InsuResilience GlobalPartnership

Glossary
Climate and Disaster Risk Finance and Insurance

This glossary provides an overview of relevant terms to the thematic intersection of financing and insurance instruments with overall disaster and climate risk management. It therefore limits coverage of terminology from these fields to concepts and definitions which are directly relevant for the solution space of climate and disaster risk finance and insurance in the overall context of the InsuResilience Global Partnership.

For ease of navigation, the glossary is arranged alphabetically. References to terminology which is elsewhere defined in this glossary are indicated with italicised typeface and a direct link to the definition.

The glossary builds upon the available definitions and common CDRFI knowledge.

List of Acronyms

AAL	Average Annual Loss
ARC	African Risk Capacity
ART	Alternative Risk Transfer
Cat DDO	Catastrophe Deferred Drawdown Option
CCRIF	Caribbean Catastrophe Risk Insurance Facility (now CCRIF SPC)
CDRFI	Climate and Disaster Risk Finance and Insurance
CRI	Climate Risk Insurance
DRF	Disaster Risk Finance
DRM	Disaster Risk Management
GDP	Gross Domestic Product
ILS	Insurance-Linked Security
IPCC	Intergovernmental Panel on Climate Change
LDC	Least Developed Country/Countries
MSME	Micro, Small and Medium Enterprise
NAP	National Adaptation Plan
PCRIC	Pacific Catastrophe Risk Insurance Company
PPP	Purchasing Power Parity
SEADRIF	Southeast Asia Disaster Insurance Facility
SPV	Special Purpose Vehicle
UNFCCC	United Nations Framework Convention on Climate Change
UNDRR	United Nations Office for Disaster Risk Reduction

Term	Description	Further Reading
Actuarial Science	Actuarial science converges knowledge and skillsets from probability, financial theory, and computer science to quantify risks, with a primary focus on insurance-related decisions (in particular, pricing and underwriting). Actuarial science professionals, actuaries, assess the financial risk of a particular situation using this broad knowledge and skillset to determine the pricing of (re)insurance policies in various contexts. Public and private institutions rely heavily on actuarial science to determine the relative risk of various decisions. As such, actuarial science can also help identify and encourage risk-reducing behaviours that result in lower premiums.	
Alternative Risk Transfer (ART)	ART refers to both a variety of alternative risk transfer mechanisms as well as the transferring of risks to alternative risk carriers, particularly capital market investors (as opposed to traditional (re)insurers). ART emerged in the late 1990s when (re)insurers began looking for further risk capacity to offload their natural catastrophe and weather risks. Capital markets began to view natural disasters and weather as a new asset class, with investment banks designing new capital market-based instruments to transfer natural catastrophe and weather risks to investors. Several new formats to transfer risk emerged, such as catastrophe (cat) bonds, catastrophe (cat) swaps, parametric insurance solutions, sidecars, and weather derivatives. Index-based insurance can be seen as a direct byproduct of ART, as transferring risks on a parametric basis allowed for higher transparency and standardisation and therefore generated higher appetite from capital market investors. As a result, reinsurers, brokers and investment banks alike began to develop different trigger mechanisms to be used within cat bonds, cat swaps, and weather derivatives. With an increasingly sophisticated investor base, this has changed over the years, as dedicated ART investment funds are now able to invest in indemnity-based formats as well. However, the ART market was vital in creating those types of risk-transfer arrangements which are now also used in the context of disaster risk finance for vulnerable countries.	See also: → *Parametric Insurance*
Average Annual Loss	Average Annual Loss (AAL) is the long-term expected loss per year, averaged over many years. AAL measures the absolute "riskiness" of a set of exposures and is thus highly dependent on the underlying value of assets, for example the monetary value of critical infrastructure within a determined geographic area. While there may be little or no losses incurred over a short period of time, the AAL accounts for much larger losses that may occur more infrequently. In the context of sovereign disaster risk financing, AAL is an indication of the amount of savings a nation needs to set aside each year to cover the cost of long-term losses from a given hazard.	See also: → *Return Period*
Basis Risk	In financial market theory, basis risk describes the risk associated with imperfect hedging, i.e. it arises when there is a difference between the price of the asset to be hedged and the price of the asset serving as the hedge before expiration. It thus leads to excess gains or losses and hence does not protect as intended. A hedging strategy is a strategy to protect against financial losses.	See also: → *Parametric Insurance* → *Risk*

