

An aerial photograph showing a flooded residential area. A small motorboat with several people on board is moving through the greenish water. The surrounding area is densely packed with trees and houses, many of which are partially submerged. The water appears to be quite high, reaching up to the roofs of some buildings. The overall scene conveys a sense of a major disaster or flood event.

# COMMUNITY-BASED CATASTROPHE INSURANCE

A model for closing the disaster protection gap

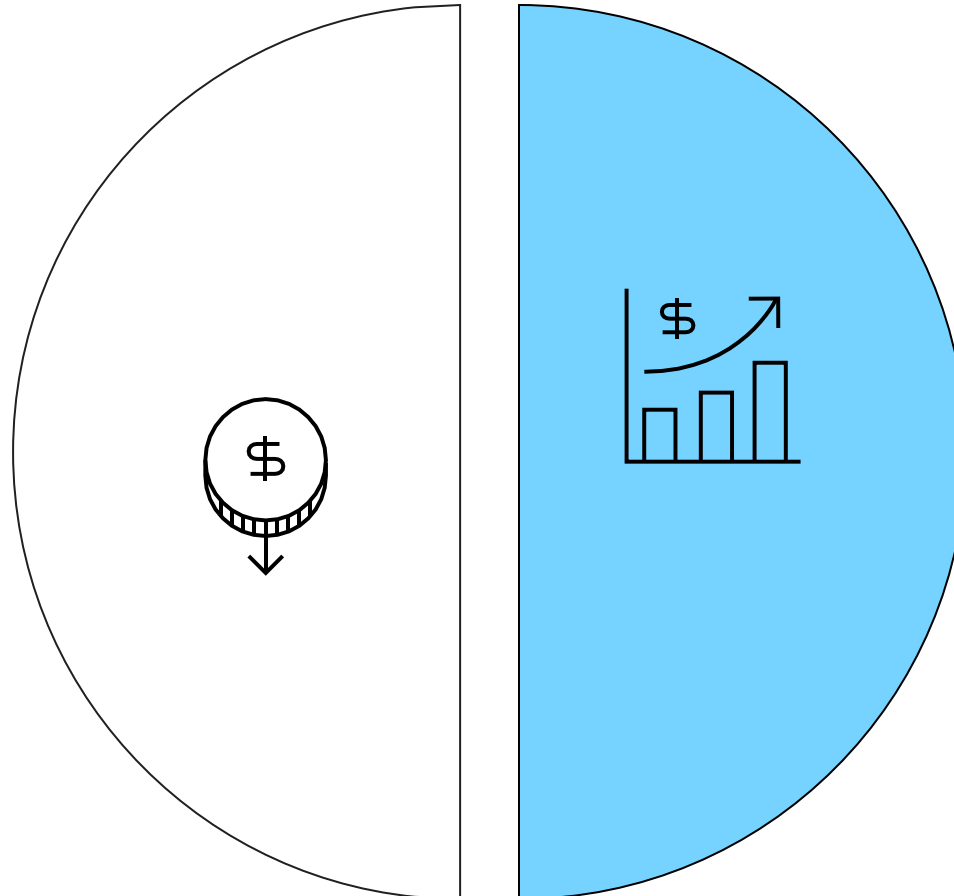
*National Council of Insurance Legislators  
Spring Meeting  
April 18, 2021*

# The big picture: protection gap is expanding due to rising costs of catastrophes and decreasing effectiveness of funding mechanisms

The Protection Gap is expanding space between economic losses and related funds available

## Reduced funds

Current funding or mechanisms to cover costs of events or long-term liabilities are insufficient with growing strains on public sector as payer of last resort



## Rising costs


Costs of sudden large-scale risk events such as natural catastrophes; or costs of long-term environmental trends are growing

