# Strengthening Financial Resilience to Disasters in Asia:

## Exploring Regional Solutions

### POLITICAL DEMAND AND REGIONAL POLICY DIALOGUE

Disaster Risk Financing
& Insurance Program

SUPPORTED BY
WORLD BANK GROUP

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All the work related to this project can be found at www.financialprotectionforum.org/asiaregional

# Summary

Interest in exploring a regional disaster risk financing facility for Asia is growing rapidly, and any such facility should respond to country priorities and build on ongoing work. Countries' needs differ across the region, as does their experience with implementing financial protection strategies and instruments. Some countries are global leaders in disaster risk financing, while others have started their efforts more recently.

This note provides a brief overview of recent political developments and policy dialogues that either have focused on moving toward joint risk financing solutions in Asia or serve to support such efforts. Based on what has emerged from discussion with policy makers, the note also summarizes the key areas of focus for any regional joint mechanism. The World Bank Disaster Risk Financing and Insurance Program has supported many of these policy forums with technical advice.

Asian countries are highly exposed to disasters, but hazards vary between countries. Flood is the most persistent hazard across the region, and drought affects agricultural production in most Asian countries. A number of countries are also exposed to tropical cyclones, earthquakes, tsunamis, and volcanic eruptions.

Large variations in exposure and vulnerability further amplify differences in disaster risk across the region. Countries with higher levels of economic development may see larger losses from damage to (public and private) assets and economic disruption. For countries with significant vulnerable populations, in particular poor people living in rural areas, the first priority after a disaster may be providing livelihood assistance.

These differences result in different priorities for financial protection. An initial review informed by ongoing World Bank engagements indicates three categories of priorities across Asian countries: improved access to rapid disaster response financing (and deployment of funds at the subnational level and to households); disaster risk insurance for public assets; and disaster risk insurance for private assets.

The design of a regional facility for disaster risk finance (DRF) in Asia must accommodate the range of country needs, allowing for the needs of both large and small economies. Such a platform could consider floods as a priority challenge, but should also offer solutions to protect against less frequent but more severe shocks, such as earthquakes and tropical cyclones. Moreover, it needs to serve countries focused on livelihood assistance as well as supporting reconstruction of homes and infrastructure.

A regional facility should also build on ongoing work to develop national financial protection strategies. Financing mobilized within a regional facility should be connected to mechanisms in country that enable the effective deployment of funds, including disaster risk management funds, scalable social safety nets (such as cash transfer schemes), and subnational disaster risk financing initiatives. Equally, any proposed regional facility needs to pay particular attention to political and institutional arrangements, and needs to be implemented in partnership with a regional organization to be identified by participating countries.

# Political Support by Global Policy Forums for Joint Regional Disaster Risk Finance Solutions

The following forums have recently offered their political support for joint regional DRF solutions.

## G20

In **2017 the G20** has significantly increased its commitment to building financial resilience against disaster and climate risks. Leaders of G20 countries have emphasized closing the protection gap for poor and vulnerable people by accelerating action on financial management of climate and disaster risks. A World Bank Group technical contribution to the G20 agenda evaluated sovereign catastrophe risk pools as platforms allowing developing countries to access reliable financial protection in case of emergency (World Bank 2017b; see **box 1**).

### The 2017 G20 leaders' meeting called for the creation of a new global partnership:

*Aiming to close the protection gap, we welcome the creation of a "Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions", inviting relevant partners from G20 and other countries, international organizations and, as appropriate, civil society and private sector to engage according to their respective capacities. The Global Partnership builds on the work of existing platforms, such as InsuResilience, and voluntary engagement of its partners, taking into account the key lessons of ongoing work by the World Bank on "Sovereign Climate and Disaster Risk Pooling" . . . We encourage multilateral institutions to develop options for innovative climate and disaster risk finance solutions. (G20 2017)*

***G20 Hamburg Climate and Energy Action Plan for Growth.***

The G20 ministers of finance first discussed the benefits of financial resilience as part of the **2012 G20 agenda**. During this period, a stocktaking report was published on improving the assessment of disaster risks to strengthen financial resilience in G20 countries (Government of Mexico and World Bank 2012).

