Disaster Risk and Financing Instruments: A Recap

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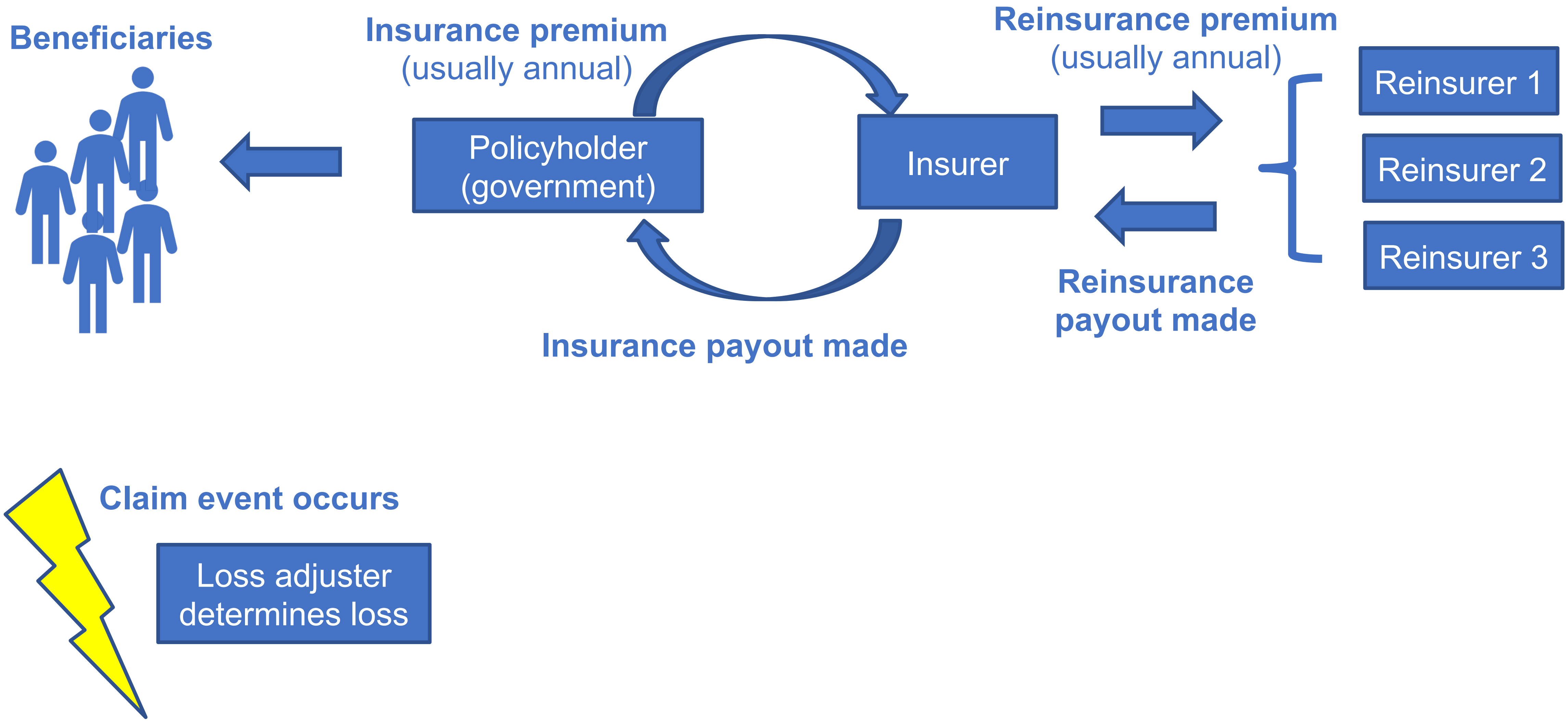
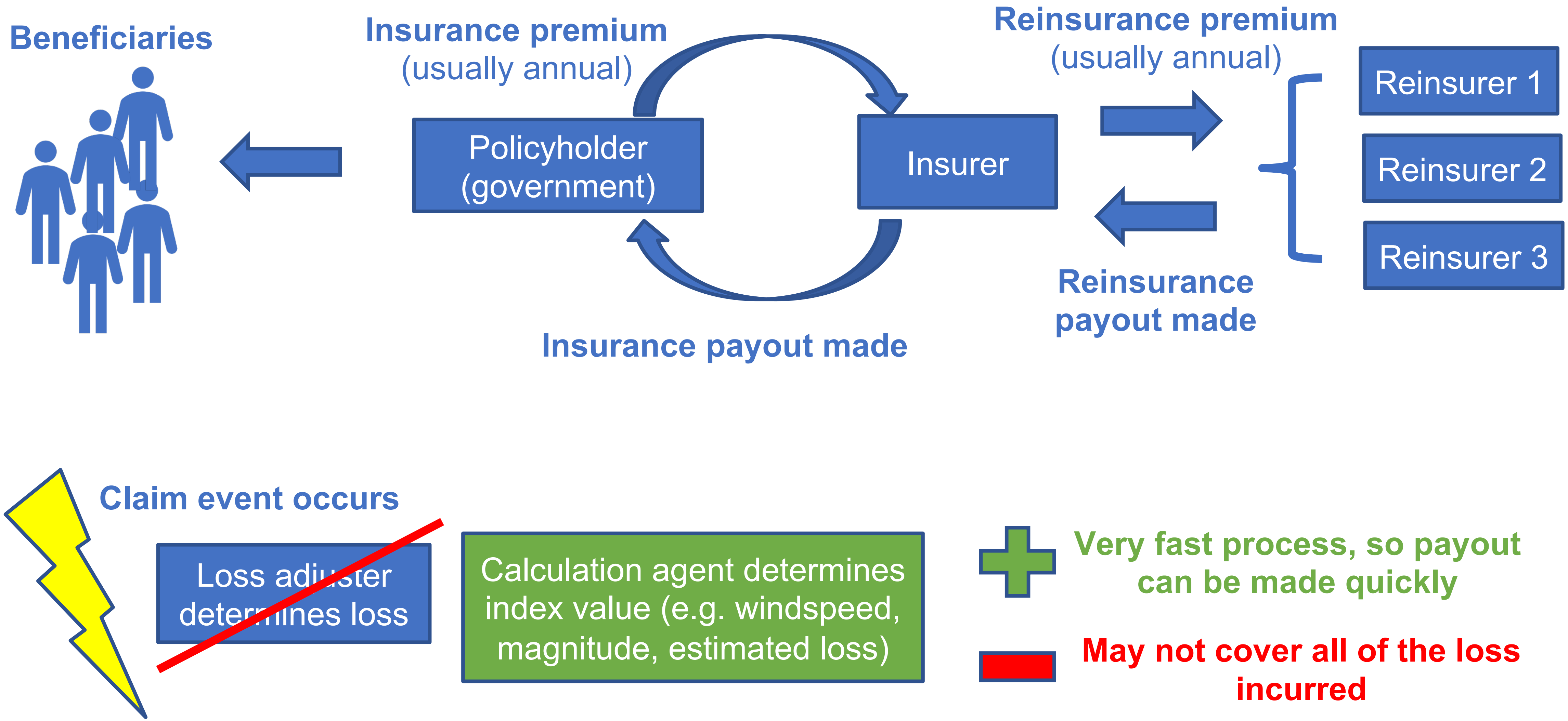
Risk transfer for disasters