Term	Description	Further Reading
	Basis risk can be elevated when the investment that needs to be hedged, e.g., the oil price, is imperfectly correlated with the asset being used as a hedge, e.g., a futures contract on oil prices. Applied to insurance, basis risk is the potential difference between the beneficiary's actual losses (i.e. loss of crops) and the payout received from the insurance contract. Basis risk is therefore inherent in index-based or parametric insurance, as the payout determined by a parametric trigger may be higher or lower than the actual loss suffered by the beneficiary. Basis risk can be mitigated by customizing the index to match the client's exposure and vulnerability profile, but it cannot be fully eliminated. (Re)insurers may provide basis risk covers as an add-on to index-based products.	
Beneficiary	The person(s) or party(ies) who benefit(s) from protection from a risk financing product. Beneficiaries may be direct counterparties to the product (e.g., individual smallholder farmers buying agricultural insurance) or benefit indirectly, e.g. from food distribution financed by payouts from an insurance policy held by a national or sub-national entity (e.g., a household within a community which is insured against coastal flooding). Under the InsuResilience Global Partnership's Vision 2025 framework, beneficiaries under micro solutions are estimated through a household approach (policies sold * average household size), and through a response-cost approach for macro solutions (total coverage volume / average response cost per capita and month).	See also → *Vulnerable Countries*
Broker	An intermediary who negotiates (re)insurance contracts between a (re)insured and (re)insurer on behalf of the (re)insured. Brokers can be involved at various stages of the insurance value chain, providing services in the area of risk modelling, (re)insurance programme structuring, programme placement, capital management, and alternative risk transfer.	See also: → *Alternative Risk Transfer* → *Beneficiary*
Capacity	In the context of (re)insurance: 1. The measure of a (re)insurer's financial ability to issue contracts of (re)insurance, usually determined by the most significant amount a (re)insurer can potentially pay out for a given risk or by the maximum volume of business it is prepared to accept. 2. The ability of the (reinsurance) market as a whole to absorb risks.	
Catastrophe (Cat) Bond	An insurance-linked Security (ILS) that is used to transfer natural catastrophe (re)insurance risks to capital markets. For this, a special purpose vehicle (SPV) is set up and issues bonds to investors, who then pay capital into the SPV and receive a risk-adequate coupon (return) on their paid-in capital. The beneficiary of the cat bond (a corporation, (re)insurer or public risk pool) then enters into a risk transfer agreement with the SPV. If a natural catastrophe exceeds a predefined loss threshold (either on an indemnity or index basis), a preset amount of the capital paid in by investors is paid out from the SPV to the (re)insured.	See also: → *Alternative Risk Transfer* → *Return Period* → *Risk Layering*

Term	Description	Further Reading
	A cat bond is generally used for high-severity-low-frequency risks due to investors' risk-return requirements, which usually allow for investments to catastrophe risks within 25 to 200 years return periods. Investors' motivation is both aimed at diversifying their investment portfolio with an uncorrelated risk and generating relative yield advantages compared to mainstream fixed-income instruments (e.g., government bonds, corporate bonds).	
Claim	A demand by a (re)insured for indemnification under a (re)insurance contract. A claim will be met if the injury, damage or liability at issue was caused by a (re)insured peril which is not excluded and is within the limits of the contract. Depending on the type of (re)insurance model and contract, making a claim can be more or less cumbersome for beneficiaries. In the interest of providing immediate disaster relief to poor and vulnerable communities which may have less technical capacity to submit a claim after such an event, index-based or parametric insurance can ease the process of making a claim, as payouts are issued automatically upon the triggering of specific parametric indicators (e.g., wind speed, rainfall, earthquake magnitude, etc.). Some (re)insurance providers may still require post-payout proofs of loss to protect themselves from losses through unnecessary payouts.	See also: → *Parametric Insurance*
Climate Resilience	Climate resilience refers to the ability of individuals, societies, ecosystems and countries to withstand and recover from risks exacerbated by climate change. This includes the ability to adapt to, cope with and protect themselves from the effects of climate change.	See further at Climate and Disaster Risk Financing and Insurance: 25 key terms you need to know
Climate and Disaster Risk Finance and Insurance (CDRFI)	Climate and disaster risk finance and insurance refer to pre-arranged financial arrangements and instruments aimed at strengthening financial resilience or providing financial protection for climate and disaster risks, including non-climate-related disaster risks such as earthquakes. The central goal of CDRFI is to assist more rapidly and reliably to those in need when a disaster strikes by using an array of quickly disbursing financial instruments. In addition, financial instruments like insurance can also strengthen long-term reconstruction after disasters by covering physical damages to both public and private assets, incl. climate-related crop losses. Schemes may target sovereign and sub-sovereign governments (to manage their disaster-related contingent liabilities), and individuals, households or Micro, Small and Medium Enterprises (MSMEs). CDRFI mainly refers to ex-ante instruments such as contingency reserves/funds, contingent credit, shock-resistant loans, and risk transfer in all forms (sovereign risk pools, sovereign cat bonds, insurance for agriculture, MSME business interruption and property insurance), but in some contexts is also used as a broader term including ex-post instruments such as budget reallocations or post-disaster borrowing.	See further the work done by the World Bank's Disaster Risk Financing and Insurance Program. See also: → *Regional Risk Pools* → *Catastrophe (Cat) Bond*

