Paradoxes in using Insurance to Finance Development Goals

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Grand Challenges: Large-scale, complex, enduring problems such as endemic poverty or climate change: “the fundamental principles underlying a grand challenge are the pursuit of bold ideas and the adoption of less conventional approaches” (Colquitt & George, 2011: 432).

Paradox; “persistent contradictions between interdependent elements” (Schad et al., 2016: 10)

Grand challenges are innately paradoxical: Contradictory world views, technical understandings and strategic interests of stakeholders who are interdependent in addressing them (Jarzabkowski, Bednarek, Chalkias & Cacciatori, 2018)

Working through paradoxes makes addressing the challenge possible
The challenge: How to improve the financial response to natural disaster in fragile economies (Ballesteros, Useem & Wry, 2017)

After [disaster], it was so bad that the government could not even pay the public servants and that created a lot of secondary problems because they couldn’t pay their public servants … even the police started looting … They couldn’t service their debts which then put them in a downward spiral. Donors always come to the rescue of those countries but it takes quite a while. It takes three, six months, one year before a donor, the international community can actually provide and then you also start renegotiating your debt schedule and that also takes six months to a year, and in the meantime you’re in default and...
The Challenge: Insuring the Uninsurable

- Insurance is a means of ex-ante provision for disaster, BUT
  - Lack of basic mechanisms necessary for insurance, such as models that indicate exposure, potential loss, etc
  - The severity and frequency of the disasters may be beyond the capacity for insurance …
  - The cost may be beyond sovereign states

- The emergence and development of disaster liquidity insurance as a means of providing disaster response

- Through MULTI-COUNTRY RISK POOLS in developing economies

Absurd! Impossible!

- One of the big problems government in the [Region] have is they're so small they can't hold any reserves, right. If you have fifty thousand inhabitants, your annual budget is three or four hundred million dollars, you're not going to hold fifty million dollars in a reserve account, that would be…

- There was a lack of data and a lack of data from the governments. You know, keeping in mind these are essentially emerging nations
Paradoxical interests

- Financial vs. Development interests: “It needs to be appealing to the businessman’s interests around a sustainable profit motive, vis-à-vis government’s role to see to the rights and protection of its citizens” (Development, Interview)

- Part vs. Whole interests: “There is an advantage for a group of governments to get together because of the spread of risk. … But it is not easy to create this kind of stability among the facility. You still have countries moving in and out for political, financial reasons, etc.” (Pool, Interview)

- Short-vs. Long-term interests: “It is about how do you balance a short-term desire to say OK, get countries onboard, with a longer-term strategy of building understanding of risk management and really embedding this in to their system” (Development, interview)
“You had other countries like [Country 1] where they had an event and it triggered, and it triggered probably, I don’t know, over eight million dollars, but the losses in the country visually was not as devastating as what was seen in [Country 2]. So there was this discrepancy, people trying to understand how can you pay out more for a government like [Country 1]”. For another Country 3 “There was some damage but really not much and the policy didn’t trigger.”
Generates *specific actions*

- Lessons learnt, story-telling
- Some members leave pool but others remain and even increase the

> “Unfortunately, they did not trigger the policy but there was a reason for that. The government had actually selected a very high attachment point … Had they selected the one we had offered, it would have triggered, but that was the decision they made” (Pool, Interview).

> “I remember when we saw the payment after the [disaster]. It was very quick… The President declared a state of emergency and so we put the money in an emergency budget. Then the Government could use this money to respond” (Country, Interview).
Another Critical Incident (1)

- A drought trigger is not met
- Working through paradoxes

Early indicators suggested that millions of citizens might be vulnerable to a pending drought, yet substantial rains ultimately then occurred later in the season. Modelling indicated that only some 20,000 people would be affected.

Yet at the end of the season the Prime Minister declared a national state of emergency. The World Food Program concluded that “nearly 40 percent of the population may require emergency assistance in coming months. This is set to become the largest ever emergency food relief operation in the country’s history” (Development, Document).

“Prices for maize, the nation’s staple crop, have in recent months gone up more than 60% above the 3-year average for this time of the year, making it increasingly difficult for many people to buy food” (Country).
Another Critical Incident (2)

- Generates *specific actions*
  - Bolsters the ability to meet developmental interests through financial mechanisms
  - Enhances modelling in an attempt to avert future “surprises”

- Actions are partial and imperfect but motivate
  - Enhancements in modelling to *Strengthen insurability*
  - Working around the ‘market problem’: *Development agencies as agents* in planning for and addressing countries’ exposure to disaster.
Working through Paradox to Make it Possible

Developing a Pool
- Interdependence (Collaboration)
  - Financial & Development goals
  - Virtuous paradox cycle
  - Part needs met by Whole
  - Balance short- & long-term

Catastrophic Event
- Financial vs. Development
- Vicious Paradox Cycle

Testing the Solution
- Fragmentation (Potential breakdown)
  - Financial vs. Development
  - Parts vs. Whole
  - Short-term vs. Long-term

The Aftermath
- Rebuilding Interdependence?
- Defensive responses
  - Splitting
  - Opposing
  - Suppressing
- Active responses
  - Acknowledging
  - Continuous adapting
  - Transcending

Testing the Solution
The Aftermath

The Aftermath
Rebuilding Interdependence?