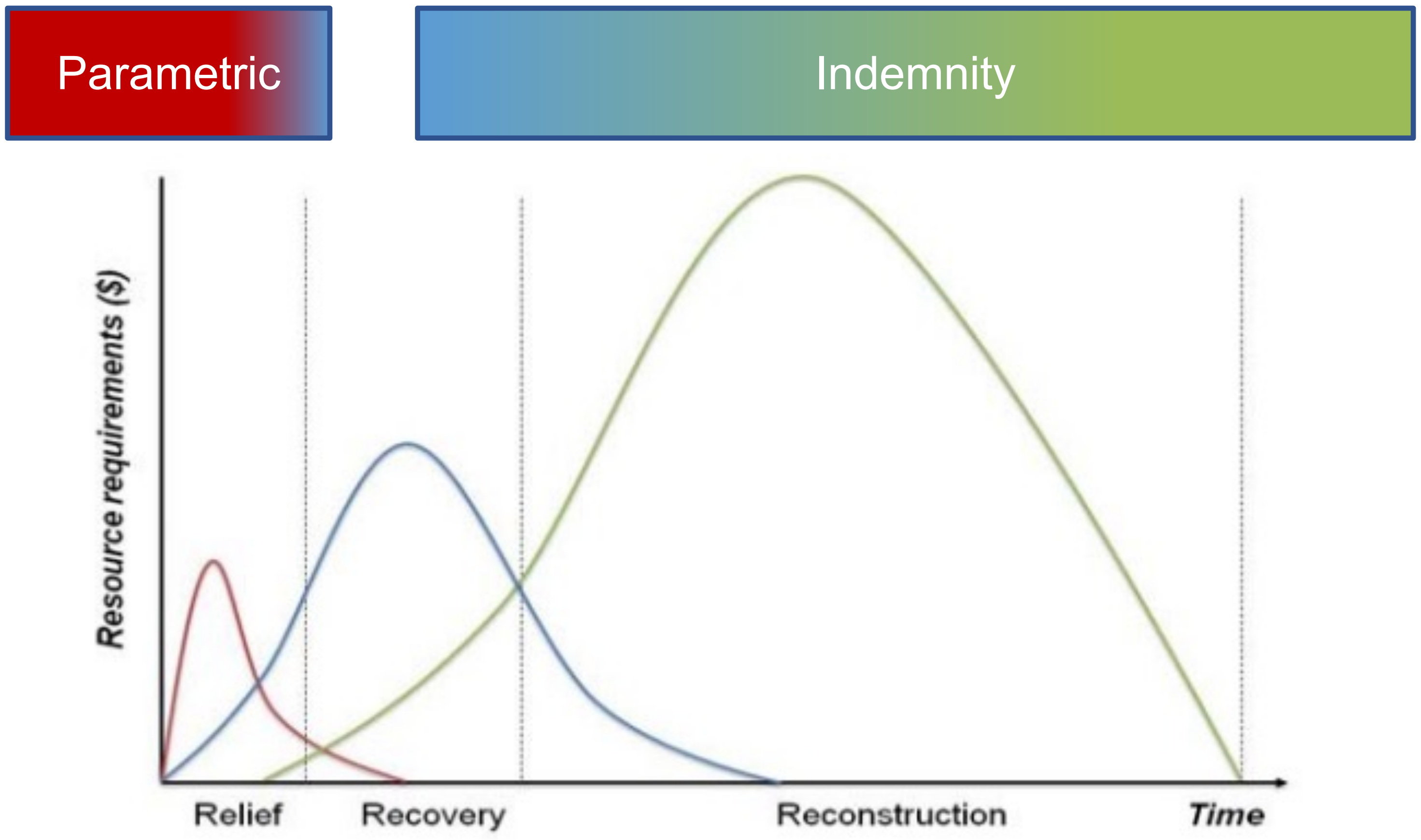
How an insurance contract works: traditional (indemnity) insurance