Term	Description	Further Reading
Climate Risks	Climate risks in a narrow sense include adverse, sudden onset, extreme weather events such as tropical storms, floods or droughts. While these risks are expected to be exacerbated by climate change, they are not primarily caused by climate change. In a broader sense, climate risks also include slow-onset events such as sea level rise, glacier melting and ocean acidification, which are a direct effect of climate change. However, these risks are generally not addressed via climate risk insurance, as their slow-onset character calls for other adaptation measures. Climate risks are highly complex and multifaceted and are accordingly difficult to measure regarding where, to what extent, and how frequently losses and damages will occur. Providing insurance for climate risks, therefore, requires sound risk models to assess and price the respective risks.	
Co-Insurance	Co-insurance is a typical practice for insurers where no single insurer wishes to take on the entire risk. In this case, two or more insurers jointly assume the risk under a single insurance policy, where each insurer takes on an agreed-upon proportion of the total risk. One insurer usually is the leader. This practice of distributing the cost of risk can enable policyholders to gain coverage for more substantial risks while keeping the costs of that risk affordable.	
Complementarity	The presence of complementary, not-duplicative CDRFI solutions that collectively manage risks comprehensively, build on existing institutional frameworks, and address pre-existing vulnerabilities, with the aim to lower overall costs and maximise resilience. This specifically includes combinations of adaptation and risk finance measures, which reduce the overall cost of both, may generate co-benefits (e.g. when investments in risk reduction lead to lower insurance premiums), while avoiding maladaptation. It also aims to make use and build on existing institutions embedded within national policy frameworks or 16socio-economic contexts on the sub-national and communal levels. Doing so, also necessitates the pr17omotion of stakeholder collaboration and coordination.	See also: → *Climate and Disaster Risk Finance and Insurance*
Comprehensive DRF Strategy	Under the InsuResilience Global Partnership's Vision 2025 framework, presence of a 'comprehensive' disaster risk finance strategy is determined by the following elements: 1. Risk audit: strategies quantify risk using pre-existing and new data and define a resilience target to enable risk-informed action. 2. Disaster risk management (DRM) actions: strategies are embedded in a DRM plan consisting of risk reduction, risk retention and risk transfer actions. 3. Instrument design: strategies use situational analysis to define underlying need and inform instrument requirements. 4. CDRFI instruments: strategies identify and deploy CDRFI instruments. 5. Risk layering: strategies combine CDRFI instruments to harness the most cost-efficient instrument for every risk layer, taking into account affordability considerations, and enabling countries to better understand the feasibility of deciding on certain instruments for scenarios with and without international support.	See also: → *Climate and Disaster Risk Finance and Insurance* → *Risk Layering*

Term	Description	Further Reading
	6. Enabling environment: measures to enhance the enabling environment, e.g. regulatory and legislative reforms, financial literacy measures or data enhancement (e.g. of asset registers).	
Concessional Support/Financing	In the context of CDRFI, concessional support refers to all forms of financial and non-financial support from development partners, which aim at improving governments' financial and technical capacity to address the financial risks they face from disasters. "Concessional" denotes support offered on terms more favourable than the market – for example, loans at below-market interest rates, with longer maturities or grace periods, or grants and subsidies that reduce the effective cost of protection. In practice, discussions often focus on financial forms of concessional support, i.e., concessional financing, as in many vulnerable countries insurance remains underutilised due to a lack of funds to pay for premiums. Concessional financing, either directly via premium financing or indirectly via support tools that lower overall insurance costs, can help increase the demand of those instruments. The primary forms of concessional support are: • Premium financing • Capitalisation of a risk pool • Payment of reinsurance costs • Subsidising operational costs • Technical Support, incl. for modelling, product structuring, monitoring, etc. • Capacity building • Financing risk reduction measures that ultimately lead to lower premiums	See also: → *Insurance Premium* → *Regional Risk Pools*
Contingency Plan	A contingency plan is a plan of action to respond to certain potential adverse events (contingencies) which could occur and could cause losses. Contingency planning is ultimately about preparing for possible future disruptive unknowns. Contingency plans emerge from thorough risk analyses and assessments as a means to both manage/mitigate that risk and to respond to potential occurrences. As a staple component of climate and disaster risk management, contingency planning can be defined as a management process that analyses how different disaster scenarios may unfold, and on that basis establishes procedures in advance to enable timely, effective and appropriate responses. Within sovereign-level CDRFI instruments, payouts can be tied to contingency plans to ensure that the disbursed funds are channelled to immediate disaster response measures which provide relief to the targeted beneficiaries.	Read further at UNDRR
Contingent Credit	Contingent credit instruments are pre-arranged forms of financing that are triggered by a predefined contingency, i.e., a potentially harmful event that may occur in the future. Within CDRFI, contingent credit is a pre-arranged line of credit that governments can activate at predefined borrowing conditions (interest rate, duration, credit volume) if a natural disaster with pre-defined conditions occurs. The main benefit of these instruments is the rapid access to funds for disaster response without having to issue	See also: → *Alternative Risk Transfer*

Term	Description	Further Reading
	debt out of a distressed position after disasters, which would generally imply higher interest rate requirements from investors. The World Bank's Catastrophe Draw Down Options (Cat DDO) are to date the most commonly used type of contingent credit for disaster risk finance and are generally used for mid-frequency-mid-severity events, with insurance coverage providing "on-top" financial protection for low-frequency-high-severity events.	
Cost-Effectiveness *or* Value for Money	A CDRFI solution is cost-effective and generates value for money if the highest achievable resilience outcome is obtained for every currency unit of investment. Cost effectiveness is thus achieved by optimising both cost factors (insurance premiums, investments in data and technical support, etc) and effectiveness factors (reduced probability of non-payment of claims, maximum obtainable coverage/policy limit, etc.).	See also: → *Risk Layering*
Coverage Limit	A coverage limit refers to the maximum amount an insurance policy will pay out for a covered loss. An insurance policy can include multiple coverages – each for a different type of loss or risk – so multiple coverage limits are possible within one policy. Furthermore, coverage limits for a single loss or risk can also vary if coverage is divided into different risk layers. For example, one (re)insurer may only cover losses up to the limit of the first risk layer (e.g., losses up to 100m), after which a separate (re)insurer may cover the second risk layer (e.g., for losses up to 200m). In this case, both (re)insurers have a coverage limit of 100m as they each only cover one risk layer, but the policyholder enjoys coverage for up to 200m in losses.	
Crop Insurance	Insurance products designed to protect farmers, processors, and wholesalers from (climate) impacts which threaten harvests. Payouts by such schemes can be provided directly to farmers or the more broadly affected community, depending on the design of the mechanism. Crop insurance in climate-vulnerable contexts is usually implemented via index-based insurance mechanisms.	For an example of crop insurance, see here. See also: → *Direct Insurance* → *Indirect Insurance* → *Parametric Insurance*
Derivatives	Insurance derivatives represent a form of alternative risk transfer in offering an alternative means to traditional (re)insurance to protect against losses. Insurance derivatives, similar to catastrophe bonds, are means to transfer risk to the capital market – as opposed to transferring risk to a (re)insurer through a (re)insurance policy. In contrast to traditional (re)insurance protection, insurance derivative providers must back their offered protection with a collateral sum of money equal to the total maximum payout. Investors providing insurance derivatives place this collateral with a third party – such as a bank. As with a traditional	See also: → *Alternative Risk Transfer* → *Catastrophe (Cat) Bond*