# Catastrophic events have lingering financial impacts with many unable to repair and rebuild after a disaster

 Often unaffordable

 Sometimes unavailable

 Poor understanding of risk exposure

 Limited understanding of disaster insurance

 Biases in decision-making

## Protection gaps present economic and social challenges and opportunities for innovation

**10%**

Homeowners in California with earthquake insurance

**12.7%**

Properties with earthquake insurance in New Madrid Region of Missouri

**30%**

Average take-up rates for flood insurance inside 100-year floodplain in USA

# Community Based Catastrophe Insurance (CBCI) is an innovative mechanism to increase insurance coverage and enhance resilience

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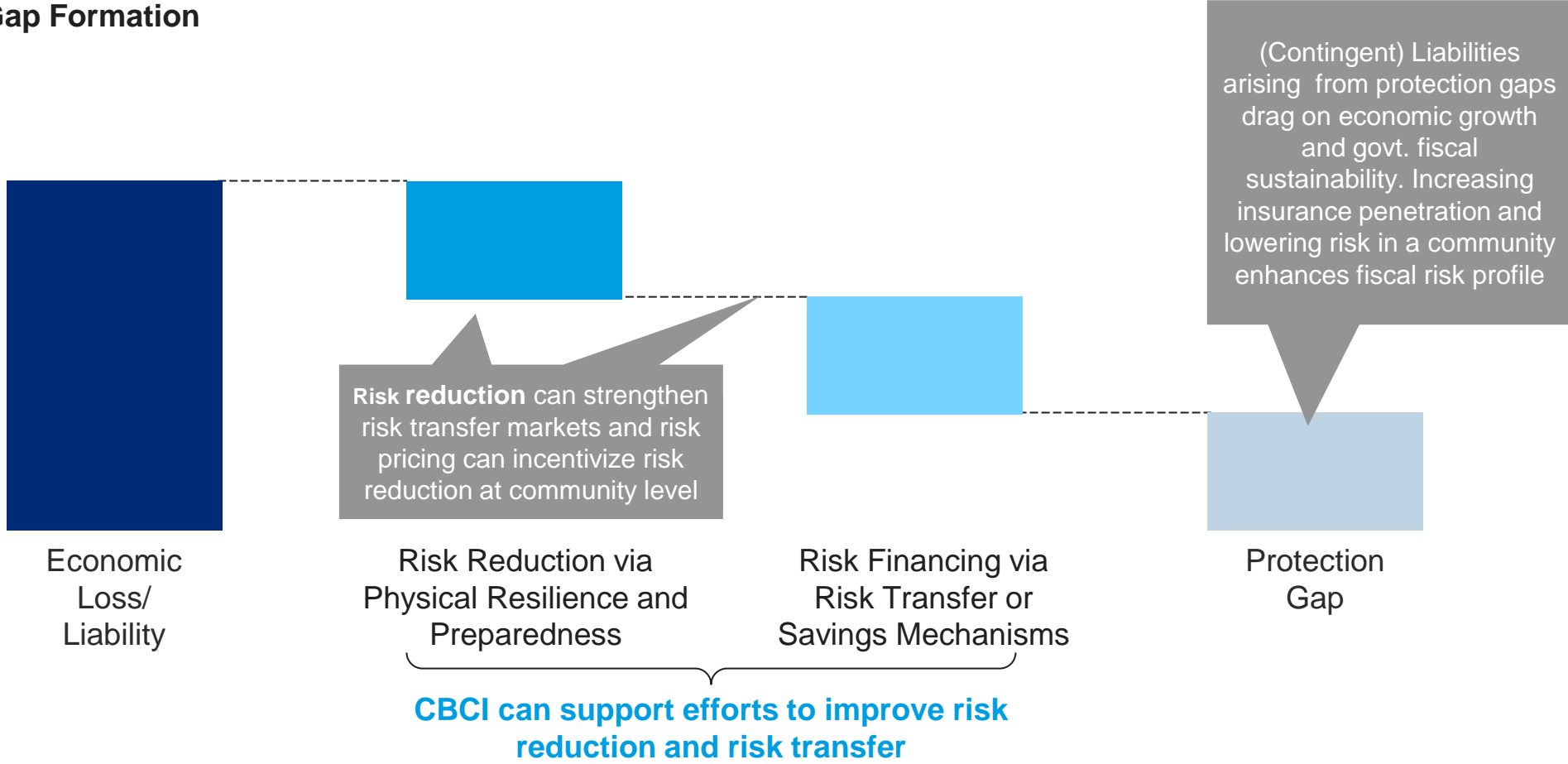
*Insurance arranged by a local governmental or quasi-governmental body to cover a group of designated properties or individuals within the community's jurisdiction.*

