



Sovereign insurance –  
**Creating financial resilience  
against the growing burden  
of natural disasters**





## Climate change, natural disasters and cyber attacks

are amongst the most urgent risks on people's minds, according to the latest Global Risk Report published by the World Economic Forum<sup>1</sup>. The last decades have given us regular reminders of the devastation wrought by such risks, and the pressure they exert on local, regional and national governments. People are worried and expect decision makers to take action. We at Swiss Re have developed new insurance solutions to help governments at all levels of administration better manage their fiscal risk by quite simply 'insuring against it'.

The OECD has issued a recommendation on Disaster Risk Financing Strategies<sup>2</sup> stating that effective financial management of disaster risks is a key public policy challenge for governments around the world. Rating agencies are also urging governments at sovereign and sub-sovereign levels to take action to avoid downgrades in the face of climate change. Institutions all over the world have the growing burden of climate change on their agendas.

The message is loud and clear. It's time for governments at all administrative levels – whether national, regional or municipal – to become more hands-on in terms of managing disaster risk. Decision makers need to take bolder steps to make their societies more financially resilient to the impacts of unforeseen events. Swiss Re invites you to engage in a dialogue to explore how insurance can complement your toolbox of fiscal instruments in order to make societies more resilient in the face of these risks.



## Sovereign insurance complements the public financing toolbox

Sovereign insurance protects public budgets by providing governments with immediate funds in the aftermath of a disaster. This allows them to take swift action, which helps reduce the longer-term impact on the economy.

Disasters often hit the public budget twice: through higher costs and lower revenues. Reconstruction of public infrastructure, emergency response costs and support for uninsured households lead to higher than anticipated costs. A decline in productivity due to damaged infrastructure or a decline in tourism leads to reduced GDP and a drop in associated tax revenues.

National and international appeals to provide governments with budget support in the aftermath of disasters do exist. But they often come with significant delays,

• **In Germany**, in the last 10 years alone, floods have caused damage of approx. USD 17 billion<sup>3</sup>. Cash-strapped regions and municipalities have been hard put to restore public infrastructure. At the same time, reduced economic activity has led to lower tax revenues.



• **In Italy**, earthquakes like those in L'Aquila, Emilia Romagna and Amatrice have caused economic losses of USD 94 billion since 1970<sup>4</sup>. This puts a huge burden on the public sector, as the popular perception remains that the government will provide relief and reconstruction.



bureaucracy and uncertainty. The criteria and magnitude of these funds are usually only vaguely specified and therefore uncertain. Many national governments have also shifted the financial responsibility for recovery to more subsidiary levels.

New insurance instruments can help: they provide a contractual right to receive funds at the required amount at the required time and stimulate the implementation of a more proactive approach to fiscal risk management, thereby moving from a purely reactive stance to a more conscious level of preparedness.

Acquiring ex-post disaster funding can prove very challenging for regional and local governments but national governments also often struggle to access funds within an acceptable timeframe. Pre-event instruments like sovereign insurance complement the existing toolbox of measures available to governments and public debt managers, such as government bonds, loans, budget reallocation, taxes and aid. Thus insurance increases financial flexibility and further diversifies sources of financing.



## Why it matters

People are concerned about climate change and other risks and expect decision makers to act on these risks. The governments taking action will be recognized as pioneers for making their communities more resilient. The governments of Chile, Colombia, Mexico and Peru recently joined forces under the umbrella of the Pacific Alliance and bought sovereign earthquake insurance to protect their budgets. Similar measures have been taken by national and sub-national governments in the US, the Caribbean, several countries in Africa, and China. Overall, the number is still small, but growing.

Once a disaster has occurred, governments are under great pressure to act immediately and find associated funding. Taking precautionary measures helps governments reduce pressure on the public purse after a disaster. It lowers volatility in the state budget and improves planning certainty for the public sector. The quicker an economy can bounce back to normal productivity, the lower the impact will be on society. Very often, financing has proven to be the biggest stumbling block to a quick recovery.