Term	Description	Further Reading
	(re)insurance product, insurance derivatives offer protection against losses in exchange for a premium – paid directly to the investors. In the event of a covered loss occurring – based on the occurrence of a pre-agreed upon index (i.e., wind speeds over 100km/h) – the payout is issued directly from the third-party holder of the coverage sum (e.g. a Bank) to the buyer of the derivative. For the buyer, one of the advantages of an insurance derivative is the security that the capital behind their coverage is guaranteed and immediately available for a fast payout (often faster than traditional (re)insurance payouts). Furthermore, for availability of insurance derivatives can be used to bargain with other, traditional risk transfer providers for lower premium rates. For the coverage provider – that is, investors offering insurance derivatives – these policies are attractive because they have been transferred to the capital market and can thus be traded and speculated upon. While the trading of these policies in no way impacts the coverage available to the policyholders as their collateral coverage sum remains intact, it offers investors a means to make further profits through speculation on the risk/value trade-off of various policies being traded. For example, an investor offers an insurance derivative coverage against hurricane damage to a business for a value of USD100m. When a tropical storm is likely heading toward that business, this investor sells that derivative to another investor for a value of USD 80m, thus accepting a loss of USD20m, as opposed to the potential total loss of USD100m. The investor who purchased this derivative may have assessed the risk and found that the value at which the derivative is being sold was still cost-effectively a good deal, given the uncertainty around the tropical storm triggering a loss.	
Direct Insurance	Direct insurance refers to insurance schemes which operate on a micro or meso level where insurers have contracts directly with people or businesses. For example, direct agricultural insurance provide coverage directly to smallholder farmers instead of operating through a contract with the government.	
Disaster	A serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability and capacity, leading to one or more of the following: human, material, economic and environmental losses and impacts.	Read further at UNDRR
Disaster Response	Disaster response refers to actions taken directly before, during or immediately after a disaster in order to save lives, reduce health impacts, ensure public safety and meet the basic subsistence needs of the people affected. Disaster response is predominantly focused on immediate and short-term needs and is sometimes called disaster relief. Effective, efficient and timely response relies on disaster risk-informed preparedness, including the development of response capacities of individuals, communities, organisations, countries and the international community. The institutional elements of	Read further at UNDRR

Term	Description	Further Reading
	response often include the provision of emergency services and public assistance by public and private sectors and community sectors, as well as community and volunteer participation. "Emergency services" are a critical set of specialised agencies that have specific responsibilities in serving and protecting people and property in emergency and disaster situations. They include civil protection authorities and police and fire services, among many others. The division between the response stage and the subsequent recovery stage is not clear-cut. Some response actions, such as the supply of temporary housing and water supplies, may extend well into the recovery stage.	
Disaster Risk Finance (DRF)	In the humanitarian and international development context, DRF defines all instruments aimed at strengthening financial resilience or providing financial protection against disasters and extreme weather events for vulnerable countries and communities. This encompasses both insurance as well as risk financing elements. Usually implemented on a sovereign level, the central goal of disaster risk finance is to assist more rapidly and reliably to those in need when a disaster strikes by using tools like insurance and contingent credit. DRF can be treated synonymously to CDRFI, albeit putting less emphasis on climate dimensions.	Read further at World Bank See also: → *Climate and Disaster Risk Finance and Insurance*
Disaster Risk Management	Disaster risk management is the application of disaster risk reduction policies and strategies to prevent new disaster risk, reduce existing disaster risk and manage residual risk, contributing to the strengthening of resilience and reduction of disaster losses. Disaster risk finance is one integral component of a comprehensive disaster risk management cycle.	Read further at UNDRR
Equity	According to the InsuResilience Pro-Poor Principles, the Partnership aimed to deliver CDRFI solutions which provide inclusive and targeted support to promote equitable growth. This specifically entails ensuring that no one is left behind by building mechanisms, including adaptive social protection schemes and direct and indirect premium support for risk transfer solutions. Financial protection should be accessible by everyone in need to make sure that vulnerable people and countries will not carry the burden of increased climate risk, given their already strained resources.	See Pro-Poor Principles for more details
Excess of Loss (Re)insurance	In an excess of loss (re)insurance contract, a (re)insurer covers the proportion of the policyholder's losses exceeding a predefined threshold (or attachment point) and up to a preset limit, as determined by an exhaustion point. Excess of loss insurance is most prevalent in catastrophe reinsurance, where the losses of an insurer per event are layered using attachment and exhaustion points. Explained in other terms, the insurer will retain per-event losses up to a certain amount (i.e., USD 100m) while reinsurance may then be purchased to partly or wholly cover losses within the next risk layer (i.e., per-event losses between USD 100m and 200m). The per-event limit of losses for the reinsurer here is USD 100m, while the exhaustion point for both the ceding insurer and the reinsurer (retention + excess of loss reinsurance) is at USD 200m in per-event losses.	