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# Channels for Communities to Close Protection gaps via CBCI

CBCI is a potential mechanism for communities to increase insurance coverage, incentivize risk reduction and enhance fiscal solvency

Illustration of Gap Formation



# Potential benefits of CBCI



**Incentives for Community-Level and Individual Risk Reduction**

Mitigation efforts

Risk reduction activity

Improved decision-making



**Provide Affordable and Available Coverage**

Reduces premium costs

Increases insurance availability



**Enhance Financial Resilience**

Reduces liabilities

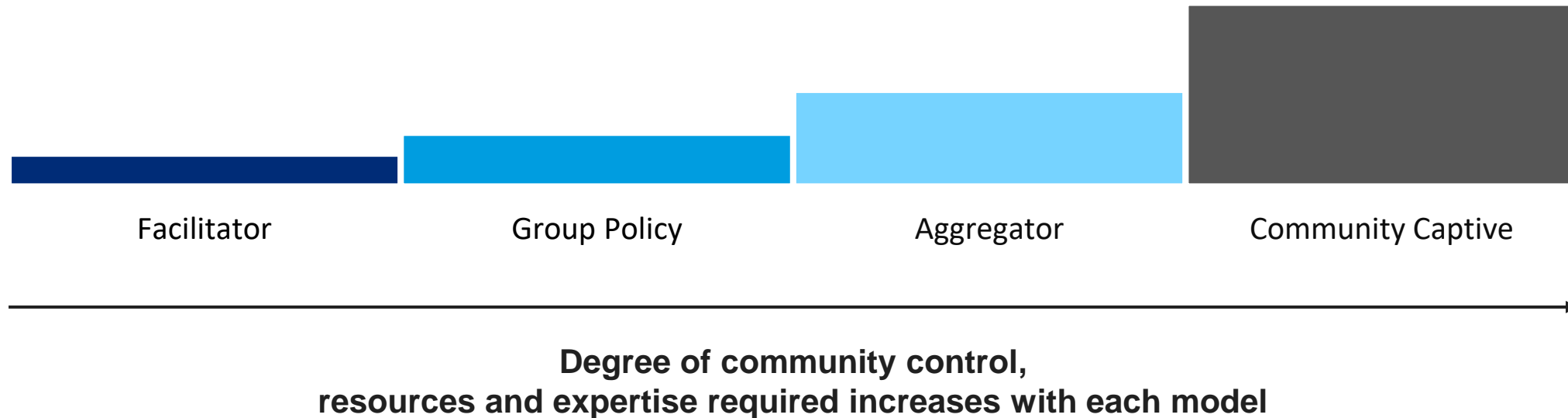
Enhances credit risk profile

Speeds recovery

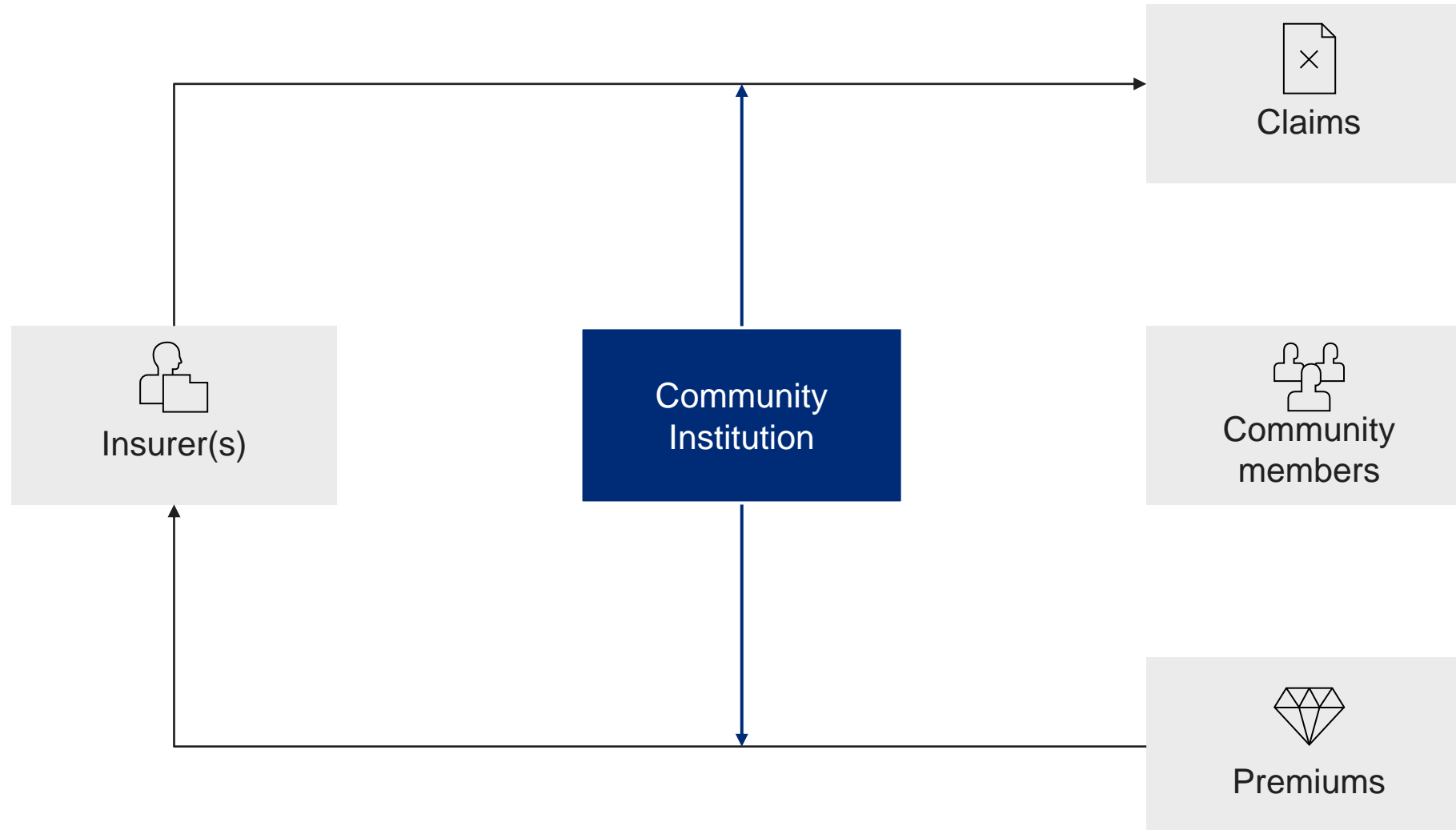
Supports post-disaster economic revitalization

# The Spectrum of CBCI Solutions

CBCI can play many roles in the dynamic ecosystem of existing public and private catastrophe insurance mechanisms. Below are four broad institutional structures with different roles and responsibilities for the community and other partners:

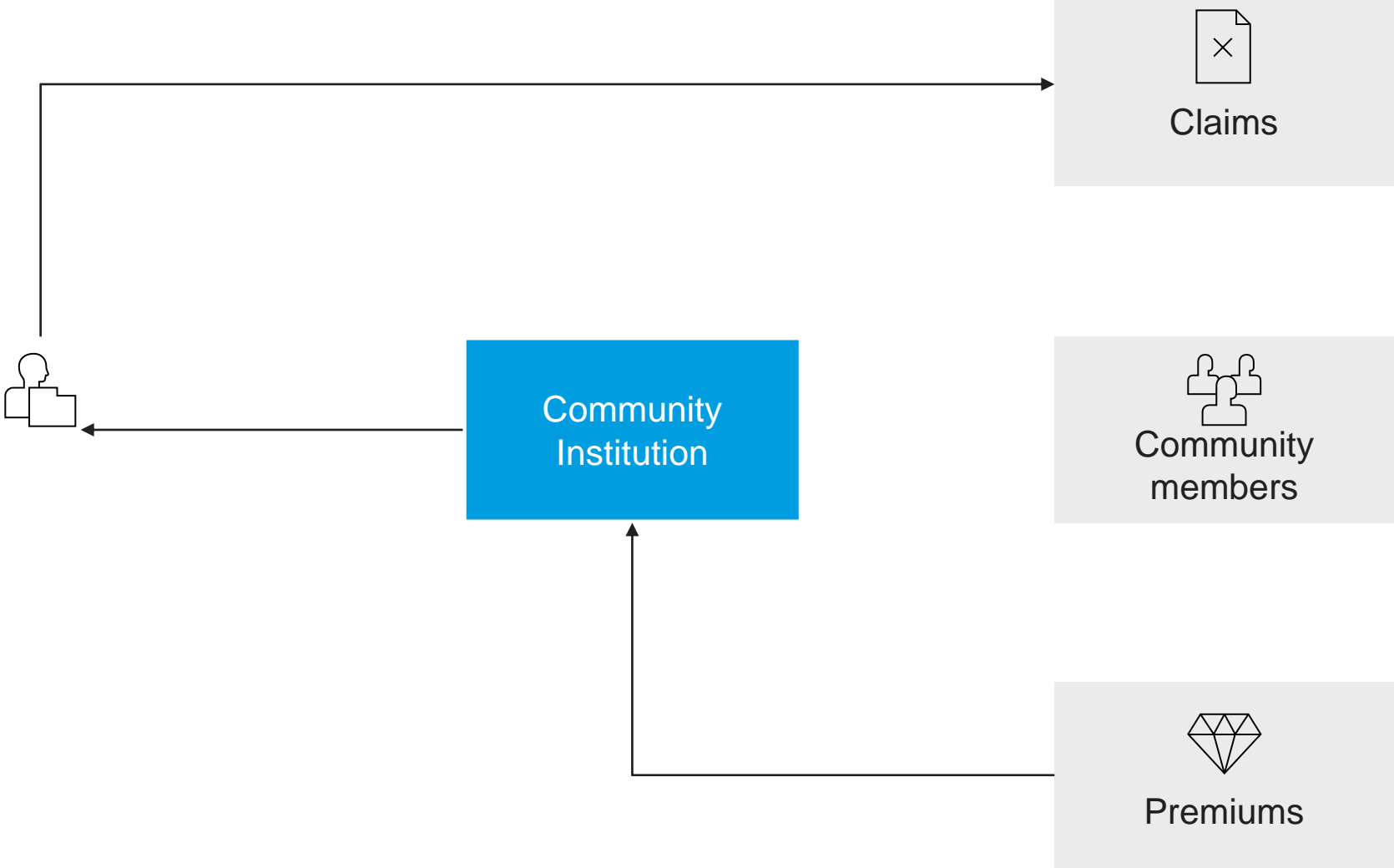


# Facilitator Model: Community helps to establish a beneficial arrangement with an insurer for community members

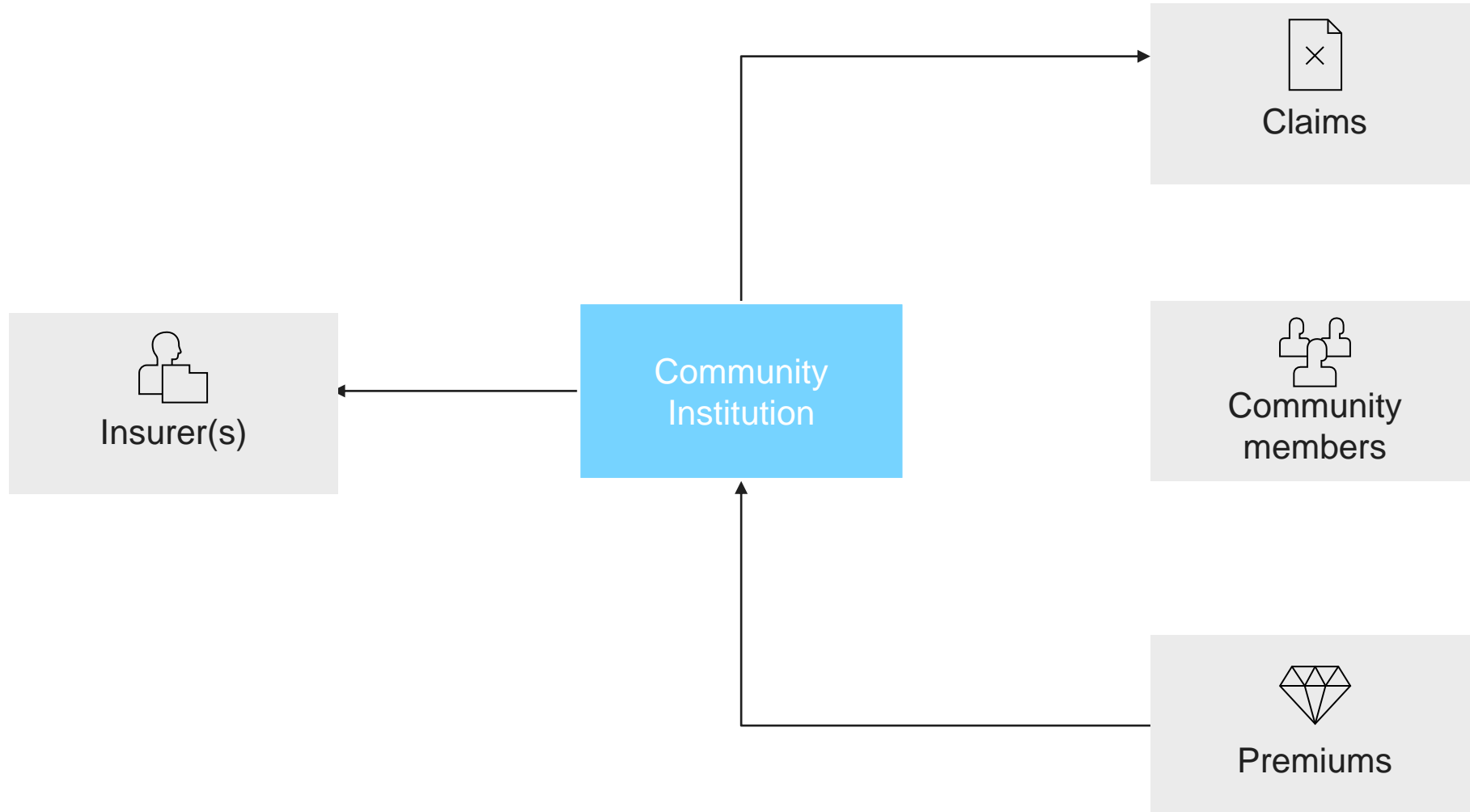