How an insurance contract works: parametric insurance



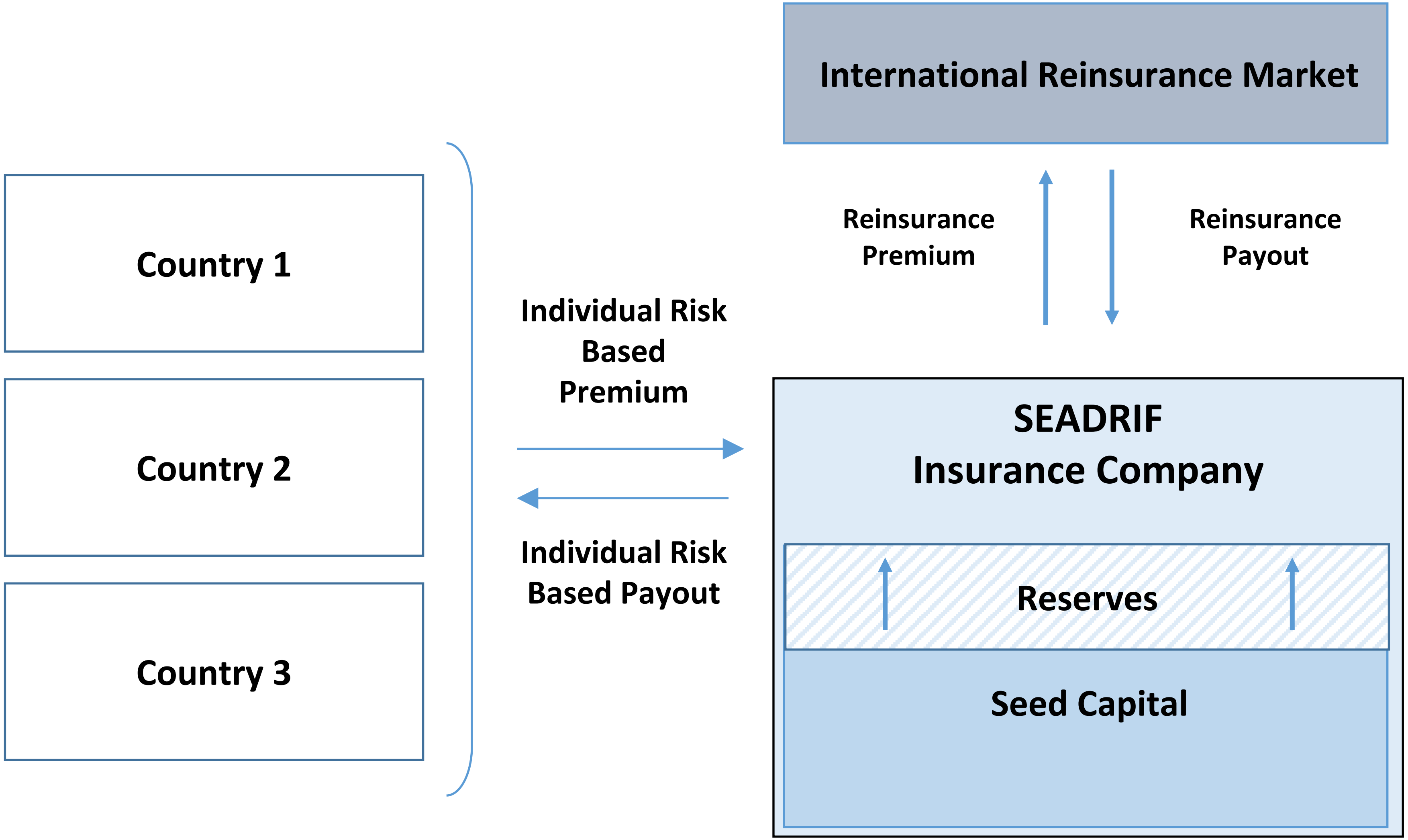
What type of insurance is most appropriate for disaster relief, recovery & reconstruction?



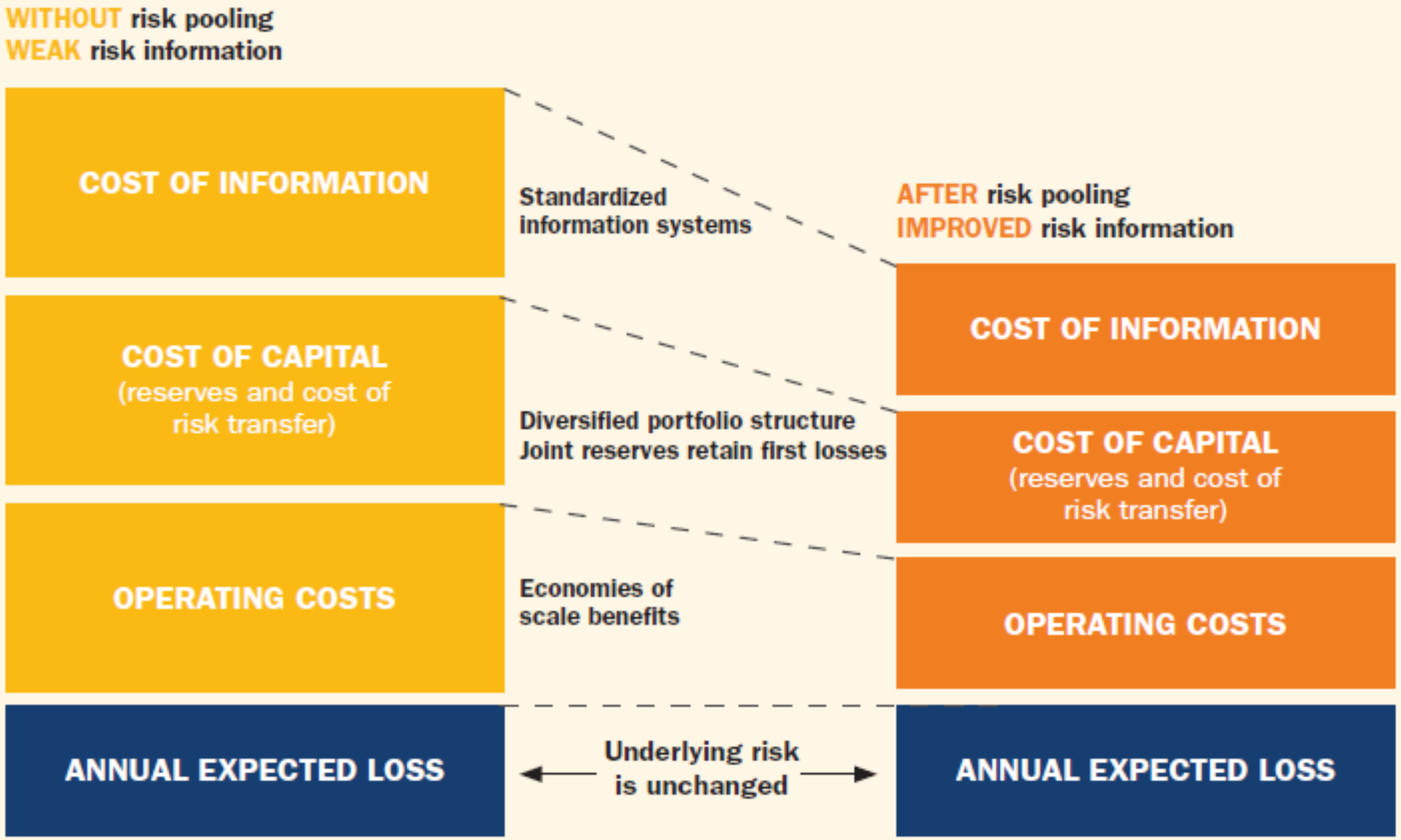
Both types are needed as they serve different purposes