Term	Description	Further Reading
Exclusions	Risks, perils or classes of insurance which are not covered under a contract and for which a reinsurer will not issue a payout. These risks, perils, or types of insurance may be excluded for a variety of reasons – including cases where potential losses are too catastrophic to be financially feasible for the (re)insurer, where risks cannot be appropriately modelled and priced, or where losses can stem from easily-avoidable behaviour or exposure. In the context of CDRFI, exclusions in a coverage policy can be minimised by adequately embedding these mechanisms within a broader risk management approach to reduce the likelihood and severity of these risks.	
Expected Loss	The anticipated average loss occurring for a particular (re)insurance contract, usually expressed in probabilistic terms (estimated likelihood), as computed by a risk model. For catastrophe risk insurance, this is usually the average loss the insured risk layer is expected to have on an annual basis, expressed in percentage of the layer's limit. In the context of CDRFI, the total loss to the government in infrastructure, disaster response costs, humanitarian costs, etc. can be layered into different risk layers with individual expected losses to separate the risk the government wants to retain versus the risk it wants to transfer out to insurers or capital markets.	See also: → *Average Annual Loss* → *Loss and Damage*
Exposure	Exposure refers to the presence of people, livelihoods, species or ecosystems, environmental functions, services and resources, infrastructure or economic, social, or cultural assets in places and settings that could be adversely affected, with the understanding that women, men, girls and boys, could be exposed differently to climate and disaster related hazards. For example, more men than women died from Hurricane Mitch in Central America because they were engaged in open-air activities (and therefore exposed) when it struck.	See also: → *Risk* → *Vulnerability*
Extreme Weather Events	Extreme weather events are hazards that surpass the average weather conditions in a particular region or season, such as storms and storm surges, tornadoes, tropical cyclones, extreme rainfall, snowfall and hail and very long periods of heat and drought. Extreme weather events are becoming more frequent due to climate change.	
Financial Inclusion	Financial inclusion means that individuals and businesses have equal access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way and offered in a well-regulated environment. There is growing evidence that increased levels of financial inclusion contributes significantly to sustainable economic growth.	
Financial Protection	Financial protection enables countries, policy makers and non-governmental organisations to effectively manage the cost of disaster and climate shocks while protecting fiscal balances and the welfare of businesses and households through the application of CDRFI instruments.	See also: → *Climate and Disaster Risk*

Term	Description	Further Reading
		Finance and Insurance
Gender-sensitive, Responsive, Transformative and "Smart" CDRFI	**A gender-sensitive** programme acknowledges the gender–differential vulnerabilities to climate change and disasters between people of different genders due to the dynamics of socially constructed behaviours, norms and relationships. It considers the evidence of factors that can result in gender differences in climate change and disaster vulnerabilities, risks and impacts, as well as access and usage of insurance. A gender-sensitive programme may conduct a gender analysis, acknowledge differentiated vulnerabilities and incorporate this knowledge into activities. For example, providing childcare so that women can attend training. Gender-sensitive action does not address gender relations or the distribution of power to achieve sustainable outcomes. **Gender-responsive** programmes intentionally employ gender considerations to affect the design, implementation and results of programmes and policies including budgets. Gender-responsive activities and documents account for different genders' vulnerabilities and needs when designing CDRFI products but also related to project staff, and monitoring and evaluation. Gender responsiveness presupposes an understanding of gender-specific vulnerabilities and needs, valuing all people's perspectives, and respecting and understanding their experiences. Gender-responsive programmes also open space for discussing, challenging, and engaging with inequitable gender structures, systems, divisions, and power relations. They can provide the opportunity for participants to question, experiment and challenge gender inequities. Programs that are **gender transformative** aim to overcome structural challenges and barriers by incorporating strong actions based on intersectional and context specific gender analyses. They seek to transform unequal gender relations to promote shared power, control of resources, decision-making, and support for the empowerment of people of all genders. Programs might create opportunities for individuals to actively challenge gender norms, promote positions of social and political influence for people marginalised based on their gender in communities, and address power inequities between persons of different genders. They create an enabling environment for gender transformation by going beyond just being gender inclusive and integrating gender issues into all aspects of program and policy conceptualisation, development, implementation and evaluation. Gender transformation is substantial changes in gender relations towards equality between people of all genders. Any action or activity that is gender sensitive, responsive and transformative can be referred to as "**gender-smart**". Gender-smart approaches incorporate gender considerations specific to the cultural and social context at all stages and aims to achieve gender equality. Gender smart also refers to the integration of gender analysis for better social and financial outcomes, recognising that CDRFI can impact people differently based on their gender and that there are different opportunities within CDRFI initiatives for men and women.	For more details, see the CoE's glossary on terms related to gender and CDRFI.