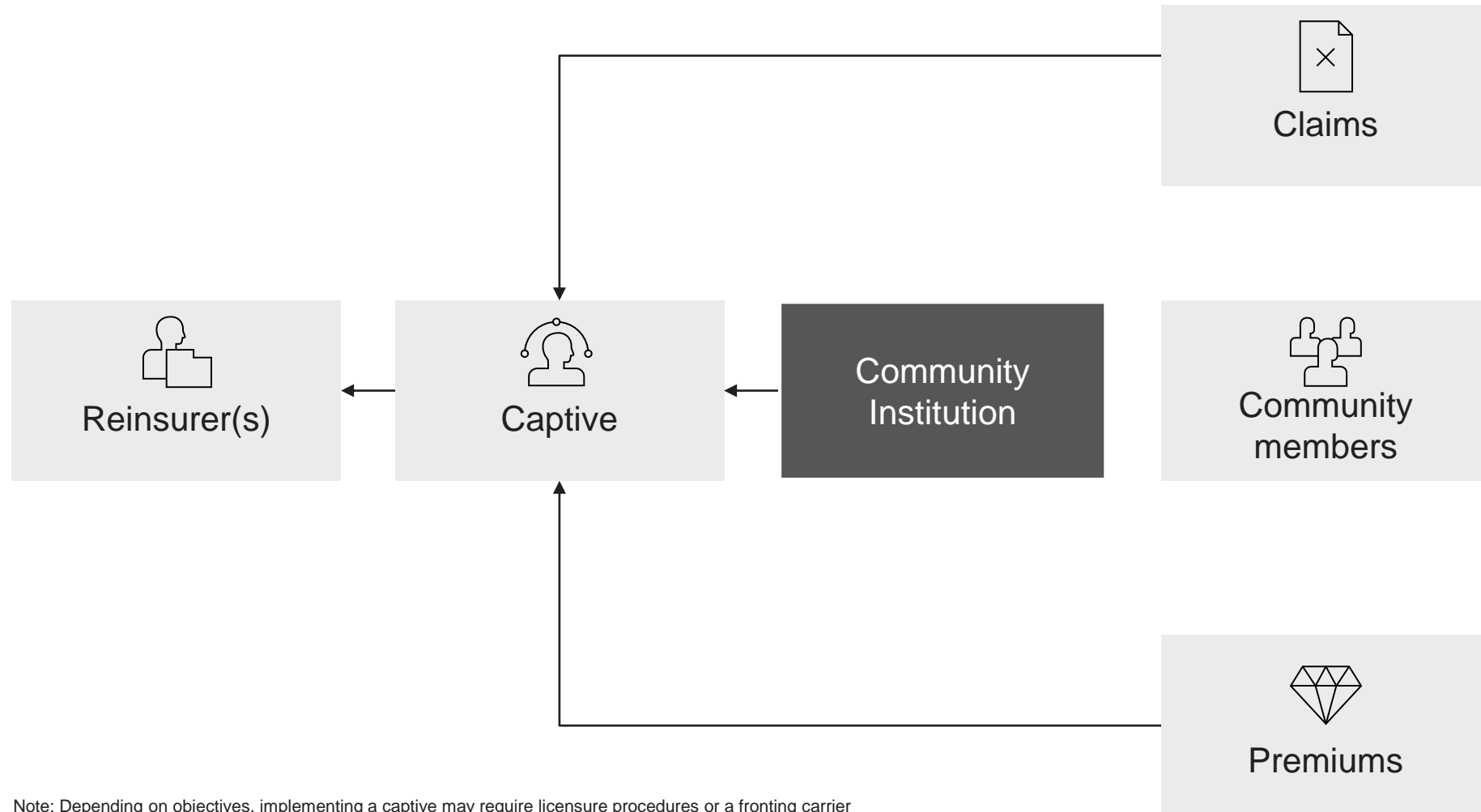
# Group Policy Model: Community arranges a group policy on behalf of its members



# Aggregator Model: Community buys