

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC13373

Project Name	Kazakhstan: Southeast Europe and Central Asia Catastrophe Risk Insurance Facility (P152230)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	Non-compulsory pensions and insurance (80%), SME Finance (20%)
Theme(s)	Other Financial Sector Development (60%), Climate change (40%)
Lending Instrument	Investment Project Financing
Project ID	P152230
GEF Focal Area	Climate change
Borrower(s)	Europa Re
Implementing Agency	Europa Re
Environmental Category	C-Not Required
Date PID Prepared/ Updated	10-Sep-2014
Date PID Approved/ Disclosed	25-Sep-2014
Estimated Date of Appraisal Completion	03-Dec-2014
Estimated Date of Board Approval	06-Apr-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Globally, economic losses from climate-related and geological perils are rising, exceeding US\$100 billion per annum over the last decades. In 2013, the economic losses caused by natural disasters amounted to US\$ 125 billion, while the average economic loss for period from 1980 to 2012 was US\$ 115 billion . In addition to the economic toll, natural disasters have been the source of death, disability, and loss of physical and productive assets.

2. Kazakhstan is vulnerable to natural hazards including floods, landslides, steppe winds and earthquakes. Climate change is expected to exacerbate disasters caused by the impact of natural hazards associated with hydro-meteorological conditions, with associated damage particularly impacting homeowners, small and medium business (SMEs), and farmers. With a total area of agricultural land of 222.6 million hectares, agriculture plays a prominent role in the national

economy but also making the country highly vulnerable to the risk of climate change. In 2012, for instance, the country experienced a 54 percent fall in wheat production due to an unprecedented drought. The individual natural disaster risk profile of Kazakhstan is briefly summarized below.

3. Floods, landslides and steppe winds pose significant hazards in Kazakhstan. In the plains, spring floods fed by rain and snowmelt occur and mountainous regions suffer mud flows triggered by rainfall or breaches of glacial lakes. Analysis of disaster data shows that the country suffers from frequent floods. Flood events include the June 1993 flood in the Embinskyi-Kzylkoginskyi region, which killed 10 people, affected 30,000 others and caused an economic loss of \$36.5 million. The April 2000 flood in the Denisovsky-Zhitikarinsky region affected 2,500 people and caused an economic loss of \$1.5 million and the March 2005 flood in the Shiyeli-Syr Dariya region affected 25,000 people and caused an economic loss of \$7.6 million. The March 2004 landslide in Talgar district reportedly killed 48 people .

4. Historically, Kazakhstan has also experienced highly damaging earthquakes, which tend to occur every 80 to 100 years. The last highly damaging period of seismic activities was 1885-1911, when several large earthquakes struck at Verneskoye (1887), Chilik (1889) and Keminskoye (1911). During these earthquakes, the city of Almaty was almost flattened. The more recent Zhambyl province earthquake in May 2003 killed 3 people and affected 36,626 others.

5. To address the impact of climate change and other natural disasters on homeowners, SMEs, and the national economy at large the government is developing a new Law on Compulsory Catastrophe Insurance. Preparations for the draft law are currently underway under a separate program of Bank technical assistance financed by the FIRST, GFDRR and JERP. The Bank funded TA program however mainly focuses on the risk of earthquake, which leaves the climate related risks faced by the country unattended. The proposed project will directly address this gap in the ongoing Bank program by delivering a comprehensive package of insurance market infrastructure in support of catastrophe insurance products for climate related hazards. Inter alia, these perils include the risk of flood, steppe wind and catastrophic drought. The latter will be of main benefit for the country agriculture as the current crop insurance scheme in Kazakhstan requires a major overhaul to improve its performance and better climate related catastrophe insurance products should be developed to deal with natural disasters in the sector.

Sectoral and Institutional Context

6. Despite the high vulnerability to natural disasters and climate change, catastrophe and weather insurance among homeowners and SMEs is currently underdeveloped in Kazakhstan. The catastrophe insurance products that do exist are either not viable in terms of price and coverage or restricted only to selected clients as companies ration the availability of catastrophe coverage through higher prices or simply decline to cover weather and earthquake related risks. As a result, less than 2 percent of insurable properties are currently insured and even fewer SMEs. To address the problem of the worsening impacts of climate change on the national economy, the government is introducing a national program of compulsory catastrophe insurance for homeowners and SMEs. To this effect, the Bank is assisting the government with the preparation of the Disaster Insurance Law and development of actuarially sound premium rates for the earthquake risk under a separate multi-sectoral TA program. Yet, the establishment of a proper national catastrophe insurance program requires a highly advanced catastrophe insurance market infrastructure comprising innovative weather risk insurance products, automated underwriting and pricing insurance services, advanced insurance IT systems to support sales and claims management, public awareness of

catastrophe and weather risk, and other technical insurance specific functions which are currently not in place.