Swiss Re envisages a future in which proactive management of contingent liabilities become an integral part of the annual planning and budgetary process. With Swiss Re, governments can optimise disaster risk financing strategies and reduce costs to society. We look forward to sharing our insights and providing ideas for your solutions for the future.

• **In Mexico**, in 2009, the H1N1 influenza pandemic (swine flu) is estimated to have kept away almost one million overseas visitors, translating into around USD 2.8 billion<sup>5</sup> in tourism losses.



• In the first six months after the **Paris** terrorist attacks, the number of visitors to the city declined by one million compared to 2015, and tourism revenues dropped by EUR 750 million.<sup>6</sup>



Swiss Reinsurance Company Ltd  
Mythenquai 50/60  
P.O. Box  
8022 Zurich  
Switzerland

Telephone +41 43 285 2121  
Fax +41 43 285 2999  
www.swissre.com

**Contact one of our experts today to  
learn more about sovereign insurance**

**Esther Baur Reinecke**

Head of Europe, Middle East and Africa  
Global Partnerships  
+41 43 285 3607  
Esther\_Baur@swissre.com

**Andreas Prystav**

Senior Client Manager,  
Global Partnerships  
+41 43 285 5265  
Andreas\_Prystav@swissre.com

Authors:

Lea Mueller, Andreas Prystav, Lukas Sundermann

Photography:

Getty Images, iStockphoto, Swiss Re

Sources:

- 1 World Economic Forum's Global Risk Report 2018, [reports.weforum.org/global-risks-2018/global-risks-landscape-2018/#landscape](https://reports.weforum.org/global-risks-2018/global-risks-landscape-2018/#landscape)
- 2 OECD [www.oecd.org/finance/oecd-recommendation-disaster-risk-financing-strategies.htm](https://www.oecd.org/finance/oecd-recommendation-disaster-risk-financing-strategies.htm)
- 3 Swiss Re Institute
- 4 Swiss Re Institute
- 5 Rassy D and Smith RD, The economic impact of H1N1 on Mexico's tourist and pork sectors, 2013, [www.ncbi.nlm.nih.gov/pub-med/23744805](https://www.ncbi.nlm.nih.gov/pub-med/23744805)
- 6 Paris Ile-de-France Comité Régional du Tourisme, 2017, [www.thelocal.fr/20170221/ile-de-france-paris-region-loses-1-5-million-tourists-to-terror-fears](https://www.thelocal.fr/20170221/ile-de-france-paris-region-loses-1-5-million-tourists-to-terror-fears) and [www.thelocal.fr/20161111/paris-still-fighting-to-woo-back-tourists-one-year-after-attacks](https://www.thelocal.fr/20161111/paris-still-fighting-to-woo-back-tourists-one-year-after-attacks)

© 2018 Swiss Re. All rights reserved.

**Disclaimer**

The content of this brochure is subject to copyright with all rights reserved. The information may be used for private or internal purposes, provided that any copyright or other proprietary notices are not removed. Electronic reuse of the content of this brochure is prohibited. Reproduction in whole or in part or use for any public purpose is only permitted with the prior written approval of Swiss Re, and if the source reference is indicated. Courtesy copies are appreciated. Swiss Re gives no advice and makes no investment recommendation to buy, sell or otherwise deal in securities or investments whatsoever. This brochure does not constitute an invitation to effect any transaction in securities, make investments or enter into a contract of (re)insurance. Although all the information used in this brochure was taken from reliable sources, Swiss Re does not accept any responsibility for the accuracy or comprehensiveness of the information given or forward looking statements made. The information provided and forward-looking statements made are for informational purposes only and in no way constitute or should be taken to reflect Swiss Re's position, in particular in relation to any ongoing or future dispute. In no event shall Swiss Re be liable for any loss or damage arising in connection with the use of this information and readers are cautioned not to place undue reliance on forward-looking statements. Under no circumstances shall Swiss Re or its Group companies be liable for any financial and/or consequential loss relating to this brochure. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise