

Financial Protection of Public Assets Master Class

Overview

Fundamentals of Disaster Risk Financing

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Disaster Risk Financing
& Insurance Program



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Learning Objectives

This session frames the content provided in the balance of this Masterclass event. You will see the principles and enablers, introduced here, further expanded upon in the following sessions.

What do we want you to take away from this session?



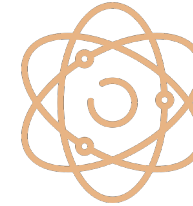
An understanding of how DRF Programs fit within a broader DRF strategy



An understanding of the principles of a best practice DRF programs



An understanding of the enabling environment for successful, sustainable DRF programs



An understanding of the core structure of a best practice DRF program



Other considerations to account for when creating a DRF program

What is a Public Assets DRF Program



A Public Asset DRF Program is a coordinated, pre-arranged strategy (often a component of a National DRF Strategy) for funding the financial consequences of disaster impacts on public assets



A National DRF Program is a coordinated, pre-arranged strategy for funding the broader fiscal, economic, and social costs of a disaster that fall upon government



A DRF Program is a coordinated, pre-arranged strategy for funding the financial consequences of a disaster

Public Asset DRF Programs:



Contribute to financial management of governments disaster related contingent liabilities



Reflect public service delivery priorities



Reflect public asset criticalities



Complement disaster risk management, disaster risk reduction, and asset management policy agendas

What are the basics of a Public Assets DRF Program?

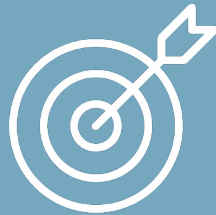
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Timeliness

DRF delivers funds when they are needed

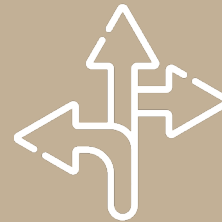
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Targeted

DRF responds to the right hazards

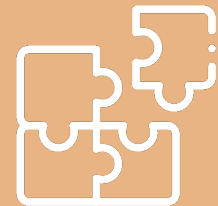
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Directed

DRF funds are allocated to the right beneficiaries

04



Diverse

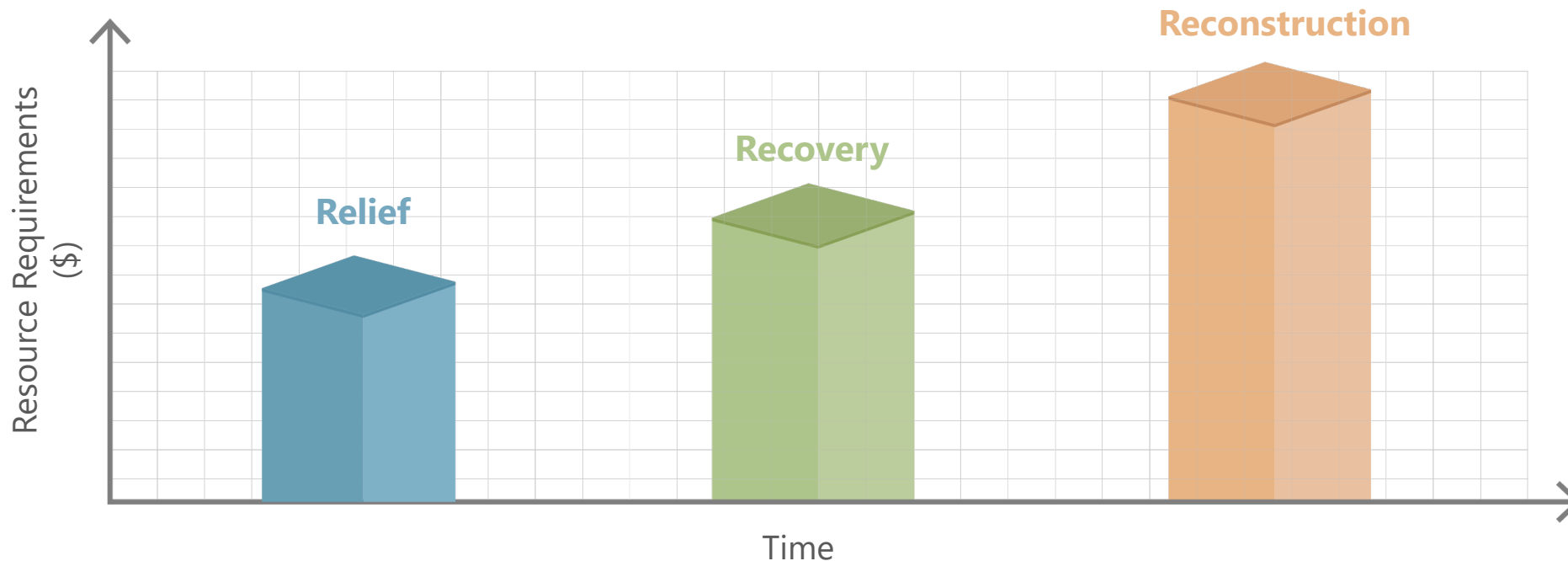
DRF is an effective combination of complementary instruments

What are the concepts of a DRF Public Assets Program?

Timeliness of Funding

Speed matters but not all resources are needed at once.

- Immediate liquidity is crucial to support relief and early recovery operations
- Government has more time to mobilize the larger resources for reconstruction
- This variation in the timing of needs has clear implications for the design of cost-effective DRF

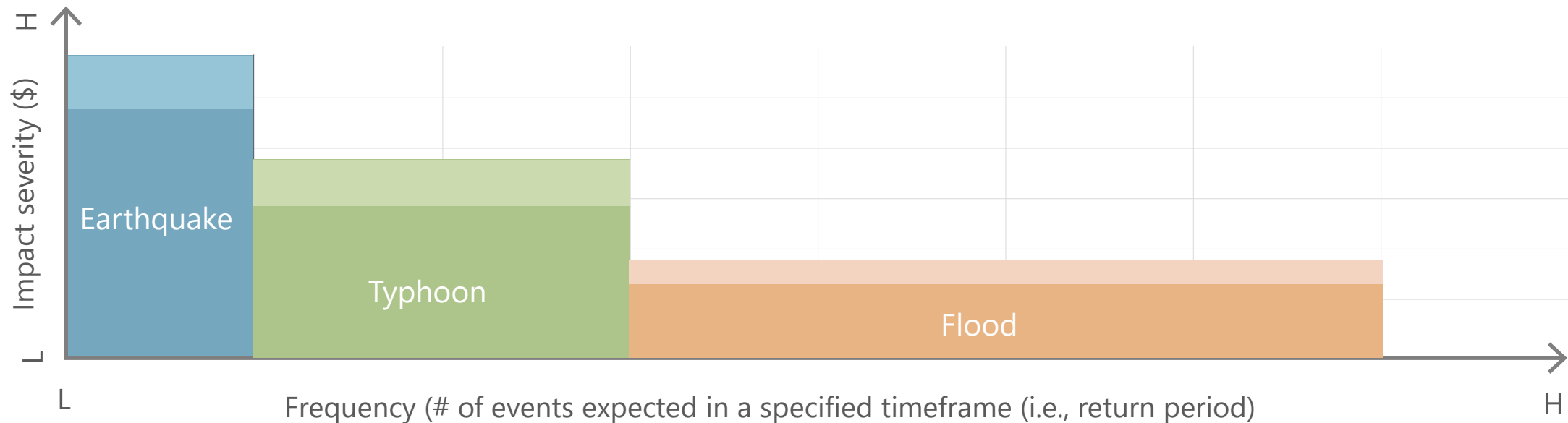


What are the concepts of a DRF Public Assets Program?

Funding targets the recognized perils

Funding targets the recognized perils

- Different disaster events will impact in different ways.
- Geography and topography often dictates the types of disasters a nation can face
- Concentrated populations may increase the severity of impact of disaster events
- DRF needs to account for a nation's disaster risk profile



What are the concepts of a DRF Public Assets Program?

Funding needs to be well directed

How money reaches beneficiaries is as important as where it comes from.



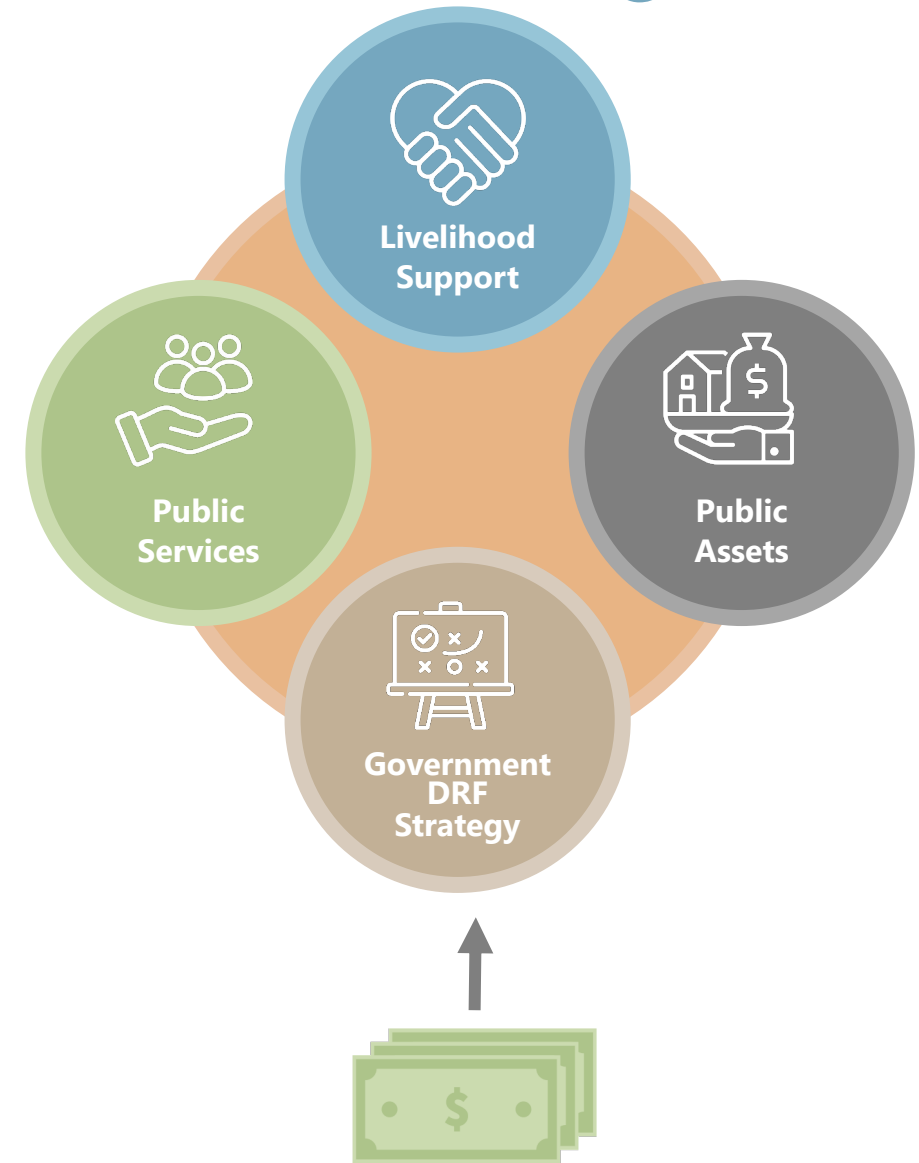
Governments require dedicated mechanisms to effectively allocate, disburse, and monitor recovery and reconstruction funds



Strong collaboration between the ministry of finance and the public entity tasked with spending post-disaster funds—such as local governments, DRM agencies, and agencies that maintain public infrastructure—is crucial



The disbursement system must balance policy makers' concern for fast disbursement with the transparency and accountability required by the public and donors



What are the concepts of a DRF Public Assets Program?

Funding source diversity and layering

No single financial instrument can address all risk.



International experience has shown that governments ideally combine different instruments to protect against events of different frequency and severity



This approach, known as risk layering, is part of a comprehensive financial protection strategy that mobilizes different instruments, either before or after a disaster strikes, to address the evolving need for funds



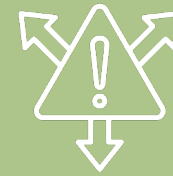
Risk layering ensures that cheaper sources of money are used first and that the most expensive instruments are used only in exceptional circumstances

Hazard Type

Low Frequency
High Severity

High Frequency
Low Severity

Financing Instrument



Market-Based Instruments
Risk transfer for assets such as property insurance or agricultural insurance and risk transfer for budget management like parametric insurance, cat bonds/swaps






Contingent Financing
Financial instruments that provide liquidity immediately after a shock






Budgetary Instruments
Reserve funds specifically designated for financing disaster related expenditures, general contingency budgets, or diverted spending from other programs

International Assistance (uncertain)

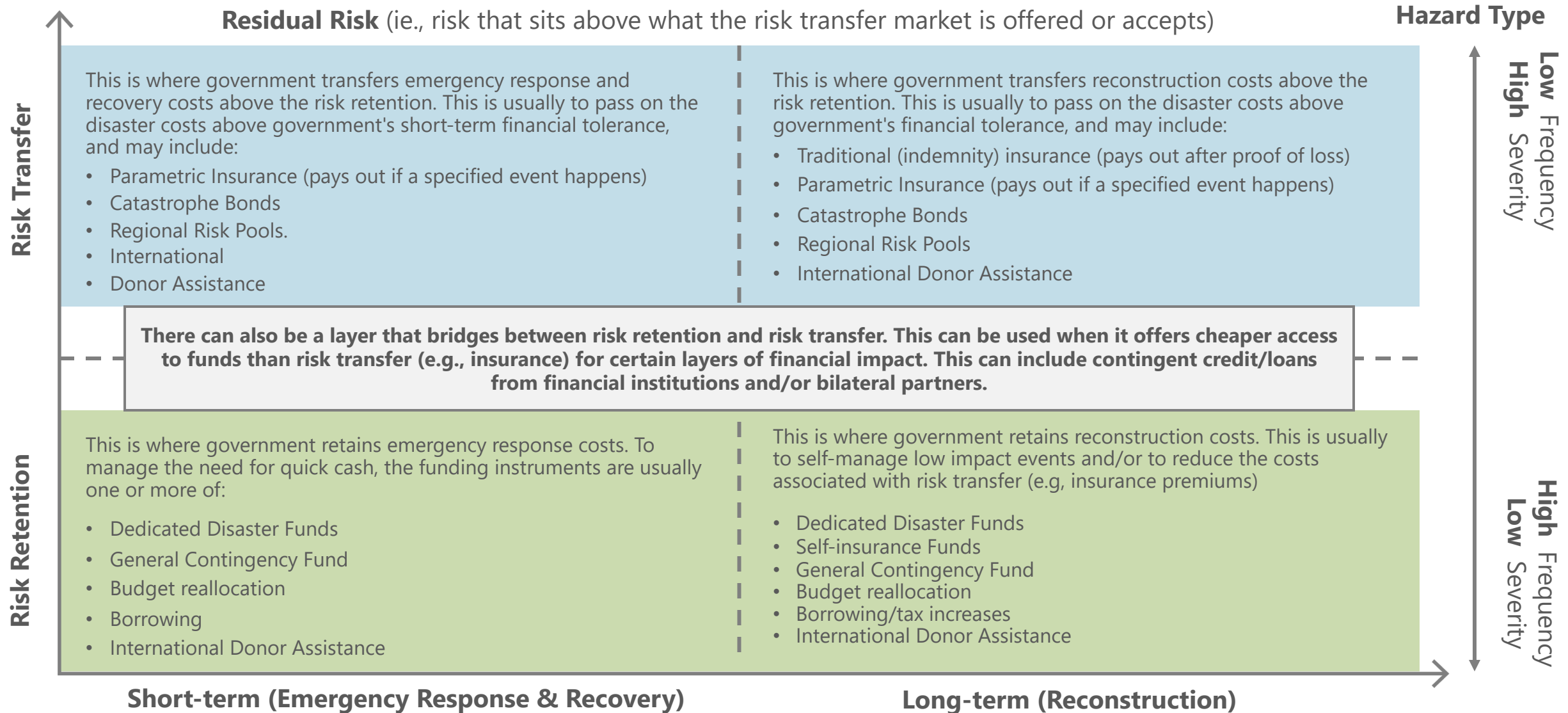
What are the enabling factors of a sustainable DRF Program?

Enabling factors	Description
 Supporting legislation/ regulation/ policy	Legislation/regulation that authorizes the strategy. This is important because it describes how the disaster-related financial risks of government will be handled (i.e., Public Financial Management). Without this legislation, the strategy has no mandate.
 Accurate and available data (e.g., a public asset register)	Data is critical for understanding what populations, assets, and services are at risk, which are more critical than others, and how vulnerable they are to disaster events. A lack of quality data typically results in higher premiums as insurers price in ambiguity.
 An understanding of the types and severity of disasters	Knowing what disasters can impact the country (both in terms of how often and how severe) helps build the country's risk profile. When realistic disaster scenarios are plotted against the population and asset footprint, a government has a way to predict what the impacts will be.

What are the enabling factors of a sustainable DRF Program?

Enabling factors	Description
 <p data-bbox="326 511 723 648">An understanding and consensus on DRF priorities</p>	<p data-bbox="779 511 2397 648">An agreement on what requires greatest focus. For instance, are there particular sectors of society or asset types that require focused protection? This is important because it will drive decisions about how DRF funds will be used.</p>
 <p data-bbox="326 848 588 933">Set roles and responsibilities</p>	<p data-bbox="779 772 2015 1005">Who is responsible for designing the DRF solution? Who will manage and administer the solution when it is implemented? Who will participate in the solution, and how? How will the strategy be governed and audited? Who are the other stakeholders and what will they do?</p>
 <p data-bbox="326 1176 672 1219">Financial resourcing</p>	<p data-bbox="779 1153 2397 1243">How will the design and development stages be funded? It will take some time and resource to reach activation stage, and this will need a budget.</p>

The general construct of a DRF Program? (Plug and Play instruments)



Other considerations

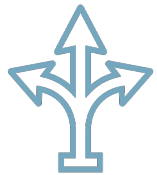


Risk is dynamic. Review your DRF Program on a regular basis as DRF instruments may need to develop and change with you



Risk retention is an important tool because:

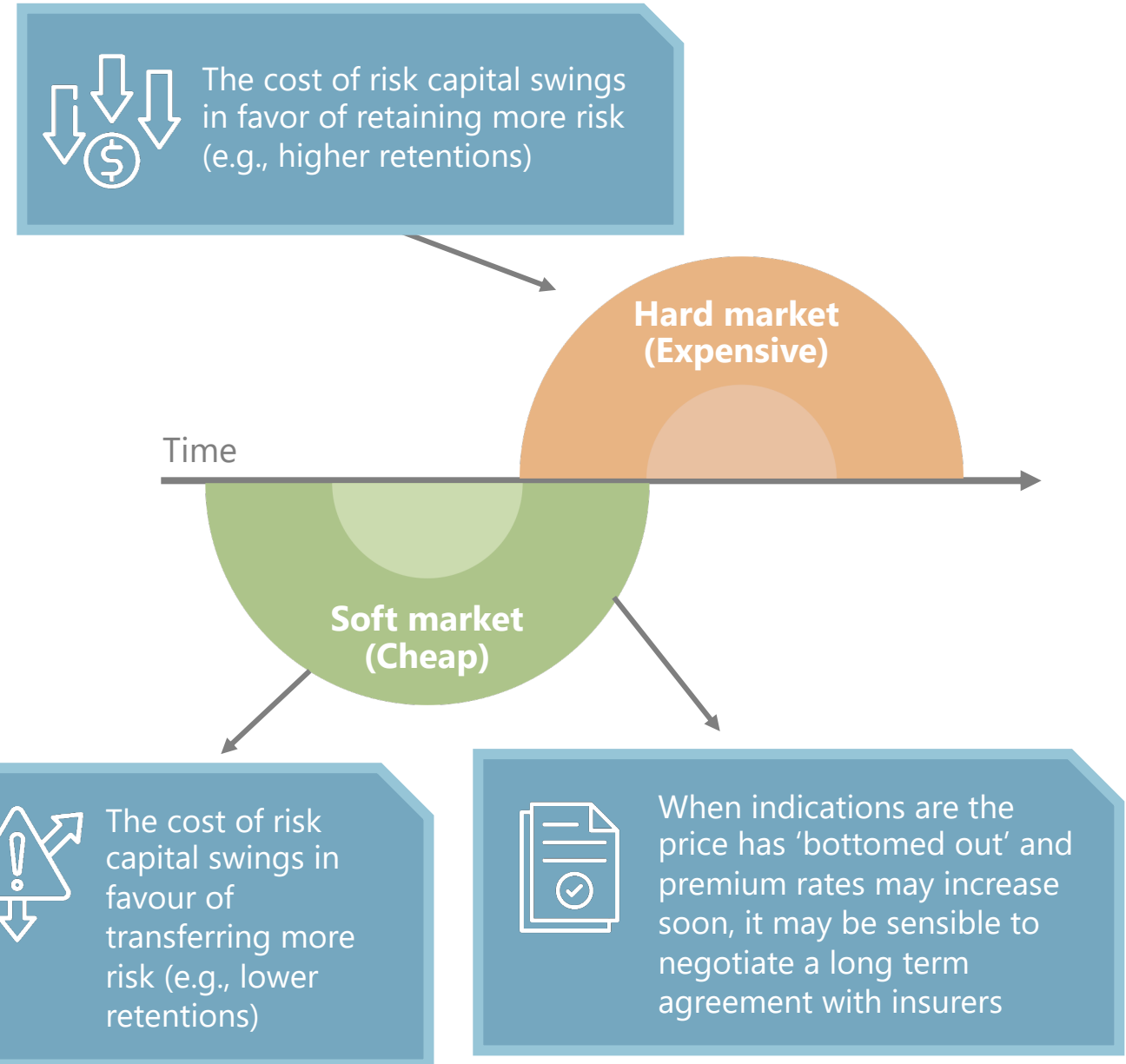
- Having government/line ministries be financially responsible for a layer of disaster related costs incentivizes prudent risk management
- As risk transfer market prices move up and down, risk retention can be used to insulate against price hikes.



Use relevant expertise when it is available. Informed decisions will always be better decisions.



Remember, risk transfer contracts are negotiable instruments



What are the key takeaways?



Public Asset DRF programs should be a component of a government's broader DRM/DRF strategy



DRF programs should be customized to account for:

- ✓ When funds will be required post-event
- ✓ The disaster perils faced by the nation
- ✓ Who will need the funding post-event
- ✓ The most effective and efficient use of capital (risk retention vs risk transfer)



To be successful and sustainable, DRF programs need to be supported with:

- ✓ An effective mandate via legislation/regulation
- ✓ Quality data and data analysis
- ✓ A clear sense of risk exposure priorities
- ✓ Concise roles and responsibilities
- ✓ Sources of adequate funding



Risk transfer options require engagement with a nuanced financial services market