7. Relying on the global experience in designing national and regional catastrophe and weather-risk insurance programs, with the aim of increasing the number of insured against weather related risks, jointly with the United Nations International Strategy for Disaster Reduction (UNISDR), the Swiss Secretariat for Economic Affairs (SECO) and the Global Environmental Facility (GEF), in 2011, the World Bank launched a catastrophe and weather risk reinsurance program known as SEEC CRIF. The main rationale of SEEC CRIF is to promote the development of local catastrophe and weather risk insurance markets in disaster prone emerging economies that will increase access of local businesses and population to reliable and fairly priced catastrophe and weather risk insurance products which cannot be found in the commercial insurance market. Based on such an approach, SEEC CRIF, in cooperation with country stakeholders has already financed the development of catastrophe insurance market infrastructure for Albania, Serbia and Macedonia, which are now launching sales of innovative catastrophe products supported by the most advanced insurance technologies and public disaster risk awareness building educational tools.

8. Based on the valuable experience and specialized insurance expertise developed under the SEEC CRIF in designing effective catastrophe and weather insurance market infrastructure and national catastrophe insurance markets, the Bank now would like to extend the outreach of the program to Kazakhstan and, at a later stage, to other countries of Central Asia. Phase II of SEEC CRIF Program – Southeast Europe and Central Asia Catastrophe Insurance Facility (SEECA CRIF) - aims to provide comprehensive technical support to the government of Kazakhstan in addressing the adverse effects of climate change on the national economy through the delivery of advanced insurance market infrastructure that will support mass sales of compulsory catastrophe insurance in the country. It is envisaged that by enabling the launch of the national program on compulsory catastrophe insurance for homeowners and SMEs, the project will greatly contribute toward the country's climate change adaptation efforts and will help the government to better formulate climate change adaptation and mitigation policies.

Relationship to CAS

9. Of the current Country Partnership Strategies (CPS) for Kazakhstan, disaster risk management and adaptation to climate change were identified as government priorities in future programming. Kazakhstan has a number of key strategies, concepts, and related action plans that outline strategic directions for national climate change mitigation and adaptation actions. The government recently developed a draft National Concept on Adaptation to Climate Change within the framework of the joint United Nations Development Programme and Ministry of Environment and Water Resources Project "Strengthening the capacity in the field of sustainable development through integration of climate change issues into strategic planning in the Republic of Kazakhstan." The objectives and tasks under the concept are to reduce the vulnerability of the population, economy, and natural resources to existing climate variability and forecasted climate change, and to reduce the most probable disaster risks that may lead to considerable humanitarian, economic, and environmental damages.

10. Disaster risk financing, including catastrophe and weather-risk insurance, is one of the main pillars of the Bank Group's Disaster Risk Mitigation Strategy. The Kyoto Protocol, the UN Framework Convention on Climate Change and the Bali Action Plan all call for risk sharing and transfer mechanisms such as insurance as a means of protecting populations from the adverse

effects of climate change. By providing the risk-based pricing of insurance products based on advanced risk modeling of climate related perils, the project will help to identify the vulnerabilities of key sectors of economy to the adverse impact of climate change and improve the resilience of the national economy to weather related perils. The project contributes toward the attainment of all three SCCF strategic objectives: (i) by providing insurance protection against weather related perils for households and SMEs, it reduces vulnerability of the country to the adverse impacts of climate change and (ii) increases its adaptive capacity; (iii) by providing the government and the public at large with the outputs of risk models, risk maps and claims statistics, it will recast productive investments and attain needed behavioral changes required to make economy more resilient to climate change thus supporting the evolving processes of adaptation planning in the long-term.

II. Proposed Development Objective(s)

Proposed Global Environmental Objective(s) (From PCN)

11. The Project Development Objective (PDO) is to assist Kazakhstan with developing modern catastrophe insurance market infrastructure that will support the launch of innovative catastrophe insurance products covering the risks of extreme weather variability.

12. By facilitating and increasing access to financial protection, the Global Environmental Objective (GEO) will have been achieved, namely the reduction of economic vulnerability for homeowners, the enterprise sector, and government agencies to the adverse impact of natural disasters and climate change. The proposed project activities support GEF's focus on climate change and more specifically, GEF's objectives on climate change adaptation. By increasing access to sound catastrophe and weather risk insurance products, SEECA CRIF is also in line with the GEF strategy on adaptation. By supporting proper catastrophe risk management and risk transfer, SEECA CRIF reduces economic losses at both local and national level from extreme weather related events, thereby reducing economic vulnerability and creating a more climate resilient country.

13. SEECA CRIF activities are also cross-cutting and collaborative, ensuring the engagement of major stakeholders in Kazakhstan, including several ministries, the National Bank, insurance sector and agriculture. Moreover, because much of the technical work will be focused on establishing complex catastrophe insurance infrastructure and systems, stakeholders will gain the requisite skills and knowledge to better understand catastrophe risk and effectively adapt to such risks and climate change. Furthermore, public awareness of climate change and the benefits of catastrophe and weather risk insurance will be raised through information campaigns and the new law on compulsory Disaster Insurance and supporting its regulations, resulting in increased demand for catastrophe and weather risk insurance products.