How does a regional risk pool like transfer risk

SEADRIF
SOUTHEAST ASIA DISASTER RISK INSURANCE FACILITY



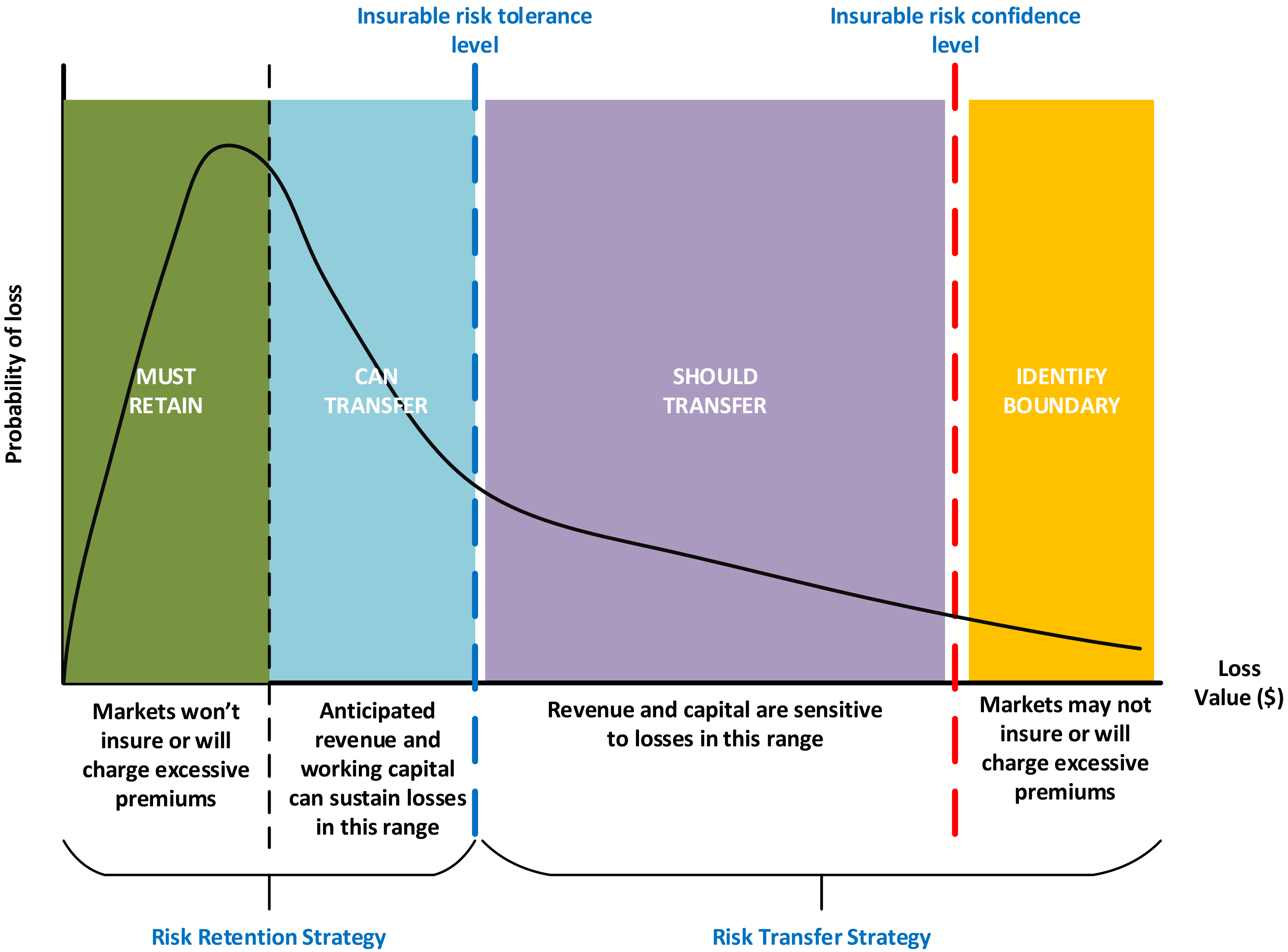
How an insurance premium is calculated, and how risk pools like SEADRIF can offer cheaper premiums



Source: World Bank Disaster Risk Financing and Insurance Program (2015).
Note: The size of the boxes is not meant to be proportional to each component's actual contribution to the insurance premium.

Financial protection of public assets

Options assessment:
Risk retention versus risk transfer



How much to retain?

How much to transfer?

Minimum standard

Schedule of values

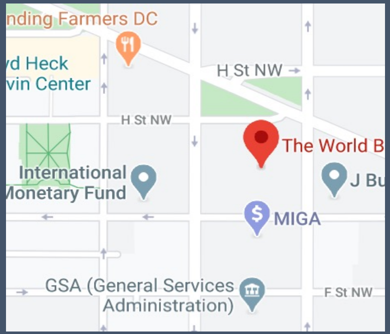
- **Location Name**
- **Each location geocoded to street address (at least 90% of schedule)**
- Total Insured Value at each location split at high granularity (i.e. physical property, contents, stock, hardware/software, fine art, business interruption)
- Occupancy at each location
- Number of Buildings

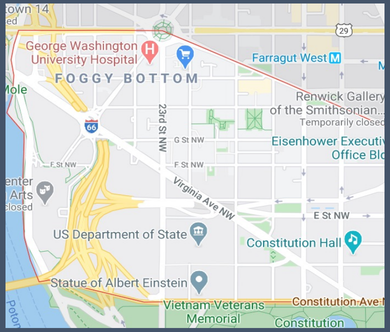
+

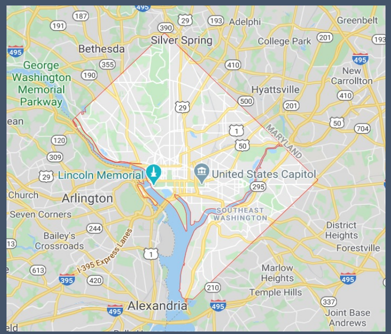
Schedule of values

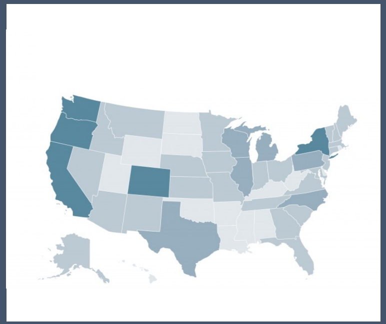
- Major Renovation Information
- Protection details: sprinkler systems, security (Alarms, Security Staff etc.), other additional protections
- Basement/Parking Information
- Catastrophe Zone of each location (For Flood, Earthquake and Typhoon)
- Secondary Modifiers collated from building diagrams. These may include EQ resiliency such as base isolation, cladding type, foundation

High Quality









Building	Street, ZIP/Postcode	District	City	State/Province	Country
The World Bank Group	High Street NW DC 20433	Foggy Bottom	Washington DC	Washington DC	United States of America

Lower resolution I Lower overall confidence I Higher uncertainties on risk profile

Developing and structuring a risk transfer framework

Collect and analyze data and information suitable for identifying and quantifying the risk to determine price and capacity

(Hazard / Exposure / Vulnerability)