### The communiqué of the 2012 meeting of G20 finance ministers and central bank governors stated:

*We recognize that disaster risk financing policies are necessary for an overall Disaster Risk Management (DRM) strategy. We appreciate and welcome the combined efforts made by the World Bank and the OECD, with the support of the United Nations, to broaden the participation in the discussion on DRM by highlighting the central role that financial policymakers play to support other areas of Government and civil society in dealing with disasters. (G20 2102)*

BOX 01

## Sovereign Climate and Disaster Risk Pooling

### 10 LESSONS FOR POLICY MAKERS TO BRING CATASTROPHE RISK POOLS TO SCALE

A decade of experience has shown that *political commitment, sound operational design, and financial sustainability* are at the foundation of successful risk pools. When those foundations are in place, risk pools can in turn generate positive externalities that further enhance their impact, by fostering political, operational, and financial effectiveness. To build on this experience and bring catastrophe risk pools to scale, policy makers should keep in mind the following 10 lessons.

**Political commitment is both a precondition for successful catastrophe risk pools and a by-product of collaboration:**

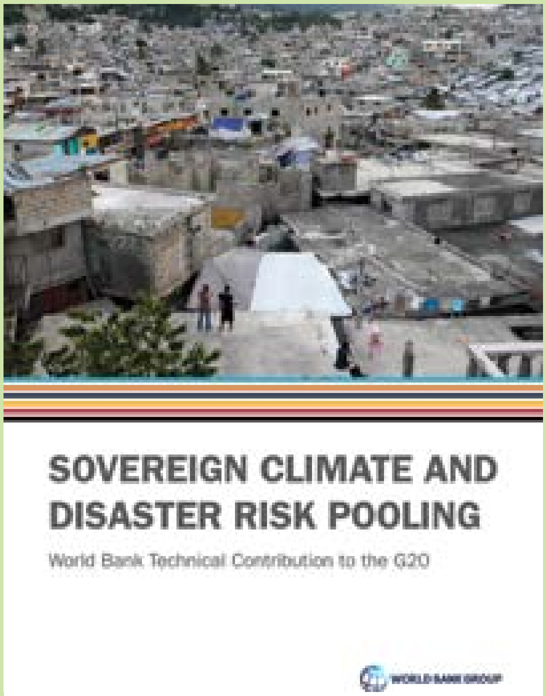
- **01.** Pools can succeed only with strong political commitment at the national and international level.
- **02.** Pools often rely on strong donor support.
- **03.** Pools can strengthen disaster preparedness and crisis response.
- **04.** Pools can foster policy dialogue on risk management and risk ownership.

**Sound operational design maximizes impact and generates public goods:**

- **05.** Pools can maximize impact by developing pre-agreed disaster response plans.
- **06.** Pools can create public goods.

**Financial sustainability allows catastrophe risk pools to provide access to cost-effective insurance as part of a strategic approach to financial protection.**

- **07.** Pools can offer cost-effective insurance solutions.




- **08.** Pools are part of a comprehensive financial protection strategy.
- **09.** Pools require up-front payment of an insurance premium, facilitating a shift toward proactive risk management.
- **10.** Pools can be sustainable only with more formal and predictable approaches to premium financing.

*Source:* World Bank (2017a, 2017b).

## G7

The G7 launched a dedicated initiative on climate risk insurance in June 2015 in Germany. The **InsuResilience initiative** aims to extend direct or indirect insurance against climate risks to 400 million poor and vulnerable people in developing countries by 2020. It will expand established indirect risk insurance facilities and set up new risk financing schemes in vulnerable regions. In addition, it will integrate insurance arrangements into national or regional climate risk management strategies, supplemented by targeted measures to develop insurance markets. This effort will be closely aligned with the Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions called for in the 2017 G20 leaders' meeting.

Pledges to the InsuResilience initiative as of mid-2017 have reached US$550 million, including US$190 million from the German government alone.[1]

### The declaration of the 2015 G7 leaders' summit stated:

*We will intensify our support particularly for vulnerable countries' own efforts to manage climate change related disaster risk and to build resilience. We will aim to increase by up to 400 million the number of people in the most vulnerable developing countries who have access to direct or indirect insurance coverage against the negative impact of climate change related hazards by 2020 . . . To do so we will learn from and build on already existing risk insurance facilities . . . (G7 2015)*

## V20

The **Vulnerable Twenty (V20) Group of Ministers of Finance** is a dedicated initiative of economies systemically vulnerable to climate change. The V20 facilitates political dialogue to tackle global climate change. Asian countries that joined the V20 include Afghanistan, Bangladesh, Bhutan, Cambodia, Mongolia, Nepal, Papua New Guinea, the Philippines, Sri Lanka, and Vietnam.

The V20 has adopted enhancing financial resilience against climate risks as one of its core objectives. In March 2017, V20 Asia regional consultations on disaster risk finance were held in Manila directly informing the 2017 Spring V20 ministers meeting and the adoption of a related work program.

### The Communiqué of the 2nd V20 Ministerial Dialogue stated:

*We agreed to enhance financial protection by addressing financial resilience against climate and disaster risks at national and regional levels . . . Extending insurance coverage, ensuring grass-roots access and expanding risk pooling represent tremendous opportunities for increasing resilience to the wide array of climate-related catastrophes that continue to set back the lives of our people. (V20 2016)*

### The Communiqué of the 4th V20 Ministerial Dialogue stated:

*Further to the 2017 V20 Disaster Risk Financing Workshops, we request the World Bank to provide V20 members with capacity building and financial support to develop their institutional capacity as a part of their broader fiscal risk management agenda and to provide financial and technical support to implement the activities of the V20 Focus Group on Risk. (V20 2017)*

[1] BMZ, "InsuResilience: Aim and Successes," http://www.bmz.de/en/issues/klimaschutz/climate-risk- management/g7_initiative_klimarisikoversicherung/index.html.

### SENDAI FRAMEWORK FOR DISASTER RISK REDUCTION 2015–2030

The Sendai Framework for Disaster Risk Reduction, adopted by the United Nations (UN) member states in 2015, guides global efforts to prevent new and reduce existing disaster risk through 2030. It highlights financial protection as a key element of resilience. Supported by the United Nations Office for Disaster Risk Reduction at the request of the UN General Assembly, it is the outcome of stakeholder consultations initiated in March 2012 and intergovernmental negotiations occurring from July 2014 to March 2015.

The framework outlines four priorities for action to prevent new and reduce existing disaster risks: (i) understanding disaster risk; (ii) strengthening disaster risk governance to manage disaster risk; (iii) investing in disaster reduction for resilience; and (iv) enhancing disaster preparedness for effective response, and to "Build Back Better" in recovery, rehabilitation, and reconstruction.

#### Priority 3 of the Sendai Framework specifies key requirements of effective investment in disaster reduction for resilience:

*At the national and local level, it is important to "promote* ***mechanisms for disaster risk transfer and insurance****, risk-sharing and retention and financial protection, as appropriate, for both public and private investment in order to* ***reduce the financial impact of disasters*** *on Governments and societies, in urban and rural areas."*

*At the global and regional level, it is important to "promote the* ***development and strengthening of disaster risk transfer and sharing mechanisms and instruments*** *in close cooperation with partners in the international community, business, international financial institutions and other relevant stakeholders on a global and regional level" (UNISDR 2015).*

### ADDIS ABABA ACTION AGENDA ON FINANCING FOR DEVELOPMENT

The Addis Ababa Action Agenda, adopted during the Third International Conference on Financing for Development in July 2015, sets specific goals for financing the Sustainable Development Goals. Climate and disaster resilience are an integral component of these and their associated targets, so that global development priorities over the next 15 years are sure to integrate climate and disaster risk management considerations.

#### The Addis Ababa Action Agenda states:

*We, the Heads of State and Government and High Representatives . . . encourage consideration of* ***climate and disaster resilience in development financing*** *. . . We commit to investing in efforts to* ***strengthen the capacity of national and local actors to manage and finance disaster risk****. (UN 2015)*

# Political Commitment of Regional Forums for Joint Regional Disaster Risk Finance Solutions

The following forums which include Asian countries have recently articulated their commitment to regional DRF solutions.

### ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

Member economies of the Asia-Pacific Economic Cooperation (APEC) forum have recognized DRF as an important topic for over five years—that is, since at least 2012. This recognition is anchored in the Cebu Action Plan, agreed on by member economies in Cebu, Philippines, in September 2015. This plan highlights innovative regional disaster risk financing and insurance (DRFI) mechanisms as key tools that will operate within broader disaster and fiscal risk management frameworks to increase financial resilience. The statement emphasizes the need to explore (with World Bank support) the possibility of developing regional risk pools and other risk financing mechanisms for interested APEC economies.

**Pillar 3 of the Cebu Action Plan (Enhancing Financial Resiliency) calls for**

*developing innovative disaster risk financing and insurance mechanisms . . . to enable APEC economies exposed to natural hazards to increase their financial response to disasters and reduce their fiscal burden. (APEC 2015b)*

**The 2015 APEC Finance Ministers' Meeting requested**

*the World Bank Group to conduct a study and prepare a report on options for regional disaster risk financing mechanisms, including risk pooling, among interested APEC economies. (APEC 2015a)*

To take this agenda forward, a dedicated APEC Working Group on Regional Disaster Risk Financing Solutions was established under Peru's chairmanship in 2016, with the World Bank serving as a technical resource. Vietnam, the 2017 APEC chair, has maintained DRF as a priority on the agenda, with a focus on financial risk management of public assets.

In 2017, the Philippines volunteered to chair the working group and the following objectives were adopted:

- Facilitate the implementation of APEC priorities on DRF through improved coordination among a number of economies that volunteered to join the Working Group.
- Support the exchange of information and lessons learned around the DRF policies and strategies.
- Provide APEC economies with the required information to evaluate the feasibility and options for implementation of regional DRF mechanisms.

**The 2016 APEC joint finance ministerial statement declared:**

*In order to identify and implement appropriate regional disaster risk financing mechanisms and to help increase insurance penetration, we welcome the establishment of the Working Group on Regional Disaster Risk Financing Solutions for APEC Economies, with the support of the WBG. (APEC 2016)*

**The 10 member countries of the Association of Southeast Asian Nations (ASEAN), facing an average direct economic loss from disasters of US$4.4 billion every year, closely cooperate to strengthen disaster resilience at both the community and national level across Southeast Asia.**

## ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

The 10 member countries of the Association of Southeast Asian Nations (ASEAN), facing an average direct economic loss from disasters of US$4.4 billion every year, closely cooperate to strengthen disaster resilience at both the community and national level across Southeast Asia (World Bank 2012).

