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**The Role of Insurance Companies in Sustainability  
and Disaster Risk Reduction in Palestine**

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**Abstract**

*Natural disasters are a source of economic risk in many countries, especially small and low-income countries, and risk management requires advanced planning. Insurers and the Palestinian government have different, and sometimes contradictory, interpretations of the emerging new paradigm of "sustainable disaster risk management," which prioritizes nonstructural management measures over existing defenses. The current lack of agreement between the Palestinian government and the private insurance sector on the future of insurance against natural disasters such as floods, storms, earthquakes, and droughts is an excellent example of this. More research is needed to compare the outcomes of insured and uninsured properties, especially to better understand the role of insurance in climate adaptation. Given the anticipated changes in the insurance industry in Palestine, which has gone through conditions and stages that no other insurance industry in the world has gone through, beginning with reliance on neighboring countries such as Jordan and Egypt, as well as deliberate marginalization, in a time when the Israeli economy is so reliant on it, the diversity of opinions on the best approaches to disaster risk management is examined in this article. It considers ways to improve the use of insurance by vulnerable countries and suggests ways to judge the adequacy of insurance. The long-term viability of society in areas prone to natural disasters is one of the topics investigated. Finally, the research critically evaluates alternative approaches that could be used in the future to protect more disaster-prone sites while staying consistent with long-term policies for managing the risk of natural disasters, based on international experience.*

**Keywords:** sustainability, risk management, insurance companies, disasters, reduce uncertainty.

**JEL Classification:** Q01, G32, G22, Q54, D81.

**1. Introduction**

Since 1994, the Palestinian Authority, the authority authorized to supervise and control the insurance sector in Palestine, has been established. Since 2004, the

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Capital Market Authority has been established to supervise and control the insurance sector, as a specialized body in this sector, and the General Insurance Federation of licensed companies has been established. The Palestinian Road Accident Compensation Fund, the beginning of the features of Palestinian legislation and insurance law (Palestinian Economic Policy Research Institute MAS, 2016).

The cost of natural disasters that stormed Palestine, millions of dollars over time, which posed a problem to the economy, especially for those who manage the risks of the economy, the insurance sector (Qandilou, 2020).

In the event of natural disasters, the state of Palestine suffers a lack of insurance coverage and support (Regional Assessment Report for Disaster Risk Reduction in the Arab Region, 2021).

Natural disaster insurance was not available before the establishment of the Palestinian Authority because the Palestinian territories were administratively subordinate to the Israeli government; as a result, there is no governmental or institutional support for insurance companies to cover natural disaster risks. The lack of insurance coverage for those who have been harmed by a lack of insurance services raises concerns about insurance companies' willingness and ability to cover these costs for those in more vulnerable areas of natural calamities.

If companies cannot recover from risks and crises or cannot adapt to them, they will be threatened with collapse; therefore, insurance companies face challenges in the Palestine insurance sector, weakness, and distortion, especially in its early stages as a result of the political changes that Palestine has undergone, hence the urgent need for an active insurance sector capable of achieving sustainability and facing disasters and crises that we are facing, which are sudden unexpected changes (Al-Jabari, 2021).

And because insurance companies in Palestine must bear a large part of the responsibility in the case of disasters, especially the compensation of property in the event of a disaster, the researcher considered it necessary to study the role of insurance companies in sustainability and disaster risk reduction in Palestine.

## **2. Problem Statement**

At present, there is a global interest in the preservation of human life on Earth management as an important scientific trend toward which most studies and research are directed, especially in these countries that are working hard to achieve sustainable development in all its aspects, but in particular, they aim to achieve this in the insurance sector through sustainable risk management. One can note that the rapid developments the world is witnessing such as population growth are serious challenges for human beings in order to preserve their rights and the ability for future generations to continue in a dignified life far from dependence in all its forms (Al-Sabbagh, 2009).

Sustainable development is about meeting the needs of current generations without affecting the ability of also the future generations to meet their needs through the optimal use of resources.

The optimal use of resources in insurance companies can be attained through the application of proper risk management steps and improving business performance.

This would lead to improving management, reducing risks, and increasing the wealth of owners in line with sustainability.

Caraiman et al. (2020) clarifies that risk management is an integral part of the way any organization works and the basis of management approaches. Therefore, it should not be separated from the daily activities of any organization where risk management is necessary. Because as long as there are always doubts about the nature of the threats facing companies, and as uncertainty is an everyday reality, the reaction to uncertainty must become a permanent and a highly essential concern.