Determine key priorities and requirements for financial compensation

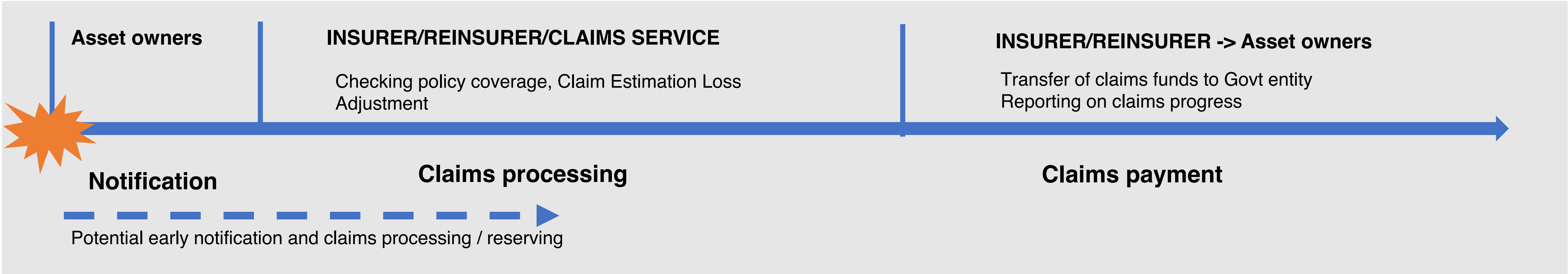
Establish appropriate legislative / regulatory frameworks to enable financial risk transfer, including claims settlement and audit

Ensure **procurement regulations** enable use of insurance, reinsurance and if needed, third party advisors

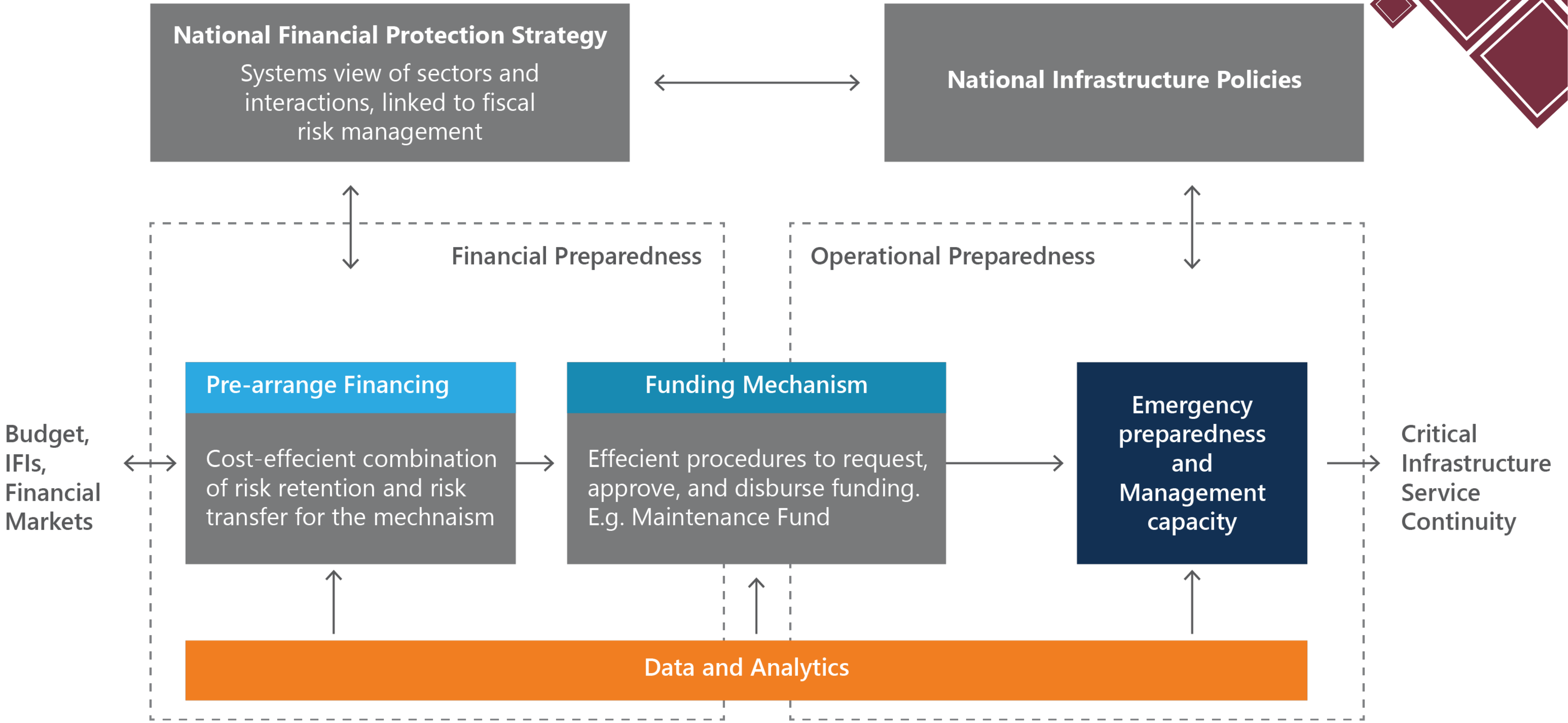
Develop **competencies, governance and procedures** to enable effective risk management

Develop the operational risk transfer mechanism:
Claims management

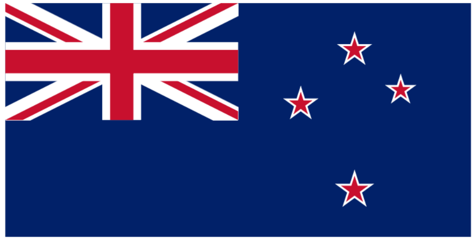
- Type of insurance product will influence the claims process design
  - Parametric – trigger mechanism, funds released
  - Indemnity – claims notification, loss adjustment and settlement
- Essential to have a clear notification and loss adjustment procedure
- Large scale events – ability to handle and complete large volumes of multiple claims



Shock responsive systems:
Combine Financial and Operational Preparedness



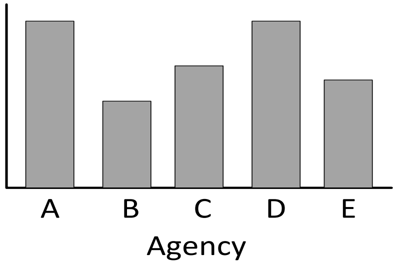
New Zealand Case Study: Choosing between different options



Option: Do nothing

Continue current practice of agencies managing their individual arrangements.

