

# Global Partnerships for Insuring Catastrophic Risks

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## Abstract

Providing safety nets against economic shocks from natural hazards in developing countries may be one of the most pressing and challenging issues facing governments, development organizations, international financial institutions, NGOs and insurers in the coming 20 years. The stakes are high. In the past quarter century over 95% of deaths from natural disasters occurred in developing countries, and direct economic losses (averaging US\$54 billion per annum) as a share of national income were more than double in low-income versus high-income countries. The inability of highly exposed and low-income households, farms and governments to recover from these shocks perpetuates poverty traps and retards development. Due to high uninsured risk exposure, the poor adopt low-risk, low-return strategies reducing the likelihood that they can accumulate the assets needed to escape poverty.

Social protection against disaster losses in developing countries has moved from national to global agendas. Developed nations have committed themselves to greatly reducing poverty and hunger, and disaster shocks can be a major impediment to escaping poverty traps. Beyond humanitarian claims, many argue that industrialized countries have an obligation to contribute to managing developing country climate risks because of their emissions of greenhouse gases. The Intergovernmental Panel on Climate Change (2007) reports observations of long-term and widespread changes in temperature, wind patterns and aspects of extreme weather, including droughts, heavy precipitation, heat waves and the intensity of tropical cyclones.

This paper will discuss challenges and opportunities for building global partnerships involving governments, development organizations, international financial institutions, NGOs and insurers for the purpose of providing protection against natural disasters in the developing world. It will build strongly on the work of Howard Kunreuther and his colleagues, who have addressed similar challenges and opportunities at the national level: Who should “pay the price”? Can insurance systems circumvent moral hazard and provide incentives for risk reduction? Does myopia and ambiguity in the risk estimates lead to market failure? What is the appropriate role of public-private partnerships, and internationally backed partnerships, in providing safety nets to the poor? Can donor support be justified by claims of “fairness” that lie outside arguments of market efficiency so characteristic of economists’ rationality?

These and other issues underlie an increasingly polarized debate on the role of the international development community in supporting insurance systems in developing countries, a debate that has become highly topical in the post-Kyoto negotiations on climate adaptation. In this paper, we will examine the conceptual and empirical work of Howard Kunreuther and his colleagues to provide insights essential for moving this global agenda forward.