Philip et al. (2015) explains that Enterprise Risk Management (ERM) means the integrated management of all the risks an organization faces, which inherently requires alignment of risk management with corporate governance and strategy. ERM proposes that companies should manage all their risks comprehensively and coherently, instead of managing them individually. A company's overall strategy and strategic choices significantly influence its risk, and the uncertainty associated with high-level strategic choices poses challenges for ERM.

The study of Nugraha et al. (2022) examined the effect of implementing risk management on the financial performance of companies, which has a positive impact on market performance. The objective of the study is to demonstrate that financial performance has positive impacts on market performance. This study concludes that companies implementing ERM had better market performance and financial performance compared to companies that did not implement ERM.

The study of Zbar (2014) indicates the role of reinsurance complexes in covering major risks and how to reinsurance in the insurance industry sector through these complexes. The study clarifies that the greater the area of the complexes, the greater the insured area, which helps in controlling the risk, as it encourages the establishment of insurance complexes in the countries, especially when it comes to the insurance of possible major risks. Basically, the risks are greater due to natural disasters, which enables these companies to control them; therefore, reducing the risks of natural disasters.

Al-Badawi, Sh. (2014), expands on the necessity of applying sustainable planning in order to reduce disaster risks. The study explores and evaluates the Palestinian situation through the mechanism of work of the administrative system for disaster risk reduction, which shows that there are problems in the laws and procedures designed to deal with disasters. Also, there is an absence, on a regional level, of the process of sustainable planning for disaster reduction.

The study recommends activating the role of authorities and laws that help protect natural risks and disasters and developing financial policies with clear budgets to make insurance sustainable.

Salama (2014) indicates that it is necessary to plan for disaster response assessment of contingency response plan in governmental institutions. This study provides an emergency response plan for the Palestinian government institutions, and it also studies the most important challenges and problems faced by planners facing disasters. Moreover, it indicates that the system of risk and disaster management and emergencies in official institutions that are concerned with

responding to emergencies are weak and are not well-prepared to respond to emergencies.

The study recommends the necessity of integrating the concept of risk reduction and prepared programs within strategic plans and the development of their institutions with the need to develop laws and legislation for disaster management. In addition, it recommends the consolidation and development of a national reference for disaster management in order to focus on the risks of natural disasters that harm everyone.

Hattab's (2012) study demonstrates the responsibility of insurance companies to compensate victims of road accidents and it specifies the amount of compensation. Also, it clarified the position of the Palestinian law regarding compulsory insurance in terms of compensation coverage. In conclusion, the study finds out that Palestinian insurance is characterized by limited coverage of material damages and that in the Palestinian law there is nothing that obliges insurance companies to accept compulsory insurance. Finally, the study recommends that the Palestinian legislators should apply compulsory insurance to compensate for the material damage.

The study of Biswal, S. (2014) aims at reviewing the plans, policies, and laws followed by the Government to reduce disasters and face risks. The study concludes that the administration often fails to face disasters alone, which leads to the need to transferring part of the money from other allocations to implement disaster response plans.

We can summarize the previous studies, considering that achieving good risk management in insurance companies and improving business performance for sustainable development in this sector makes management better in addition to reducing risks and maximizing the wealth of owners, with a focus on the biggest risks that may sustainably affect the risks of natural disasters that harm everyone. In the previous literature, the focus was on each factor individually, but in this study it was clarified in a coherent manner so that it became clear that risk management is important in achieving sustainable development.

From here, we clarify the main problem of the study, the weak role of insurance companies in sustainability and disaster risk reduction in Palestine.

### **3. Research Questions / Aims of the Research**

The aim of this study comes in light of the circumstances that Palestine is experiencing, in an attempt to improve the role of risk management in achieving sustainability in the insurance sector. The sub-objective is towards improving risk management and focusing on the risks of natural disasters.

We clarify here the central question: Is there a role for risk management in achieving sustainability in the insurance sector?

The sub-question: Does risk management address the risks of natural disasters in the insurance sector?

The need for this study is the current role in the insurance sector for such a study and its assistance in solving the problems of risks and disasters and their current and future impact on the population.

#### 4. Research Methods

The current study uses a theoretical presentation of previous literature showing the achievement of sustainability through the role of risk management in the insurance sector through collecting data and information from books, press articles, online research, and annual reports.

Based on available literature, this study was conducted in a manner that uses descriptive research to shed light on the role of risk management in achieving sustainability in the insurance sector with a focus on the risk of natural disasters.