Representation:

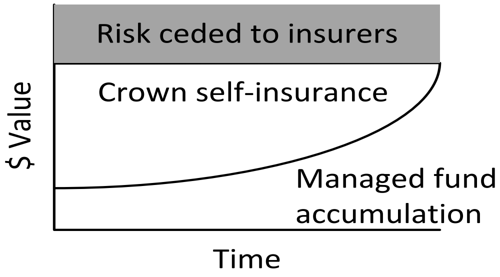


Option: Partial self-insurance

Consolidate agency risk financing arrangements into an AoG solution, involving:

- Agencies paying a risk based contribution into a managed fund to cover expected losses;
- Crown self-insuring a layer of calculated risk within Crown’s financial risk tolerance; and
- Ceding risk above Crown tolerance to the insurer market.

Representation:

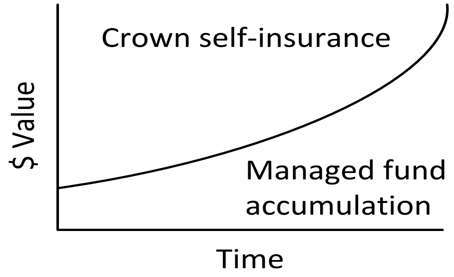


Option: Full self-insurance

Consolidate agency risk financing arrangements into an AoG solution involving:

- Agencies paying a risk based contribution into a managed fund to cover expected losses; and
- Crown self-insuring the risk of exceptional losses (i.e. those losses exceeding the financial tolerance of the managed fund at a given point in time) without ceding risk to the insurer market.

Representation:



Disaster reserve funds

What are disaster reserve funds?

Disaster Reserve Funds:

- **Form:** funds set aside as reserve within the budget with specific rules for use or established as a dedicated institution;
- **Financial management:** fulfil key policy objectives to strengthen financial resilience and to improve the financial management of disasters;
- **Disaster response:** provide the government with readily available resources to be used for post disaster expenditure to enable emergency relief and response after a disaster, and long term recovery including rehabilitation and reconstruction;
- **Coordination:** alignment to key processes and systems that enable the flow of funds to ensure they get to the point of need for effective recovery
- **Knowledge and capacity building:** serve as a centre of knowledge and capacity building on disaster risk financing within Government

How are they set up?

Legal basis: Needs a legal mandate

Fund design: Objective, scope, rules

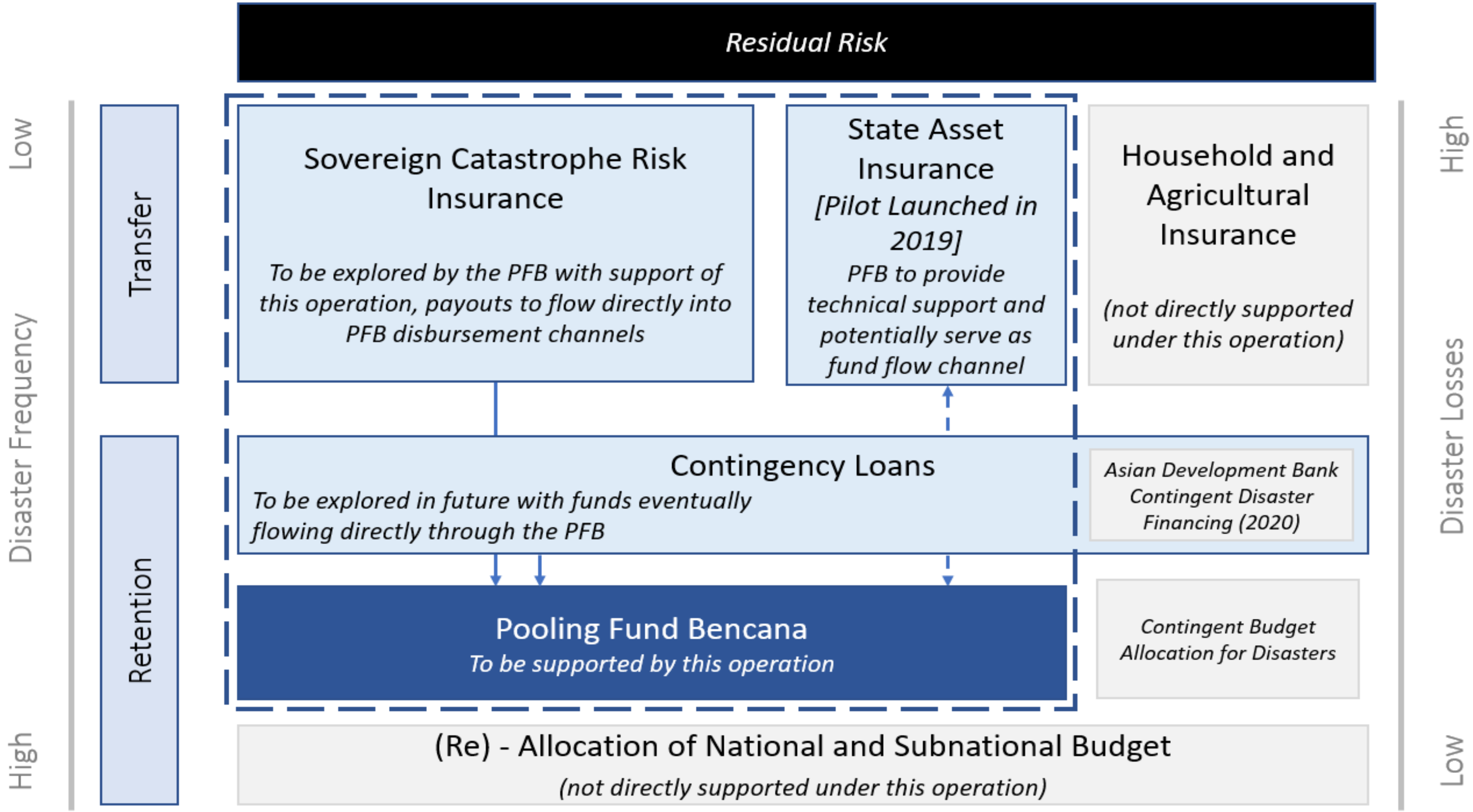
Financial design: Risk appetite for risk transfer, accumulation levels, investment strategy