14. Although the project has been designed specifically for Kazakhstan, it can be easily replicated in other countries adversely affected by climate change through the extension of existing market infrastructure and insurance services to be developed for Kazakhstan to other country markets.

Key Results (From PCN)

15. The most important result of SEECA CRIF in Kazakhstan is the increased access to sound and affordable weather risk coverage and catastrophe insurance for millions of people and thousands of SMEs, including agricultural producers. It is envisaged that the modern catastrophe insurance infrastructure developed under the SEECA CRIF will support the launch of the

forthcoming national catastrophe insurance program that will increase catastrophe and weather-risk insurance penetration among homeowners and enterprise sector in Kazakhstan from the current 1-2 to 30-40 percent over the next 5 years.

III. Preliminary Description

Concept Description

16. SEECA CRIF is a catastrophe and weather-risk insurance program established to address the problem of low catastrophe and weather insurance penetration in participating countries. The main rationale of the project is to promote the development of sound catastrophe and weather risk insurance for millions of homeowners, farmers, enterprises and government organizations against geo and weather-related risks exacerbated by climate change and reduce government fiscal risk exposure to natural disasters.

17. The main design features of SEECA CRIF closely follow the previous prototypes of national and regional catastrophe and weather-risk programs developed with direct technical and capital assistance from the Bank – the Turkish Catastrophe Insurance Pool, the Romanian Catastrophe Insurance Pool and the Caribbean Catastrophe Risk Insurance Facility. However, the program contains several innovations. These include (i) the development of innovative catastrophe insurance products which combine traditional indemnity coverage with parametric index-based elements; (ii) establishment of prudent risk management and market conduct requirements embedded in highly automated systems, (iii) development of innovative image-based claims management systems ensuring a swift return to normal life or continuation of business activities in the aftermath of a natural disaster; (iv) introduction of risk based supervision of catastrophe insurance in line with best international practices, (v) development of innovative public awareness and educational mechanisms, including highly interactive IT applications and (vi) ensuring proper financial capacity through dedicated reinsurance capacity.

18. SEECA CRIF program benefits from extensive hands-on experience learned through the implementation of the SEEC CRIF program in the countries of Southeast Europe. There are three main lessons learned from this program. The first lesson is that acquisition of new customized insurance technologies and supporting those IT systems is fraught with potential delays and shortfalls in the expected quality of implementation. The second lesson is the importance of the government in creating the demand for catastrophe insurance products. The third lesson has to do with the affordability of catastrophe insurance products, which must be designed to fit the budget of most homeowners and SME owners. These lessons have been addressed in the project design. To address the problem of potential delays and quality of technical deliverables by external vendors, the project will be implemented by Europa Re, which accumulated valuable extensive expertise in retaining and successfully managing specialized providers of insurance services. The second lesson is addressed by linking the project to the government program of compulsory catastrophe insurance which would ensure adequate demand for catastrophe insurance products in Kazakhstan. To address the affordability concern, the project envisages that the pricing of compulsory catastrophe risk products can be made affordable by the introduction of innovative automated pricing and underwriting technologies, the extensive national customer base that allows to broadly distribute the fixed administrative costs among millions of policyholders, and through introduction of government financed insurance vouchers that can be used by the economically vulnerable segments of population to pay for compulsory catastrophe insurance.

19. Europa Reinsurance Facility Ltd. (Europa Re), a government-owned catastrophe reinsurance company incorporated under Swiss Law in Zug, Switzerland, will act as the SEECA CRIF project implementation agency. Over the last 3 years, in the course of implementing the GEF and SECO grants under the SEEC CRIF program in Albania, FYR of Macedonia and Serbia, Europa Re developed in-depth expertise in procuring insurance services and systems in accordance with the World Bank procurement and financial management guidelines. In the case of SEE, the GEF and SECO grants in the amount of \$10 million were used to develop innovative catastrophe insurance products and underlying them hazard risk models, procure web-based automated pricing, underwriting and policy origination platform, claim management systems and provide regulatory support to local insurance regulators. Given the importance of providing reinsurance capacity to local insurance companies involved in sales of catastrophe insurance products developed under the SEECA CRIF program, Europa Re also will stand ready to provide, if required, reinsurance support to the Kazakh insurance companies that will be participating in the national catastrophe insurance program and, if requested, directly to the Kazakhstan Catastrophe Insurance Pool (KCIP).

20. In the case of SEECA CRIF program for Kazakhstan, the proposed project funding of US \$5.0 million will be used for procuring insurance services and systems that will (i) pave the way for the successful launch of the KCIP's operations upon enactment of the Disaster Insurance Law and (ii) support the development of a sustainable insurance framework for the agricultural sector through innovative insurance solutions and modern technologies. Inter alia, the activities include procurement of web-based insurance sales platform with automated pricing and risk underwriting capabilities, a modern claims management system, high-resolution weather risk data, development of customized weather insurance products for real property and agriculture, public information campaigns, interactive web-based consumer education tools, and insurance regulatory assistance.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

V. Financing (in USD Million)

Total Project Cost:	5.48	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00

Global Environment Facility (GEF)	5.48
Total	5.48

VI. Contact point

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