Data sets were in the form of words or information about risk management presented by various sources of data, such as texts, articles, reports, and doctoral dissertations relevant to the research topic were noted, written in a draft, and then analysed. The criterion of papers was, according to date, and according to proximity to the subject and place of research, also assisted with the process of obtaining semi-structured interview questions.

Forty research articles related to the topic under study were reviewed. Eight articles were included from the literature point of view and were referred to in the study. Only papers that discussed the role of risk management related to the risk of natural disasters, achieving sustainability, or better managing or minimizing risks, or those that dealt with the same topic in the context of insurance, were selected.

The data was analyzed and collected from the papers that were referenced to match the study's goal.

Four representatives of the major insurance providers in Palestine, namely, Trust Company, National Insurance Company and two industrial bodies, were interviewed in semi-structured interviews in the local market. Data were collected from the 05/01-20/03 of 2022, for the age group of 30 to 60 years of Palestinians residing in the West Bank.

Representatives of these organizations who were involved in the policy-making process were chosen, the following experts were selected for the interview: a regional insurance manager, a risk manager, and two general managers.

The responses to the questions were objectively analyzed (Table 1).

**Table 1. Question Analysis**

<b>General</b>	<b>Specific</b>
Information about the risk of natural disasters	Adequacy and connectivity of basic information, including information on natural disaster defense.
Natural disasters - Risk management planning	Insurers' participation
Resistance and resilience measures	Excess costs and policy adoption
Natural features / characteristics	Calculation of policy/excess within a catchment risk area

Source: This is the work of the researcher.

In the context of reducing the impact of natural disasters on buildings and following standard usage, "resistance" refers to measures designed to reduce the risk of floods and resist earthquakes.

Two focus groups were held with residents from two different areas in Palestine at the beginning of 2022; each group consisted of four people, both of whom had recently experienced natural disasters, although at different times. The following topics were discussed in these focus groups:

If insurance costs rise after the current mutual support agreements expire, there could be consequences for families.

The trade-offs that families may have to make between raising the cost of domestic insurance policies and increasing policy abuse.

At the household level, there is awareness and understanding of flood risk reduction measures. How many people have heard of proprietary level metrics and used them? Is there anything else the homeowners did to protect their property (either individually or collectively)? Have insurance companies noticed this, and if so, how?

Opinions on how to secure a "fair" model for future home insurance, particularly publicly funded subsidies.

## **5. Findings**

The researcher used a set of previous studies related to the subject, and interviews, of the study and discussed the role for risk management in achieving sustainability in the insurance sector. The need for this study is the current role in the insurance sector for such a study and its assistance in solving the problems of risks and disasters and their current and future impact on the population.

The researcher concluded that the risks that are associated with management and planning, the cost of compensation is less than the unregulated and planned risks, in other words, designed natural disaster defenses provide more certainty in risk projection than unstructured natural disaster defenses. Although it is obvious that these insurers recognize that other measures may reduce the risk of natural catastrophes in principle, and the risk management in Palestinian insurance companies does not have sufficient speed to pay compensation, and it must work to compensate property in case of disasters. Also, the use of risk management and planning steps to be able to secure risks and disasters, and thus achieve sustainability. In other words, the risk management in Palestine does not have the best management to deal with the risk of natural disasters, and therefore it must focus on how to deal with the best management so that the risk management deals with the risk sustainable natural disasters.

If a future model for residential flood insurance is to be fully "sustainable," it must meet certain criteria. Ideally, it should provide incentives for homeowners to take as much ownership of the flood risk issue as possible and minimize the risk to their properties in the short term while also advancing the longer-term goal of reducing the extent of residential occupancy of flood-risk areas. In addition to these criteria, the treatment of flood risk must reflect societal agreement on whether it is

individualistic, reflecting only individual household risk levels, or solidaristic, involving 'pooling' risk and premium costs.

High costs are why insurers do not consider using unstructured measures in their current accounts to manage risks. In a similar vein, another representative observed the following: There needs to be a type of safety net for these people [in disaster-prone areas] so that natural disaster defense can be established according to appropriate standards.

There is weakness in Palestinian law with regard to the laws related to the insurance sector, and there is nothing in it that obliges insurance companies to accept compulsory insurance, which leads to restricting the role of insurance companies in facing risks and disasters due to their weakness.