Regulatory design: How the fund will be operationalized and monitored

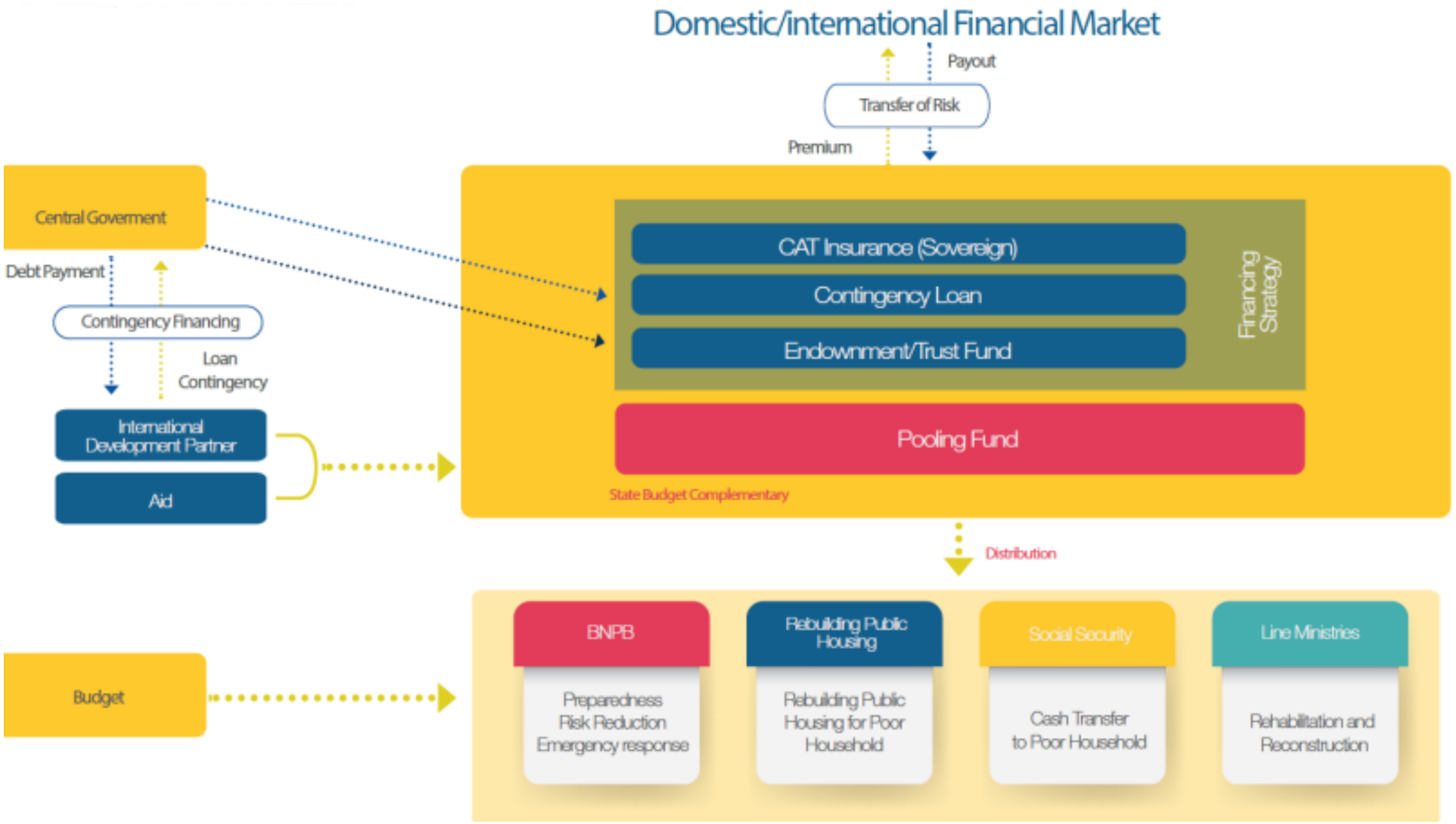
Ongoing review and fine tuning: Design adjustments to meet objectives

Indonesia: Pooling Fund within the DRF strategy

The PFB will be a dedicated fiscal mechanism to (i) ensure effective access to sufficient resources for disaster response; and (ii) streamline execution and transparency of spending.



How the pooling fund would work?



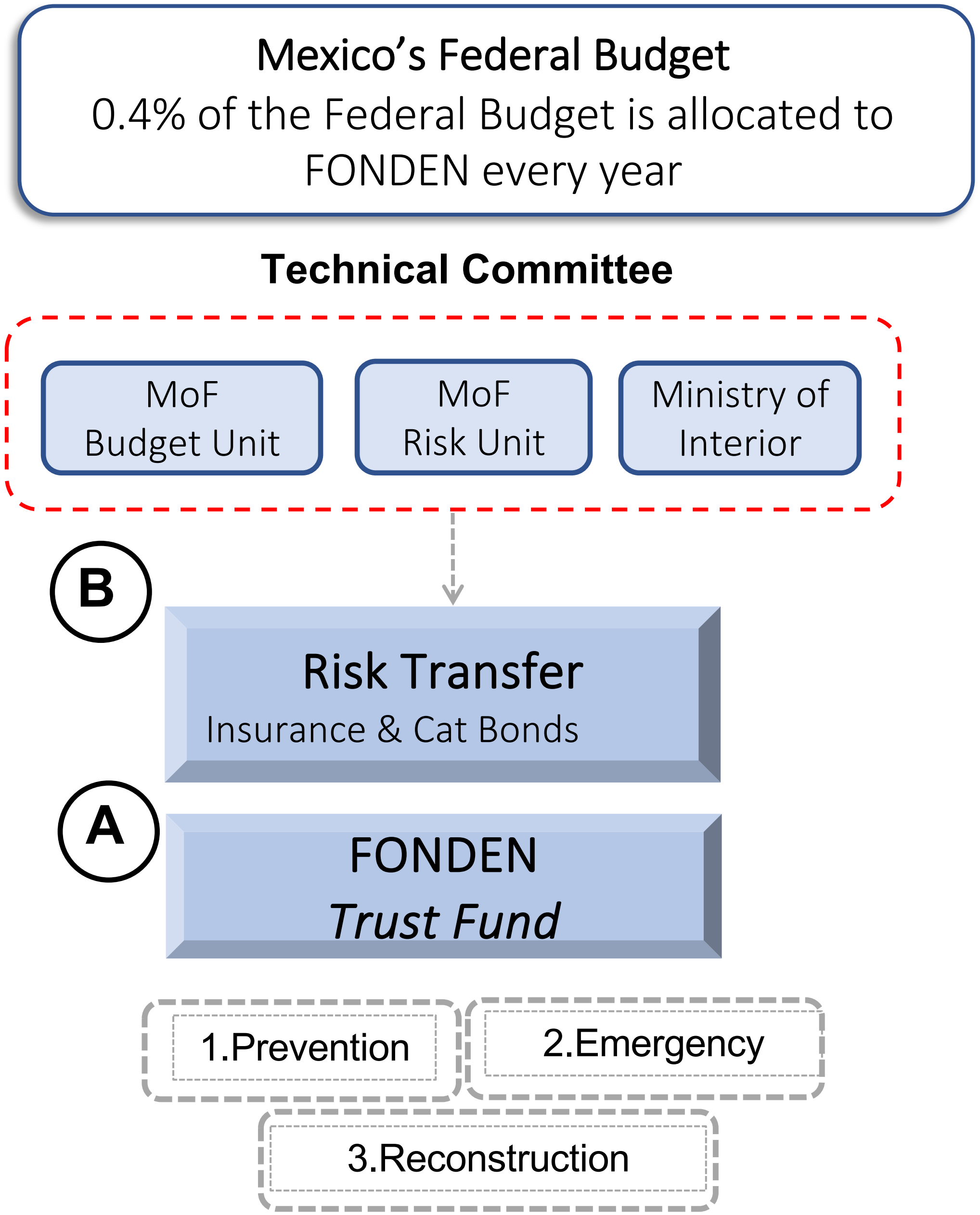
Indonesia: Pooling Fund operationalization

