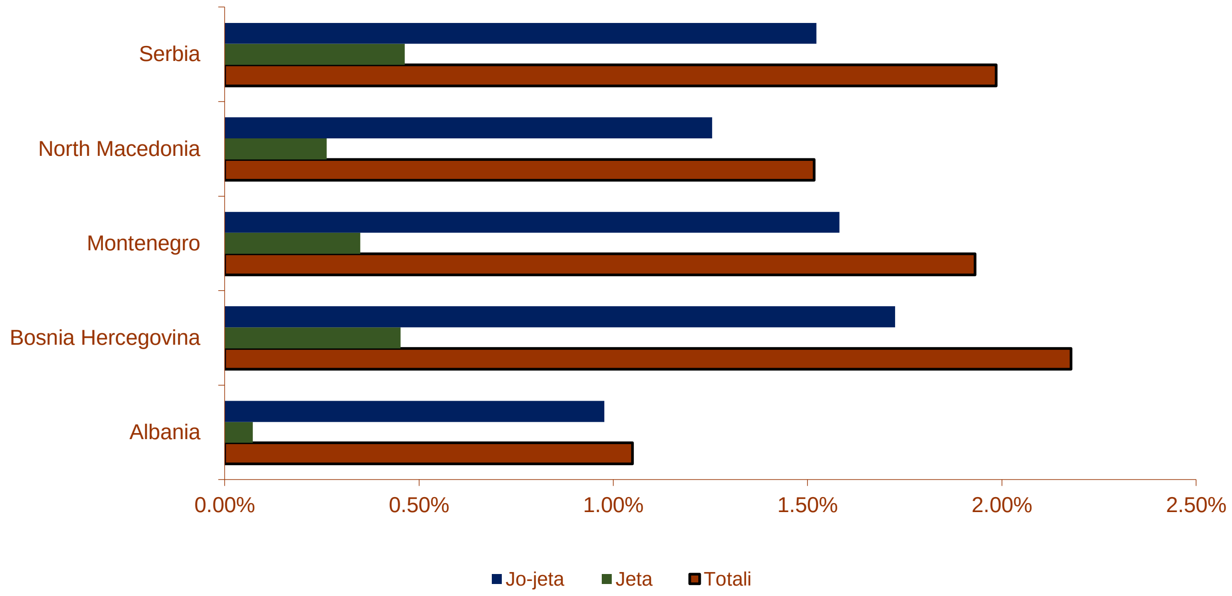
Resilience Through Insurance

Insurance penetration rates in Balkan's region



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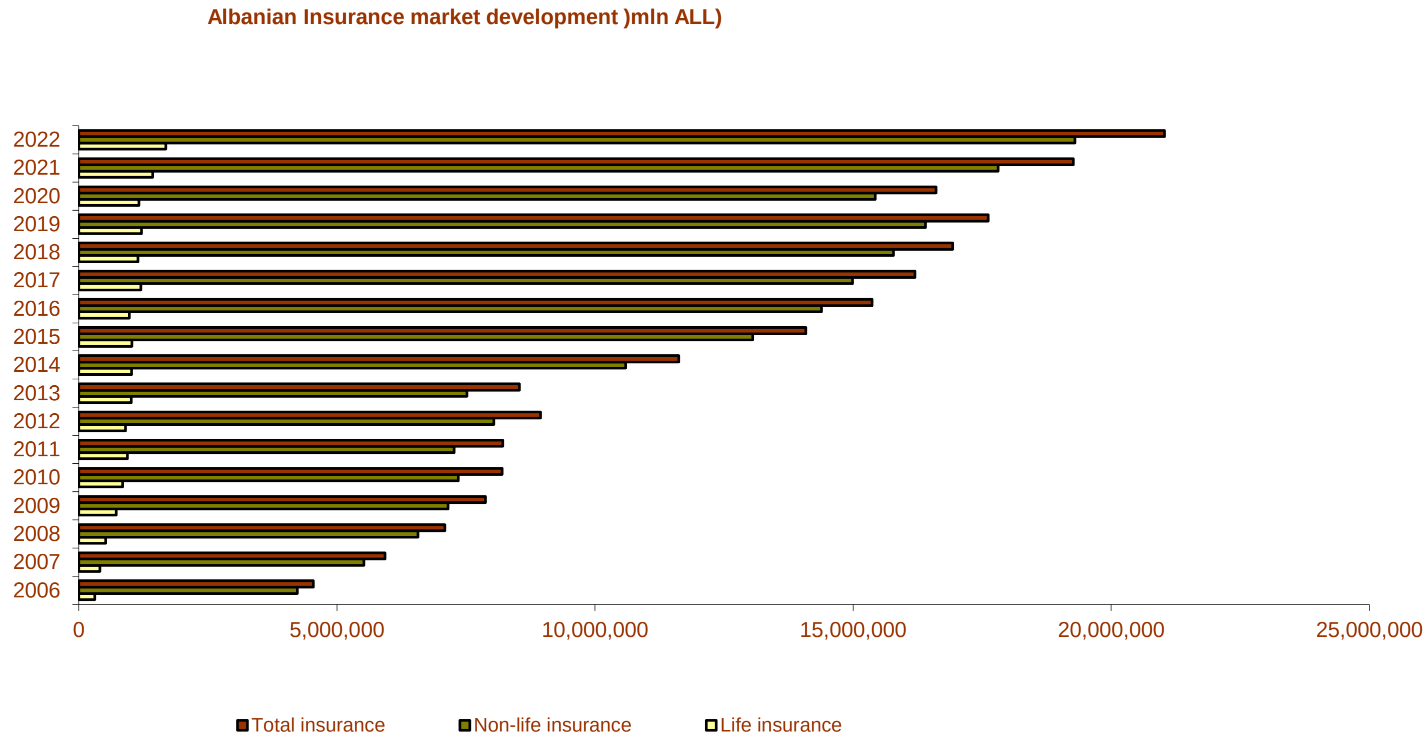