Term	Description	Further Reading
Hazard	Hazard is generally used synonymously with peril. Within risk modelling the hazard component assesses the likelihood and severity with which covered perils are expected to occur, leaving aside the exposure (i.e., where are the insured assets located and hence how exposed are they) and vulnerability (i.e., how prone are these assets to be damaged by the respective peril).	See also: → *Risk Modelling*
Indemnity	Financial compensation which is sufficient to place the (re)insured in the same financial position after a loss as they were immediately before the loss. This amount is generally calculated based on the ultimate net (i.e., net of any other inuring insurance) loss of the beneficiary.	
Indemnity-based Insurance	A (re)insurance contract which pays out compensation worth the ultimate net loss of a specific asset. This type of insurance can be useful in protecting high-value assets such as homes, where there is a relatively narrow scope of potential loss. Insurance payouts are usually determined based on an on-site assessment of losses after an event has occurred.	
Index-based Insurance	In contrast to Indemnity-based Insurance, index-based Insurance pays out when specific parametric indices of the covered perils are exceeded (e.g., wind speed, rainfall). This allows for a more rapid payout of a pre-agreed amount based on the severity of the index triggered. By eliminating the need for claims settlement, Index-based Insurance may enable protection of losses that are difficult to assess and for which a price is more challenging to calculate on an indemnity basis. Also, index-based insurance pays out substantially faster than indemnity-based insurance. For this reason, index-based insurance is frequently used within sovereign CDRFI, as it provides governments with fast liquidity to strengthen disaster response.	See also: → *Expected Loss* → *Alternative Risk Transfer*
Indirect Insurance	Indirect insurance refers to insurance schemes which operate on a macro scale in contracts with governments (or government operated risk pools) rather than direct provision of coverage to the intended beneficiaries. In these cases, in the event of a disaster, governments receive a payout from the (re)insurer which is then distributed or channelled into disaster response measures to reach the people or parties which have been affected by the disaster.	See also: → *Beneficiary*
Insurance	Insurance is the provision of financial protection against specific losses, typically provided in exchange for regular premium payments. The perils which are covered, the extent of compensation, and the premiums are agreed upon in the contractual agreement between the insurer and the insured. The insurer, in turn, is a party which provides this service by agreeing to financially compensate people, companies, or organisations for specific losses defined in the contract.	
Insurance Payout	Insurance payout is the sum of money the insurance company pays to a policyholder.	See further at Climate and Disaster Risk Financing and

Term	Description	Further Reading
		Insurance: 25 key terms you need to know
Insurance Premium	Insurance premium is the monetary amount charged to an insured individual, organisation or country for insurance protection. The terms of payment (i.e., payment due dates, frequency and amount to be paid) are indicated in a contract, the insurance policy.	See further at Climate and Disaster Risk Financing and Insurance: 25 key terms you need to know
Integrated Risk Management	Integrated risk management, as defined by The Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, includes risk assessment, risk reduction, risk transfer, and retention. Integrated risk management should aim to build the long-term resilience of countries, vulnerable populations, and communities to loss and damage. This can be done through the inclusion of social protection instruments and through the dispersal of information about financial instruments as well as tools which address climate risks to create an enabling environment and facilitate the uptake of solutions best suited to the policy context of each country or region.	Further reading at UNFCCC.
Intersectional Analysis	Intersectional analysis aims to expose the different types of discrimination and disadvantage that occur as a consequence of the combination of identities. It aims to address the manner in which systems of discrimination or oppression create inequalities that structure the relative positions of people of different genders, races, ethnical groups, etc. Intersectional analysis posits that we should not understand the combining of identities as additively increasing one's burden but instead as producing substantively distinct experiences. It is therefore an indispensable methodology for development and human rights work.	Source: AWID 2004 For more details, see the Centre of Excellence's glossary on terms related to gender and CDRFI.
Loss and Damage	Based on the UNFCCC definition, the concept of loss and damage refers to the adverse effects of climate variability and climate change which remain after climate mitigation and adaptation efforts have been made. Loss and damage stems from cases where: 1. coping or adaptation efforts are not sufficient to avoid losses and damages, 2. coping or adaptation measures have associated costs which are not retained or compensated, 3. the gains of coping or adaptation measures are short-term but do not remain long-term, or 4. coping or adaptation measures are not possible.	Read further at UNFCCC
Macro-level CDRFI	Macro-level CDRFI refers to financial arrangements on sovereign or sub-sovereign levels supporting national or sub-national governments in addressing early action disaster response and reconstruction needs. This includes macro insurance schemes such	See also: → *Regional Risk Pools*