The focus group participants generally agreed that once explained, the current mutual support arrangement is a fair process model. The view that such an arrangement should continue if it worked to cover the costs of those living in high-risk areas who might not be able to afford to insure their homes received widespread support in the two focus groups. Furthermore, most participants agreed that all policyholders, not just those in high-risk areas, should provide mutual support or, as one participant put it: The focus group participants generally agreed that, once explained, the current mutual support arrangement is a fair process model. The view that such an arrangement should continue if it worked to cover the costs of those living in high-risk areas who might not be able to afford to insure their homes received widespread support across the two focus groups. Furthermore, most participants agreed that all policyholders, not just those in high-risk areas, should provide mutual support, or, as one participant put it:

It is probably about solidarity. I think I can pay a little more for insurance in order to create a more level playing field for people - there are a lot of things we pay for but don't use. There is a bigger picture here, and we need to keep that in mind.

It has been difficult to strike a balance between these objectives. Eliminating incentives for housing development in high-risk areas should be a priority to provide long-term management of the risk of natural disasters in Palestine. Previous research has shown that comprehensive insurance guarantees have a negative impact on development in high-risk areas. Furthermore, as a result of this situation, housing prices do not reflect the true level of risk of natural disasters on the property; any post-flood drop in the value of submerged properties appears to be limited and only temporary.

After answering the main research question in the interview, it was found that 75% of the interviewees proved that risk management contributes to achieving sustainability in the insurance sector, while 25% answered that it does not contribute to achieving sustainability, especially in the field of natural disaster risks.

**Figure 1. Contribution of risk management to achieving sustainability in the insurance sector,**



*Source:* this graph is the work of the researcher according to the results.

The findings, however, reveal a disconnect between the acceptability of a suitable environment for managing natural disasters in the future and persistent differences in light of the specific measures that can be taken to reduce natural disaster risk. In the management of natural disaster risks, there is a general trend toward decentralization. Whether this decentralization occurs at the community or individual property level, questions remain about how specific measures will be formulated within the existing insurance framework, given insurer reservations and the apparent lack of incentives available to landlords.

## 6. Conclusions

After exploring the previous literature that dealt with risk management in insurance companies, achieving sustainability, and focusing on the risks of natural disasters.

Therefore, this study attempts to raise awareness of the role of risk management in achieving sustainability, and after insurer interviews, it was found that because resilience is defined as the inability to completely prevent natural disaster damage, it is impossible to completely prevent natural disaster damage.

The findings of this research show that there is still a long way to go to close the gap between the policy focus on long-term management of natural disaster risk and the implementation of the policy in practice.

This gap is pertinent and urgent for some societies at high risk for natural disasters. The reliance on the private sector risks creating an environment in which only those who can afford high insurance premiums can survive in areas known to be vulnerable to natural disasters. Given the insurance industry's current position on specific interventions aimed at increasing property and community resistance and resilience, direct government assistance in the form of special assistance zones can be an effective way to secure natural disaster insurance and a shift toward the "new



paradigm" of long-term disaster risk management. Combining this strategy with risk pooling would be extremely beneficial.

According to this study, they have public support, but it raises the pressing question of the availability of public funding. Whatever the future model emerges, social justice and equity require policymakers to consider the availability and affordability of insurance when making decisions about specific measures to manage long-term risks of natural disasters. By doing so, progress could be made toward ensuring the long-term viability of communities in high-risk areas, as well as presenting a policy change in favour of a new paradigm for long-term natural disaster risk management.

It was noticed that there is insufficient interest and research in this field in Palestine.

In conclusion, decision makers in the insurance business sector must be fully aware of the impact of risk management on helping their business achieve sustainable development through, better management, and reduce the risks associated with the risks of natural disasters because of their problems on all aspects of economic and social life through cooperation with all parties and working continuously to develop a sustainable development strategy in this sector.

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## Appendix

### *Interview questions*

1. Is there a role for risk management in achieving sustainability in the insurance sector?
2. Does risk management address the risks of natural disasters in the insurance sector?
3. How does the company plan to manage its risks?
4. How do companies classify natural disasters?
5. How do companies encourage residents to take out insurance?
6. What are the characteristics of the natural risks in Palestine facing insurance companies?
7. How do companies use the safety net to manage risks?
8. How do society and companies resist natural disasters?
9. What are the best ways to manage risks sustainably?
10. Is there an encouragement to secure real estate in high-risk areas?
11. Do insurance companies prevent harmful risks such as natural risks?
12. Do you think your company is taking enough risk management for natural disasters?
13. Is there community collaboration for disaster risk management?
14. Is your company prepared for unplanned risks
15. Can a new risk management model be created?