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The Food Aid Organization of the United Nations

## News Release

6 March 2006

### WORLD'S FIRST HUMANITARIAN INSURANCE POLICY ISSUED

**ADDIS ABABA** – The United Nations World Food Programme announced today that AXA RE has been awarded the world's first insurance contract for humanitarian emergencies. The contract provides US \$7 million in contingency funding in a pilot scheme to provide coverage in the case of an extreme drought during Ethiopia's 2006 agricultural season.

“So much of our work is like triage – doing our best to save lives *after* a drought or other disaster has already done its damage. Today we need to feed six million people across the Horn of Africa who are already losing their life savings as drought claims their cattle and crops,” said James T. Morris, Executive Director of the World Food Programme.

“The humanitarian emergency insurance contract might, in the future, offer us a way of insuring against these massive losses before they spell destitution for millions of families,” said Morris.

“As a worldwide leader in Financial Protection and one of the pioneers of weather cover through its subsidiary AXA RE, AXA is happy to provide its financial expertise in implementing this innovative coverage. This is the first time that an insurance cover transferring risk to financial players is used for protecting people against the consequences of extreme drought. We are proud that our business can contribute to the struggle against the devastation caused by natural disasters in developing countries,” said Hans-Peter Gerhardt, CEO of AXA RE.

“This contract heralds the beginning of what may be an entirely new way of financing natural disaster aid,” said Richard Wilcox, Director of Business Planning at the World Food Programme. “With this pilot, developed together with the World Bank Commodity Risk Management Group, we are testing whether it is possible to insure against the devastation caused by extreme drought.”

The policy, a derivative based upon a calibrated index of rainfall data gathered from 26 weather stations across Ethiopia, takes advantage of financial and technical innovations in the weather risk market. Payment will be triggered when data gathered over a period from March to October 2006 indicates that rainfall is significantly below historic averages, pointing to the



likelihood of widespread crop failure. While the experimental pilot transaction only provides a small amount of contingency funding, the model has been designed on the basis of the potential losses that 17 million poor Ethiopian farmers risk should an extreme drought arise.

The policy complements recent UN moves towards greater effectiveness through the creation of an emergency fund which could provide fast injections of cash to aid operations in the first few days after disaster strikes.

“Some disasters – especially conflict and displacement – are harder to predict and faster to unfold, so we will continue to need untied contingency funds. Risks such as drought, however, can also be managed effectively under the type of contract we have just signed with AXA Re,” explained Wilcox.

Transferring weather risks from poor countries like Ethiopia into the international risk market on a larger scale would allow insurers to diversify their portfolios. This diversification could help stem the rising cost of weather-related insurance in developed countries while providing more effective financial protection to developing countries.

“The portfolio effect of bringing emergency aid into the international risk markets is a win-win for developed and developing countries. With this deal, WFP is making a bold move towards more equitable and effective international risk management,” said Robert Shiller, Professor of Financial Economics at Yale University and author of ‘The New Financial Order: Risk in the 21<sup>st</sup> Century’.

The Governments of the United States and Ethiopia have supported this project. Additionally, private sector advisors of Weil, Gotshal and Manges LLP and MDA Federal (EarthSat) have made valuable contributions to the project.

“We have shown that the reinsurance sector can have an important role to play in effective financing for responses to natural disasters in developing countries. Now the industry itself should take up the challenge to provide effective products to developing countries and the aid community. Together we can build this innovation into a better future especially for the 220 million poor farmers at risk of drought in sub-Saharan Africa,” said Wilcox.

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