Term	Description	Further Reading
	as insurance offered to countries by regional risk pools (such as CCRIF, PCRAFI, ARC), cat bonds, contingent credit instruments, or contingency funds.	
Market Penetration	Market penetration refers to the level of uptake for a particular insurance product for insurance. Penetration rate is usually measured as the ratio of premium underwritten in a specific year to the GDP. (Re)insurers wish to increase market penetration to promote uptake of their products and increase premium income. Generally, a higher market penetration should lead to a reduced protection gap so supporting an increased uptake of insurance can be a viable approach to strengthening the resilience of vulnerable people.	
Meso-level Insurance	Meso-level insurance refers to those cases where the insured is not an individual, but rather an aggregation of individuals under a collective body. For example, the insured might be an organisation that supports a collective of farmers within an area. This meso-level organisation buys an insurance product designed to cover the collective of individuals; the individuals themselves are then indirect beneficiaries of financial protection. They will receive payments from the meso-level organisation, based on any claims paid to the organisation through the insurance product. Such products are often taken out on behalf of vulnerable individuals who do not have adequate protection – or indeed, any protection – through direct insurance.	
Micro-level Insurance	Microinsurance is the direct insurance of individuals or small-business policyholders. Increasingly, however, micro-insurance has come to mean the development of insurance products to directly insure the most vulnerable individuals in low-income countries; a parallel to the concept of microfinance.	
Moral Hazard	Moral hazard is the idea that (re)insurance coverage may negatively influence policyholder behaviour to encourage more reckless practices with a "don't worry, it's insured" attitude. This type of behaviour could increase the frequency and amount that a (re)insurance company would need to pay out, which in turn would require a repricing of that policy which could eventually become unaffordable – leaving the intended recipient without risk protection and the (re)insurer without business. To avoid this scenario, (re)insurers build in particular clauses to define the conditions under which a payout is warranted.	
National Adaptation Plan	National adaptation plans (NAP) were established by the United Nations Framework Convention on Climate Change (UNFCCC) as a way to facilitate adaptation planning in the least developed countries (LDCs) and other developing countries. National adaptation plans serve to identify medium- and long-term adaptation needs and develop and implement strategies and programs to address those needs. They are produced in a continuous, progressive and iterative process which follows a country-driven, gender-sensitive, participatory and transparent approach.	See further at UNFCCC.

Term	Description	Further Reading
Natural Hazard	Natural hazard is a geographical event that occurs naturally and has the potential to cause injury/loss of life or property/environmental damage.	
Ownership	Ownership in the context of the InsuResilience Global Partnership means to ensure demand-driven and participatory approaches, which build solution design and implementation processes on sound needs assessments, are embedded into existing governance structures and market conditions, and strengthen the capacities of stakeholders, specifically national governments and national private sector, while empowering end users to jointly design, decide and implement solutions. It also points to the transparent conduct in terms of funding and delivery of resources, supported by the establishment of processes and mechanisms for meaningful engagement of the end beneficiary.	
Parametric Insurance	Parametric insurance is a type of insurance in which a payout is automatically triggered when certain predefined parameters (e.g., duration of a dry period, amount of precipitation, wind speed) are reached or exceeded. This type of insurance is often also interchangeably used with "index-based insurance" as the triggers are often designed as indices. Some types of parametric insurance are based on a modelled-loss approach in which a payout is triggered when the value of modelled losses, calculated based on the hazard parameters, exceeds a given threshold.	Read further at Climate and Disaster Risk Financing and Insurance: 25 key terms you need to know.
Policyholder	A person or party who enters into insurance contract(s) wherein an agreed-upon person or party receives financial protection against agreed-upon events or losses in return for the payment of a premium. Policyholders may be separate from the beneficiaries of a policy if they are acting as an intermediary or an agent bundling and representing the needs of ultimate beneficiaries.	See also: → *Direct Insurance*
Preparedness	The knowledge and capacities developed by governments, organisations, communities and individuals to effectively anticipate the occurrence of climate and disaster risks, and hence to act in advance or respond to and recover from their impacts quickly and effectively.	Source: UNDRR
Prevention	Prevention refers to activities and measures to avoid existing and new disaster risks. As an element of climate adaptation and disaster risk management, preventive measures can help to avert expected losses from climate and disaster risk.	Source: UNDRR
Protection Gap	In the context of CDRFI, the protection gap for (climate-related) disasters is usually defined as the share of uninsured/unprotected losses to total losses. Two methods are usually considered: (i) actual uninsured losses as a share of actual total losses based on recent disaster events, or (ii) modelled (potential) uninsured losses as a share of modelled (potential) total losses.	

Term	Description	Further Reading
Quality	Based on the InsuResilience Pro-Poor Principles, important aspects of quality in CDRFI are ongoing learning within a broader risk management context, application of best techniques and practice, evidence-based, needs-based, gender-responsive and inclusive solutions, and careful management of basis risk.	
Recovery	The restoring or improving of livelihoods and health, as well as economic, physical, social, cultural and environmental assets, systems and activities, of a disaster-affected community or society, aligning with the principles of sustainable development and "build back better", to avoid or reduce future disaster risk.	Source: UNDRR
Regional Risk Pools	Donor-funded entities that offer parametric insurance products for governments, and pool the risk at a regional level before ceding out a portion of that aggregate risk to reinsurance markets. Current sovereign regional risk pools include the African Risk Capacity (ARC) Group, CCRIF SPC (formerly known as the Caribbean Catastrophe Risk Insurance Facility), Pacific Catastrophe Risk Insurance Company (PCRIC) and the Southeast Asia Disaster Insurance Facility (SEADRIF).	Read further at Climate and Disaster Risk Financing and Insurance: 25 key terms you need to know.
Reinsurance	Reinsurance is the provision of financial protection to insurance companies. Reinsurers, the companies providing this service, absorb risks that are too large for insurance companies to manage on their own. This service makes it possible for insurers to offer more policies/coverage than they would otherwise be able to. Reinsurers also help spread out accumulative risks, e.g., natural disasters like earthquakes and hurricanes, through diversification across regions and different lines of business. Large single-loss events or aggregation of loss events could exceed the primary insurer's financial ability to pay. By transferring a part of the risk (and portion of the premiums) to reinsurers, insurance companies can stay solvent and provide these services at affordable rates to individuals and parties.	
Residual Risk	Residual risk is the risk remaining after risk prevention, reduction and preparedness measures have been taken. In the context of CDRFI, this means the risk of asset or livelihood loss which are financially protected through a suitable CDRFI product.	
Resilience	The capacity of social, economic, and environmental systems to cope with and withstand a hazardous event or trend or disturbance, responding or reorganising in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning, and transformation.	
Return Period	Return period refers to the probabilistic frequency at which a loss event is expected to occur expressed in years, for example, a 1-in 5-year flood or a 1 in 100-year flood. The return period is also inversely related to the severity of an event. For example, a 1 in 100-year flood has a higher expected severity than a 1 in 5-year flood.	See also: → *Average Annual Loss* → *Expected Loss*

