Catastrophic Insurance Case Study - Europa Reinsurance Facility Ltd.

The Development Challenges
(Business Summary)

Europa Reinsurance Facility Ltd. (Europa Re) is a catastrophe risk reinsurance company in the process of formation owned by countries of Southeast Europe. Albania was the first country in the area to join Europa Re in the spring of 2010, followed by Serbia and the Former Yugoslav Republic of Macedonia. The main rationale for government participation is to jump-start the domestic catastrophe and weather risk insurance market through enactment of government policies, which can stimulate demand for catastrophe insurance products and increase the population’s disaster risk awareness.

To assist countries with the development of their insurance markets for catastrophe perils, Europa Re provides local companies with access to web-based insurance production and claims settlement technologies that support sales of complex catastrophe and weather risk insurance products. Inter alia, the product support services offered by Europa Re to participating insurers include pricing, underwriting, claims settlement, financial and regulatory reporting and risk management.

The company also provides local insurers with an option to reinsure all new business written through the platform. These program features considerably reduce insurers’ production costs, eliminate technical complexity involved in issuing catastrophe and weather risk policies, and, as such, are expected to result in lower insurance premium for consumers – mainly households and SMEs.

Europa Re provides turn-key product support services for the following two main insurance product lines:

- **Indemnity style catastrophe insurance coverage** for damages caused to property and contents by earthquake, flood, and hail.
- **Parametric index-based weather risk insurance coverage** for extreme fluctuations in temperature or precipitation, which will protect buyers against the loss of business revenue due to adverse weather.

By providing all essential product support functions and reinsurance, Europa Re will enable insurers to focus specifically on product sales that will rapidly increase the level of catastrophe insurance available to member states. Insurers participating in the program receive premium income and reinsurance commissions.

Europa Re is established in Switzerland and subject to the Swiss Solvency Test – an insurance regulation known for its rigorous risk-based approach to the calculation of insurers/reinsurers’ solvency margin. Up to 95 percent of Europa Re’s risk exposure will be further reinsured by reinsurers rated “A” and above.

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**Highlights**

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- Jointly with the World Bank, Europa Re is exploring opportunities for expanding its business model and product supporting web-based production platform to disaster prone countries outside Southeast Europe.
- Participation in Europa Re will allow countries to:
  - Increase the level of catastrophe insurance coverage considerably among homeowners, SMEs and farmers and thereby reduce government fiscal exposure to natural disasters.
  - Reduce systemic risk to the insurance and banking industries posed by natural disasters to their balance-sheets in disaster prone economies.
  - Development of the local insurance market by jump-starting a new line of property insurance business.
To date, the facility raised over US$12 million in grants from State Secretariat for Economic Affairs of Switzerland, the Global Environment Facility, the European Union, the United Nations International Strategy for Disaster Reduction, and the Global Facility for Disaster Reduction and Recovery to establish its operations in Southeast Europe.

Europa Re is open to new members and is currently negotiating membership agreements with several new countries. Jointly with the World Bank, it is also exploring opportunities for expanding its business model and product supporting web-based production platform to disaster prone countries outside Southeast Europe.

To summarize, participation in Europa Re will allow countries to:

- Increase the level of catastrophe insurance coverage considerably among homeowners, SMEs and farmers and hence reduce government fiscal exposure to natural disasters;
- Reduce systemic risk to the insurance and banking industries posed by natural disasters to their balance-sheets in disaster prone economies; and
- Contribute to development of the local insurance market by jump-starting a new line of property insurance business.

### The World Bank’s Response
(What Perils Will Europa Re’s Main Products Cover?)

**Earthquake insurance.** Homeowners, SMEs, and governments can purchase coverage against damage to property and contents in case of an earthquake.

**Flood insurance.** Homeowners, SMEs, farmers, and governments can purchase coverage against damage to property and contents in case of flooding.

**Hail insurance.** Farmers and agro-businesses can purchase coverage against damage to crops in case of hail.

**Extreme temperature and precipitation.** Businesses can purchase coverage against extreme fluctuations in temperature and precipitation that can have adverse effect on their revenues.

### Demonstrating Results
(How Will Weather Risk Insurance Benefit Clients?)

- **Hydropower stations.** Insurance against loss of power output and revenue in cases of drought (that is, lower than average precipitation).
- **Power stations.** Insurance against loss of revenue in cases of warm winters (due to reduced demand for heating) and cold summers (due to reduced demand for cooling).
- **Resorts.** Insurance against loss of revenue from lost days (due to adverse weather conditions) during a tourist season.
- **Agro-businesses.** Insurance against loss of revenue due to extreme weather events that affect crop yields.
- **Ministries of Agriculture.** Insurance against their own social safety net obligations to farmers in cases of extreme weather events.

### How to Follow Up

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