



**Global Index Reinsurance
Facility
Richard Gyles – Casablanca
Nov 14, 2006**

What is an index insurance contract?

Indemnities

- Based upon values estimated from an index
- Index serves as a proxy to real losses rather than individual losses
- Payment rate is defined in advance (relationship between selected index and insurance coverage)

Types of Underlying Indices

- Objective and verifiable measure (e.g. rainfall, temperature, wind)
- Strong correlation with insurable interest (assets or economic flows)

Why Index Insurance for Natural Disasters?

- **Less moral hazard**
- **Less adverse selection**
- **Lower administrative costs**
- **Standardized and transparent structure**
- **Appetite from international markets**
- **Risk transfer function:** Efficient in transferring CAT exposures from developing countries
- **Outreach:** Potential to target underserved market segments
- **Versatility:**
 - Potential to bundle with other financial services
 - Flexibility to target diverse level of risk aggregation (dev. Organizations, governments, institutions, end-users)
- **Simplified Risk Assessment:** Does not require broad exposure data that is often unavailable.

Market Emergence in Africa

Malawi

- Drought Index : Access to finance for small farmers
- First pilot launched in 2005
- Current up scale to approx. 3,000 farmers

Ethiopia

- Drought Index: Macro based hedging scheme to access emergency fund in case of widespread drought affecting the crop production
- USD 7 million of risk placed in the international markets
- Wide potential application in Africa for other governments and development organizations
- The Government of Malawi has formally approached the WB to design a similar structure for drought

Global Index Reinsurance Facility

Ultimate objectives:

- Develop sustainable local markets
- Develop local capacity
- Promote specialized financial and technical capacity for new markets

International donor community

- Improve project finance (e.g. sustainability, outreach)
- Co-investor in capacity building and market development
- Promote awareness of risk management needs
- Develop synergies with other development projects

Private Sector

- Develop “technology packages” for local financial institutions
- Invest in suitable technologies for new risks and/or markets
- Certainty of execution (sustainability and outreach)
- Provide confidence in end-users (credibility)

Why is IFC involved with GIRF?

- IFC role is to support economic development through investment in private sector
- Within that we look for innovative and highly developmental projects
- Traditional insurance struggles to deal adequately with many of the problems identified
- Parametric insurance can provide an economically more efficient approach
- GIRIF will address many of IFC's target markets and customers, as well as those of donors
- Example of IFC and WB working together to roll out and commercialize concepts pioneered in the Bank

PartnerRe

Casablanca 2006

Public-Private Partnership for Market Development in Africa

Hector Ibarra, Partner Re



Partner Re

International Multi-Line Reinsurer

- Over 1,800 clients in 120 countries served by 15 global offices
- Lines include Property, Casualty, Catastrophe, Life, ART and Specialty Lines

Historic Highlights

- Established in 1993 in Bermuda as a CAT reinsurer
- Expanded into multi-line reinsurance through SAFR and WinterthurRe acquisitions
- Further diversified through the establishment of PartnerRe US, Alternative Risk Transfer and Life units

Relevant Lines of Business

- Catastrophe, Weather and Agriculture (all Global scope)

PartnerRe



Why is Partner Re involved with GIRF?

Desire additional portfolio diversification

- The potential of the African catastrophe market is appealing

Develop sustainable new markets

- Willingness to invest in the short term for long term market development
- Decrease frictional costs for market development
- Leverage investments in new technologies
- Promote the broad participation of the reinsurance market

Willing to lend first hand experience from other markets

- Strong track record in developing countries
- Understanding of local market needs



What does GIRF offer?

To Development Institutions...

- Access to technology for improving risk management framework
 - Engagement as technical advisors
 - Design of appropriate market technical standards
- Access to high quality risk capital for developing countries
 - GIRF: transparent benchmarks of operation; monitored for accountability
- Flexibility in the design of financial risk management strategies
 - Parametric hedging facilitates intervention at different levels of aggregation (countries, institutions, individuals)
- Flexibility in the implementation of a joint strategy
 - Willingness to incorporate capacity as needed to accommodate the needs of each particular partner



What does GIRF offer?

To Governments...

- Access to technology for the design of risk management programs for natural disasters
 - Support as technical advisors
 - Definition of technical standards to ensure availability of risk capital
- Access to high quality risk capital
 - Risk taking capacity
 - Syndication capabilities (excellent market reputation)
- Potential access for strategic discussions with donor community
 - Institutional framework of GIRF designed to promote the investment of donors (natural disaster agenda)
- Flexibility in the design of financial risk management strategies
 - Parametric hedging: assets and cash flow coverage



What does GIRF offer?

To Private Financial Institutions....

- Local Central American insurance provider
 - Market lead position: Approx. 50% share of market
 - Strong interest in agriculture insurance
 - Several failed attempts to launch an ag. insurance program
- Initial stages of product development
 - Technical and financial support from the WB for initial stages of product development
 - Education of key stake holders (potential end-users, regulatory authorities, financial institutions)
- Design of commercial insurance program: PRE support
 - Clean available information
 - Develop pricing guidelines
 - Support the preparation of technical note for product approval
 - Provided technical support for the regulator
 - Develop technology for up-scaling insurance programs PartnerRe
 - Jointly develop the “wording” of contracts

Next Steps in Africa

Selection of partners

- Priority will be given to highly motivated institutions in the region and with proven interest to engage in market development
 - Local financial institutions: Potential outreach of local markets
 - Governments: Interest for “tailor made” programs
 - Regional development organizations: Interest to incorporate a financial risk management framework for natural disasters



PartnerRe & IFC Contact Information

Hector Ibarra

Assistant Vice President
PartnerRe New Solutions, Weather
One Greenwich Plaza
Greenwich, CT 06890
(P)+1-203-485-8446
(F) +1-203-485-8447
(M) +1-203-278-0798
(E) hector.ibarra@partnerre.com

Richard Gyles

Principal Insurance Officer
IFC
(M) +1-202-361-0316
(E) rgyles@ifc.org