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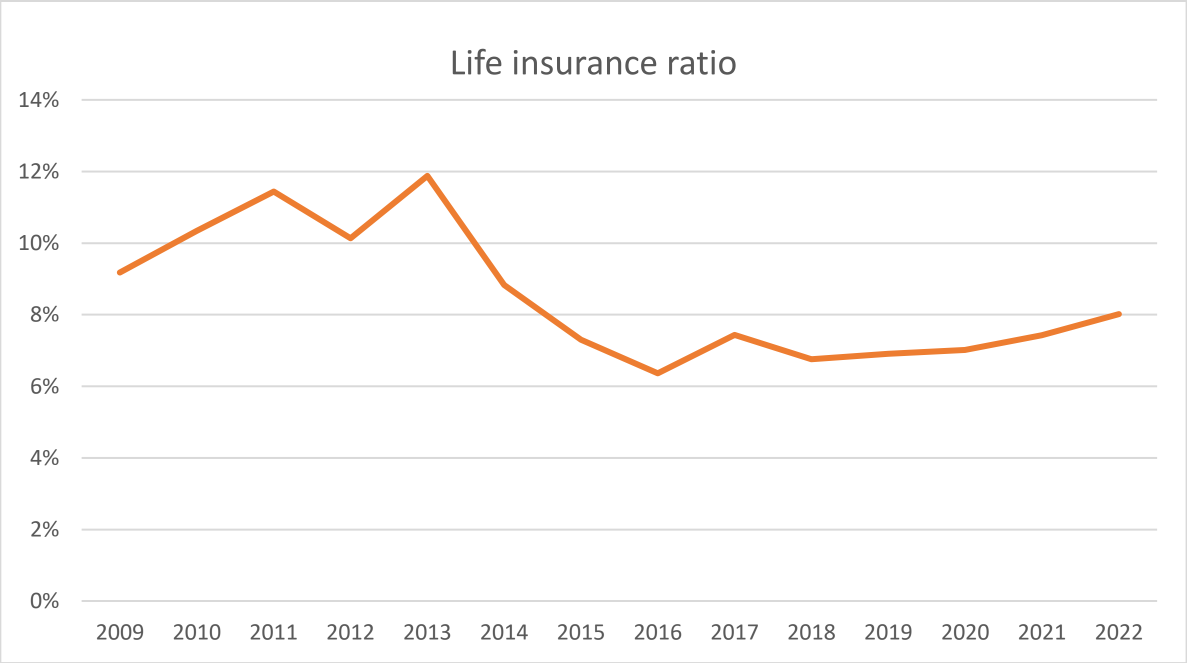

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Insurance of Catastrophic losses

The natural **disaster risk does not fully meet** the following requirements:

- When a natural disaster takes place, often it is very difficult to measure the amount of loss, or at least the actual loss can be measured only after a certain period of time.
- As the “catastrophe” is the synonym of disaster, the loss resulted from the natural disasters is catastrophic.
- The natural disasters occur in irregular basis, therefore their probability cannot be accurately estimated. As a result the natural disaster risk does not fully satisfy the requirements of an insurable risk.

