

Disaster insurance can be more effective for those in need if countries work with, rather than avoid, tensions

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Resolving the inevitable tensions between countries in disaster-insurance risk pools will ensure a faster and more effective response to extreme-

weather catastrophes.

A new paper, led and co-authored by Professor Paula Jarzabkowski at Bayes Business School (formerly Cass), has explained how countries can find mutually beneficial arrangements to support low-income countries in the immediate aftermath of a disaster.

The report finds that disaster-liquidity insurance—which provides a rapid release of capital from global reinsurance to support countries in responding to disaster—can be better tailored to countries' needs when they actively engage with the inevitable tensions that arise from pooling [risk](#).

Risk [pools](#) enable countries to purchase more cost-effective disaster insurance. Yet all disasters are traumatic, generating imbalances that threaten a risk pool's effectiveness. Countries may be competitors and could have different strategic priorities from taking part in a risk pool. Disasters make these differences more apparent, driving wedges that can pull the pool apart.

However, the practical solutions outlined in this study show how to work with these tensions to enable participants in a risk pool to meet their own interests more effectively.

Professor Jarzabkowski said: "The most critical challenges facing humanity, whether it be [climate change](#), global poverty, or extreme-weather disasters, are large scale and complex, and require interorganisational efforts in addressing them.

"This first-of-its-kind framework offers an optimistic outlook and makes clear that, while these catastrophes may mean initial setbacks in collaborative working, over time they offer more rounded solutions and responses.

The authors explain how equilibrium can be restored, as countries use the tensions in the aftermath of disaster to develop technical skills in disaster risk planning and management, access capital to improve their infrastructure, and gain a deeper understanding of how to draw on insurance markets to meet their short and long-term development interests. Importantly, working with these tensions leads to [new ideas](#) that improve the viability of disaster liquidity products, and result in a stronger overall delivery for those in the risk pool.

Climate change is exacerbating the frequency and severity of disasters, with disproportionate effects on vulnerable people in low-income countries. The hurricanes that swept the Caribbean in 2017 cost some countries over 200 percent of their GDP. The ability for rapid response to such disasters can alleviate their longer-term effects, including limiting loss of life and livelihood. For example, it has been proven that an early financial response to drought can halve the number of livestock deaths and is fourteen times cheaper than the cost of replacing dead livestock as part of a slower aid-relief response, so providing better support for vulnerable populations. Innovative disaster-liquidity insurance, particularly through risk pools, is a growing way of meeting the development goals of [low-income countries](#), and their donors, because it enables these rapid responses.

Professor Jarzabkowski concluded: "We know that low-income nations often have limited financial reserves for immediate response and are reliant on international development and humanitarian aid, which may take weeks or even months to arrive. That makes it even more important that those in the risk-pool understand that tensions can be productive and improve their ability to work together to gain financial support.

"It is important to remember that, although interorganisational collaborations may sometimes get messy, collaborative working provides optimism that we can find ways to address the increasing threat of

disaster facing society, and practical mechanisms through which this can be achieved."

"Enabling rapid financial response to [disasters](#): Knotting and reknitting multiple paradoxes in inter-organizational systems" will be published in the *Academy of Management Journal*.

More information: Paula Jarzabkowski et al, Enabling Rapid Financial Response to Disasters: Knotting and Reknitting Multiple Paradoxes in Interorganizational Systems, *Academy of Management Journal* (2021). [DOI: 10.5465/amj.2019.0745](https://doi.org/10.5465/amj.2019.0745)

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