PDO: To strengthen the financial and fiscal resilience of the Borrower to natural disaster and health-related shocks.

Financing Instrument: Investment Project Financing with Performance Based Conditions

Components	*Performance Based Conditions*
1 **Establishing and operationalizing the PFB**	Complete establishment and set up of the PFB Strengthen the PFB's funding structure & management Adopt & implement a financing plan for the PFB Adopt measures to strengthen PFB operations
2 **Improving preparedness for more effective disaster response for government agencies**	Budget tracking to strengthen disaster relief fiscal effectiveness Support the central government disaster preparedness and response Support SNGs in disaster preparedness and response Support faster social assistance payments for disaster victims through adaptive social protection Strengthen planning to support health emergencies
3 **Strengthening PFB capacity and systems to effectively support risk finance and disaster response**	International technical expertise, implementation support, monitoring, evaluation, and learning, and capacity building

Mexico: FONDEN



Disaster reserve funds

What are disaster reserve funds?

When does it make sense to have disaster reserve funds:

- To strengthen financial management for disasters by having finance available quickly for disaster response
- To streamline multiple existing process, systems, and sources of financing for more streamlined and better targeted financial response
- To enable immediate relief but also be able to finance longer term recovery and rehabilitation
- To link finance to clear delivery mechanism for disaster response so funds go where they're supposed to go

What can disaster reserve funds look like?

- Funds set aside as reserve within the budget with specific rules for use
- Separate institution/public service agencies to coordinate and strengthen financial management of disaster response

How are they set up?

Legal basis: Needs a legal mandate

Institutional design: How it will be established and governed

Fund design: Objective, scope, rules

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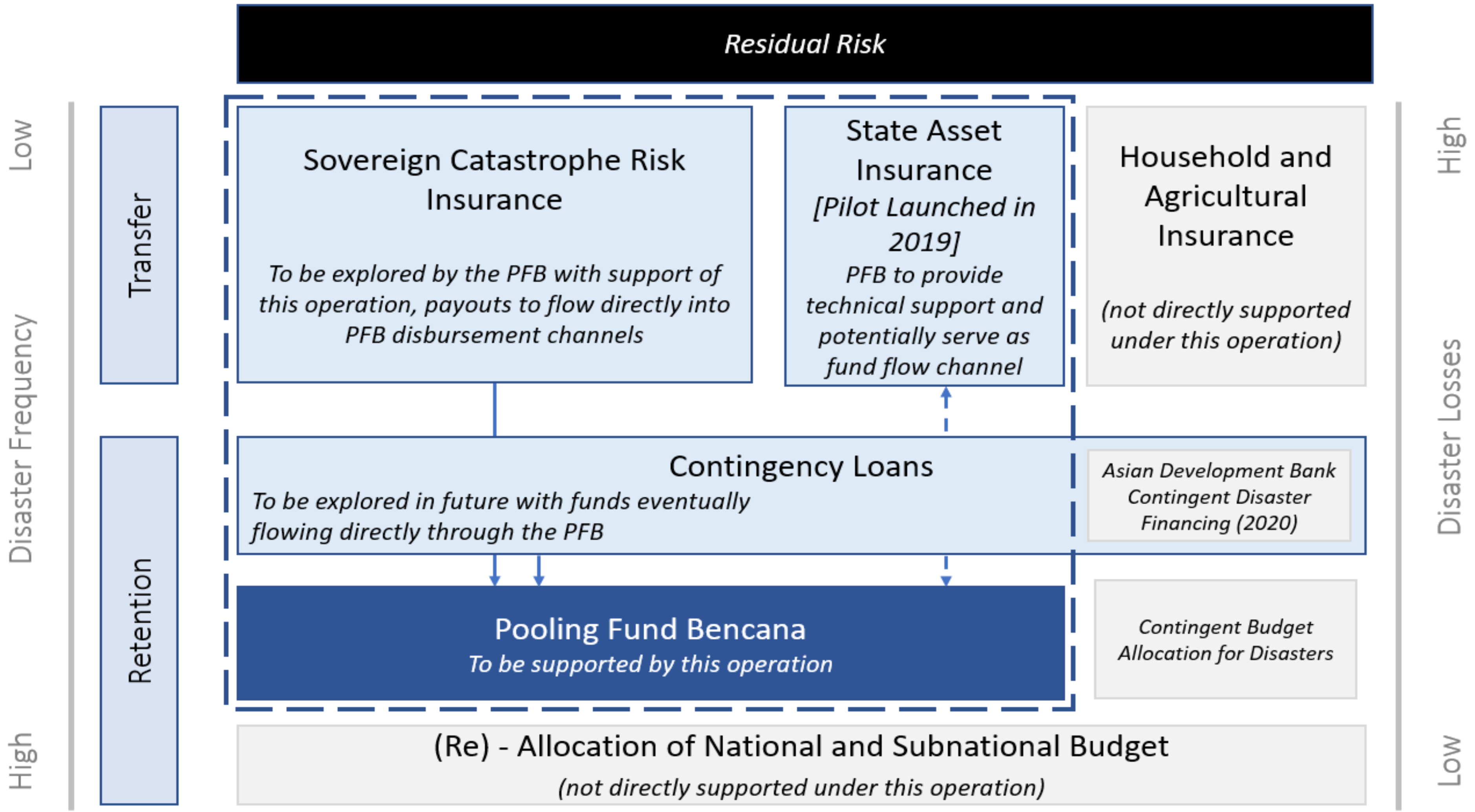

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