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Insurance of Catastrophic losses

Insurers cover catastrophic losses through:

•*Reinsuring their activity – shifting a part or the whole risk written from one insurer to another insurer (reinsurer).*

•*Dispersing their coverage over a large area – assuming different types of risk.*

•*Financial markets - issuing financial instruments, contingent surplus notes, catastrophe bonds and exchange traded options.*

•*Microinsurance* - providing insurance against natural disasters to poor individuals.

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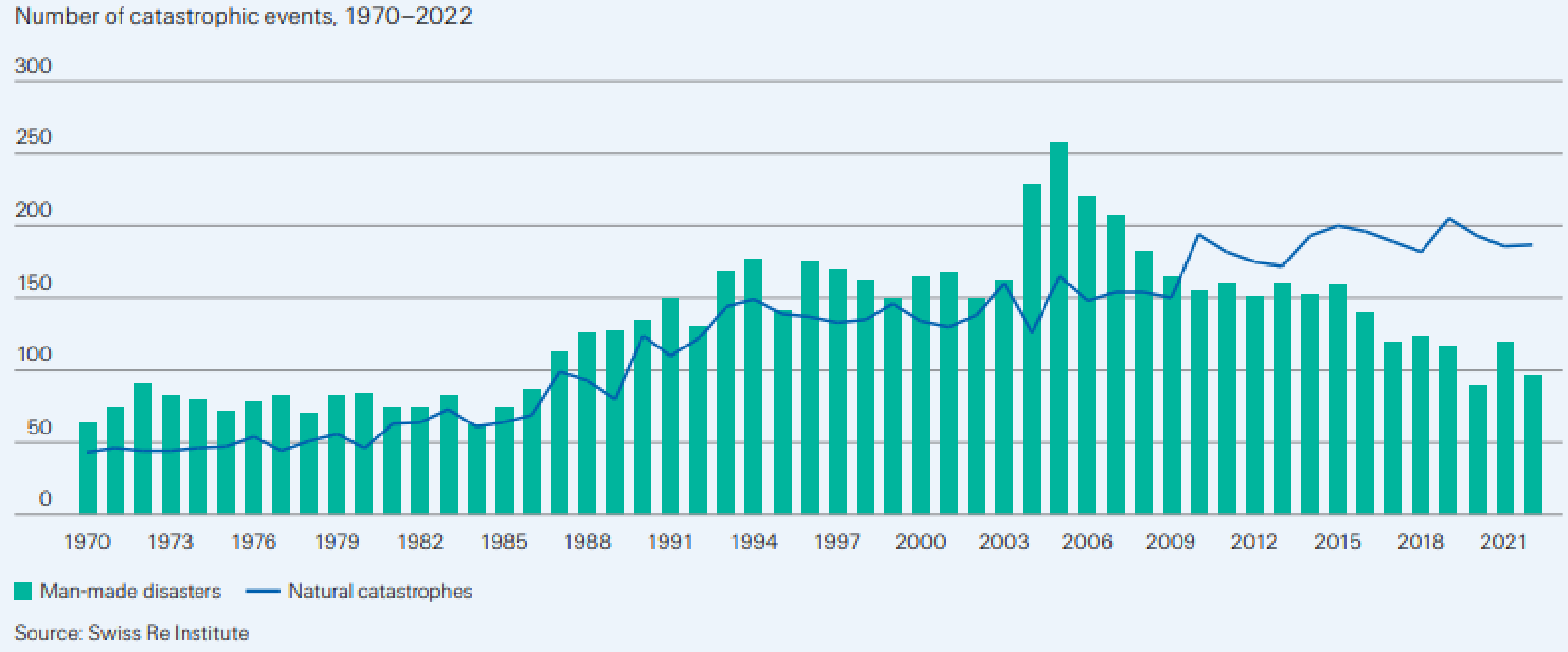