bulk parametric catastrophe insurance



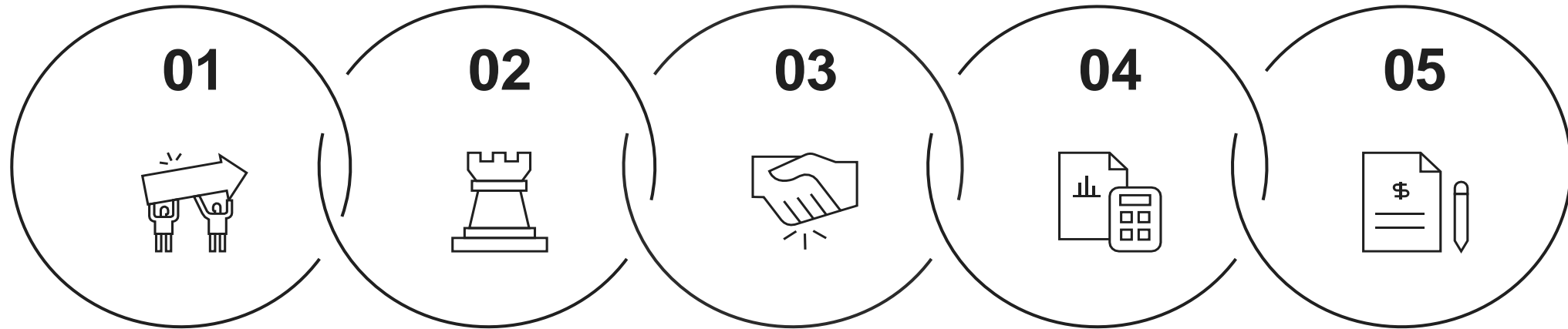
# Community Captive Model: Community establishes its own risk-bearing entity (e.g., a captive)