Term	Description	Further Reading
Risk	Risk, in extensive terms, is the uncertainty of loss. This uncertainty encompasses doubt about the cause and outcome of a situation, uncertainty as to the occurrence of a loss in a situation, unpredictability about how a situation will unfold, and uncertainty about the chance of a loss occurring and which factors may influence that chance. In insurance, this uncertainty may be quantified through the probability of damage or as expected loss to an asset.	See also: → *Climate Risks*
Risk Layering	Combining (or layering) different financing instruments to protect against events of different frequency and severity in a cost-effective manner. Risk layering allows governments to structure risks and risk transfer instruments for each risk layer in order to optimise cost-effectiveness, allowing the most cost-efficient and effective solution to be applied.	
Risk Modelling	Risk modelling quantitatively assesses the level of risk involved based on the hazard, i.e., the estimated frequency and severity of the covered peril, the geographic exposure of the assets, and their vulnerability. Risk modelling is a highly complex process which requires both substantial internal resources, computing capacity, stochastic knowledge, geographic information as well as historical data on the respective peril. A lack of adequate data and risk modelling capabilities is often a large barrier to effective climate adaptation and CDRFI deployment in developing countries.	
Risk Pooling	Risk pooling is a fundamental principle of risk management and insurance: by creating a diversified portfolio of the risks faced by a large number of contributors into a single portfolio, pools ensure that each contributor's share of the portfolio is less risky than its initial share. Risk pooling does not reduce the underlying risk, but rather allows for improved spreading of risk, leading to potentially significant reductions in the cost of risk, particularly for severe events. Risk pools therefore contribute to more effective and more affordable financial risk management.	See also: → *Regional Risk Pools*
Risk Retention	Risk retention is the decision by an individual, business or government entity to take responsibility for a particular risk it faces (i.e., to retain the risk), as opposed to transferring the risk to a (re)insurance company. In the context of CDRFI, risks are retained effectively using pre-arranged risk retention instruments like contingency funds and contingent credit instruments.	
Risk Transfer	Risk transfer refers to the process of transferring the potential financial consequences of an adverse event from one party to another. Insurance is the most commonly used risk transfer instrument.	
Sex-disaggregated Data	Data that is cross-classified by sex, presenting information separately for men and women. When data is not disaggregated by sex, it is more difficult to identify real and potential inequalities. Sex-disaggregated data is necessary for effective gender analysis.	For more details, see the CoE's glossary on terms related to gender and CDRFI.

Term	Description	Further Reading
Social Protection	Social protection refers to a wide set of policies and programmes that aim to reduce impacts of shocks and stresses on members of society over the lifecycle. Social protection includes safety nets or social assistance, social insurance, labour market interventions and social services. Social protection programmes have been shown to effectively support communities and households in dealing with chronic vulnerability and poverty. Shock-responsive (or adaptive) social protection programmes can respond flexibly in the event of an emergency or a climate impact and be scaled up rapidly to channel either more support to existing beneficiaries or extend support to more people affected.	See also: → *Vulnerability*
Trigger	Triggers are an integral component of an index-based insurance mechanism, which defines when a contract is to pay out to the policyholder. This trigger is typically based on parameters directly related to the risk that the policyholder is seeking to protect against, such as hurricane wind speed or rainfall total. These triggers must be carefully designed to correspond accurately to specific expected losses and damages arising from the risk against which the policyholder seeks to protect itself. The contingent nature of a parametric insurance contract, meaning that it pays out only when defined parameters are recorded or experienced, makes the payout mechanism predictable and rapid.	See also: → *Parametric Insurance*
Underwriting	The process of assessing risks and potential losses to negotiate the terms and conditions of an insurance contract – including which risks will be covered, under what conditions, at what value, and for what premium.	
Vulnerability	Vulnerability describes the susceptibility of exposed assets, people, or parties to injury or loss in a catastrophe. As a critical component of risk modelling, vulnerability refers to the ability of an exposed person or asset to withstand a physical impact through internal forces or structures, and thus resist or avoid fatality, injury, or damage. The vulnerability of assets to climate and disaster risk is therefore primarily driven by construction type (e.g., wood, masonry, etc.). In the context of international cooperation related to disaster risk management and climate adaptation, vulnerability is often used in a broader sense, i.e., including the exposure of a community or individual to natural hazards, as well as its capacity to recuperate and return to an acceptable level of functioning.	See also: → *Exposure* → *Hazard*
Vulnerable Countries	Countries that are particularly susceptible to climate impacts as a result of both exposure and adaptive capacity due to economic development levels. The V20 group of countries is a leading platform representing the needs of vulnerable countries in global climate change efforts and initiatives	See the website of the Climate-Vulnerable Forum and Vulnerable Twenty (V20) Group