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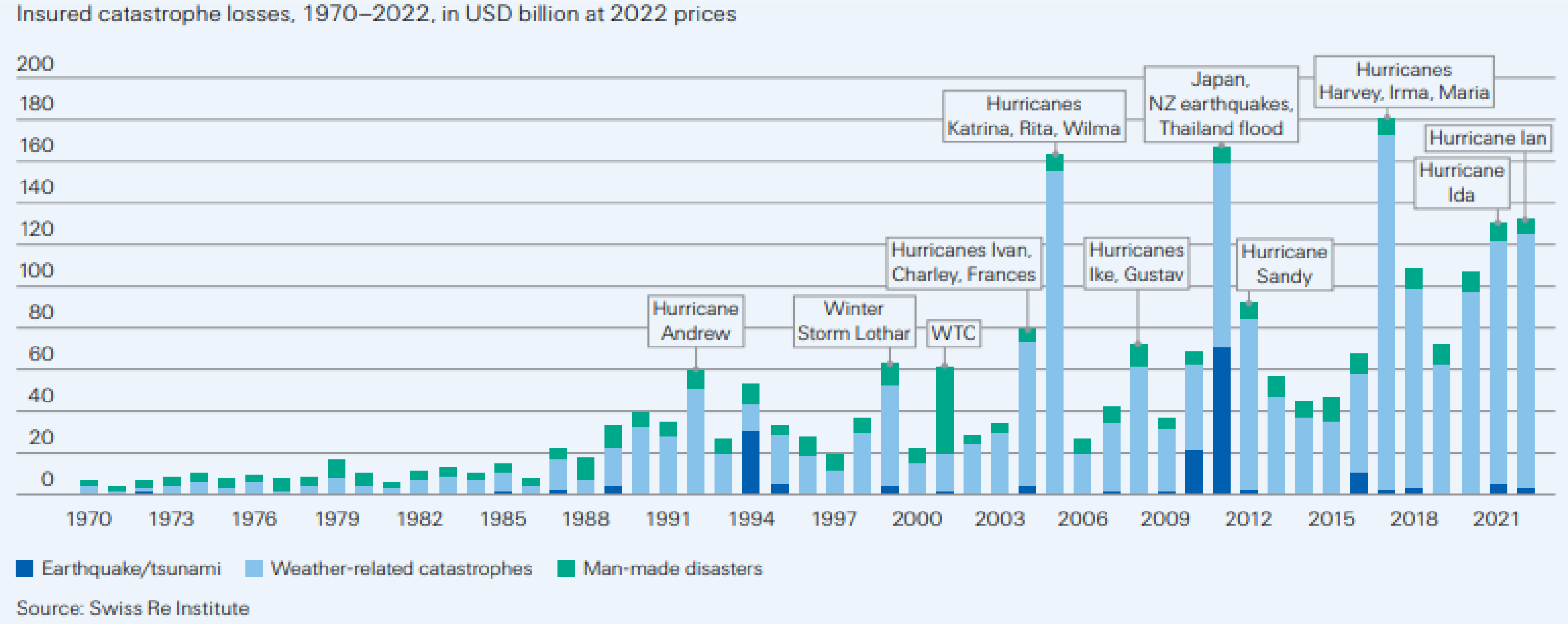