Note: Depending on objectives, implementing a captive may require licensure procedures or a fronting carrier

# Five-part Framework for Implementation

Steps are not necessarily sequential, and it may be necessary to go back and forth among them



## Define the need

- Determine which groups could benefit
- Consider motivations for CBCI
- Identify residents' needs and key risk exposures

## Determine authority to act

- Consider what entities have an interest
- Who has regulatory authority to implement
- Consider what policy reforms or institutional changes are necessary

## Engage stakeholders

- Engage community early
- Communicate and educate community about risk and mitigation options

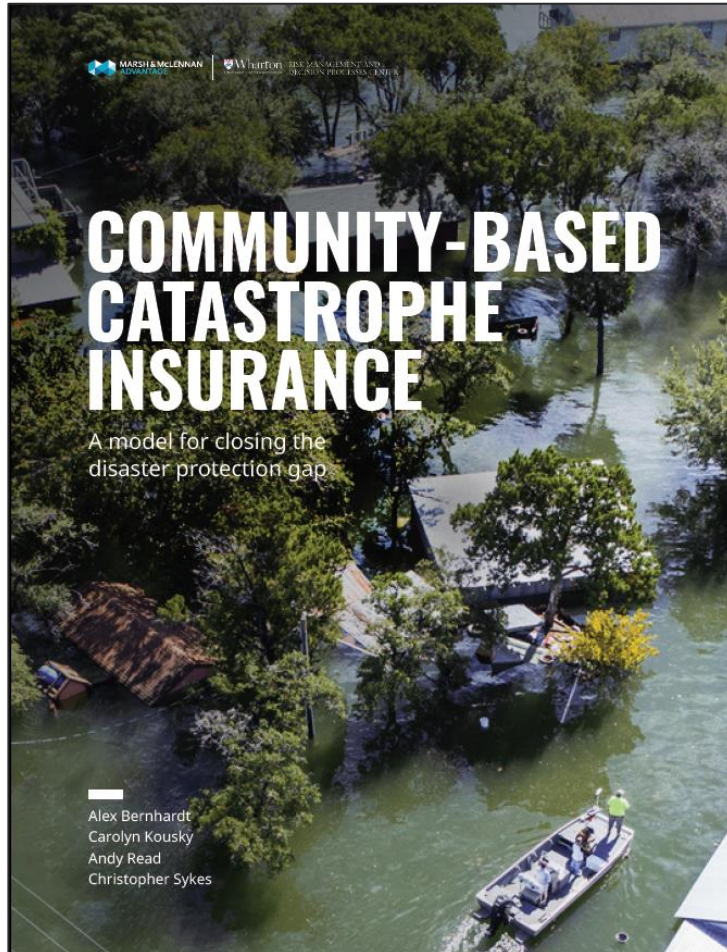
## Analyze risk

- Capture data and modeling to design appropriate risk transfer structures and risk reduction mechanisms
- Understand the risk
- Set premiums

## Transfer risk

- Consider capital providers
- Determine premium payment options
- Map options for disbursing claims payment

# Asset Library



Access the Marsh McLennan & Wharton Concept Paper on CBCI [here](#):

**Please contact us if you wish to discuss further or have any questions:**

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