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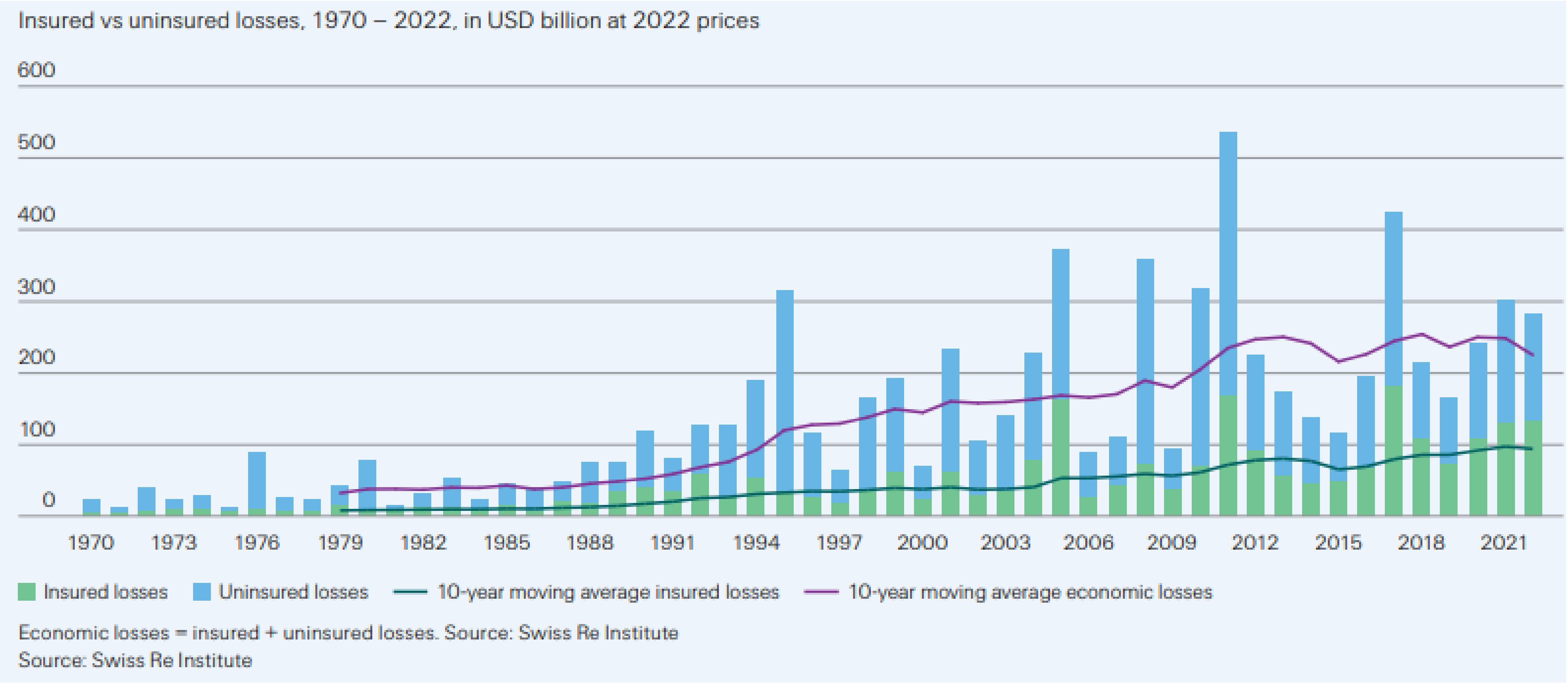

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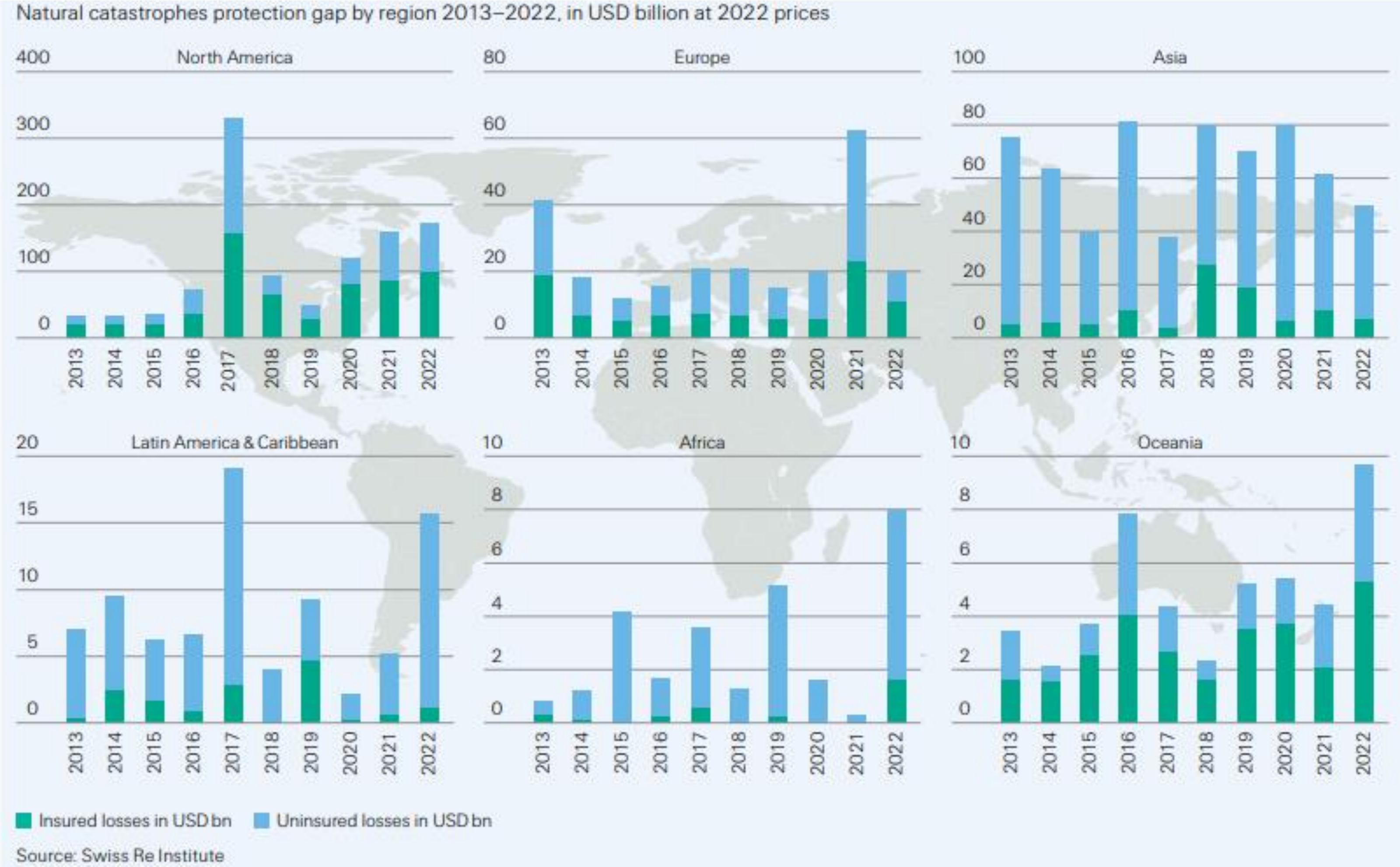
Insurance of Catastrophic losses



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Insurance of Catastrophic losses

There are at least two alternatives:

•The government may manage itself the disaster risk, by collaborating with international reinsurance markets under-development of domestic insurance market.

•The government may collaborate with domestic insurance company (Germany example) due to the low level of insurance culture, the citizens would not pay the premiums and the losses would not be indemnified .

According to the Wold Bank suggestions (in 2014) – the involvement of insurance market in managing disaster losses ***should be obligatory*** *(following Romanian experience) and a draft law is prepared by AFSA .*

The coverage is suggested to be Euro 20.000-40.000.

The premium is suggested to not exceed Euro 50.

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Insurance of Catastrophic losses

In Mongolia herders can purchase an index-based insurance policy to protect them against livestock losses due to conditions of extreme winter weather. The insurance program is a combination of self-insurance, market-based insurance and social safety net. Small losses which do not affect their viability are retained by the herders, while larger losses are transferred to the private insurance industry. Only the final layer of catastrophic losses is borne by the government.

In France, private insurers are required to offer catastrophe insurance in all-hazards property policy. Policies are not risk based and the program is reinsured through a public administered fund. If the fund does not satisfy the claims, taxpayers will be called to pay.

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Insurance of Catastrophic losses

According to the Turkish Catastrophe Insurance Pool launched in 2000, earthquake insurance policies are obligatory for all property owners in Instanbul and other high-risk urban centers. Apartment owners pay a premium based partly on their risk to a privately administered public fund. If the fund cannot meet claims after a major earthquake, the World Bank provides a contingent loan .to the pool.

The Mexican government has chosen to insure its catastrophe reserve fund, FONDEN, against earthquakes with a mix of reinsurance and a catastrophe bond. In 2006, FONDEN issued a USD 160 million catastrophe bond (CATMEX) to transfere Mexico's earthquake risk to the international capital markets. It was the first country that issue a multi-peril multi-region cat bond using the World Bank's Multicat Program.

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Insurance of Catastrophic losses

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) went into operation in June 2007 with the participation of 16 Caribbean countries. The Caribbean Island States have formed the world's first multi-country catastrophe insurance pool, reinsured in capital markets, to provide governments with immediate liquidity in case of large losses due to hurricanes and earthquakes.

In Romania, in 2008, the Pool Against Natural Catastrophes (PAID) was set up as an insurance reinsurance company, formed by the association of 12 insurance companies. The insurers which are members of Catastrophe Insurance Pool, sell mandatory indemnity-based insurance against earthquakes, floods and landslides.

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Thank you for your attention

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