The ASEAN Committee on Disaster Management (ACDM), established in 2003, consists of national agency executives who are responsible for disaster management of ASEAN member countries. The ACDM assumes overall responsibility for coordinating and implementing regional DRM activities. To address current risks and future threats, and to adapt to the changing humanitarian landscape, the ACDM developed the ASEAN Vision 2025 on Disaster Management, endorsed by the Third ASEAN Ministerial Meeting on Disaster Management.[2]

**In 2011, ASEAN member states proposed a road map for DRF that set out priorities at the national and regional level. One priority was to**

*strengthen regional cooperation on Disaster Risk Financing and Insurance . . . with possible activities that may include:*

*Explore the possibility of a regional vehicle to facilitate access to international reinsurance and capital markets based on various studies on DRFI including:*

- *The ongoing study on disaster risk insurance being conducted by Philippines and Japan under the ASEAN +3 Cooperation.*
- *Identify considerations and preconditions of pooling arrangements for DFRI at the regional level.*[3]

This roadmap was informed by a joint World Bank-ASEAN report on Disaster Risk Finance (World Bank 2012).

2 ASEAN, "ASEAN Vision 2025 on Disaster Management," http://www.asean.org/wp-content/uploads/2012/05/fa-220416_DM2025_email.pdf.

3 "ASEAN Disaster Risk Financing and Insurance Forum: A Joint Initiative of ASEAN, World Bank, GFDRR and UNISDR. Roadmap." November 8–10, 2011, Jakarta, Indonesia, http://documents.worldbank.org/curated/en/420611468026941948/text/687840v30WP0P10AgreedbyPanel010Nov.txt.

In 2015, ASEAN announced the establishment of the ASEAN Disaster Risk Financing and Insurance Programme, which aims to further explore national and regional disaster risk financing solutions. This effort includes regional knowledge exchange and coordination.

**Joint Statement of ASEAN for the Third UN World Conference on Disaster Risk Reduction, March 14–18, 2015, in Sendai, Japan:**

*We are now going to implement the ASEAN Disaster Risk Financing and Insurance Programme as part of the risk financing and insurance road map of the region to leverage national and regional resources as well as the international insurance market. (ASEAN 2015)*

### ASEAN+3

The ASEAN+3 countries (ASEAN plus China, Japan, and the Republic of Korea) have adopted DRF as an important regional priority. Japan and the Philippines included DRF in a study conducted in 2015 under the rubric "Future Priorities of ASEAN+3." More recently, Cambodia, the Lao People's Democratic Republic, and Myanmar have built on this effort and worked toward development of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), a regional catastrophe risk pool designed to provide rapid response financing in the immediate aftermath of a disaster. The ASEAN finance ministers recognized SEADRIF as a key milestone in establishing a regional catastrophe risk pool in the region, and have invited other ASEAN+3 countries to join this initiative (See **Box 2**).

At the 2017 Finance Ministers' Meeting, in an effort to promote the development of SEADRIF, the Cambodian Ministry of Economy and Finance, Lao Ministry of Finance, Myanmar Ministry of Planning and Finance, and Japanese Ministry of Finance signed a memorandum of understanding on the establishment of a country-led Regional Technical Working Group on Disaster Risk Finance and Insurance.

**The Joint Statement of the 20th ASEAN+3 Finance Ministers' Meeting in May 2017 declared:**

*In view of the high exposure of ASEAN countries to natural disaster risks, we commended the progress of the ASEAN Disaster Risk Financing and Insurance Program with the three main components of risk assessment and modelling, public policy and knowledge management and training. We hope this program will lead to strengthening the region's capacity in disaster risk financing and insurance. Furthermore, building on the past study on disaster risk insurance under Future Priorities of ASEAN+3 Financial Cooperation in 2015, the initiative by Cambodia, Lao PDR and Myanmar to create the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), with initial financial support from Japan, is key to establishing a regional catastrophic risk pool. We also welcomed the agreement of Cambodia, Lao PDR, Myanmar, and Japan to jointly conduct the feasibility study and the preparation for the establishment of the SEADRIF, with technical support from the World Bank. We invite other ASEAN+3 countries to join, and donor partners to support, this initiative. (ASEAN 2017)*

BOX 02

## Operational Advances: Southeast Asia Disaster Risk Insurance Facility

Recurring floods and other natural disasters affecting the livelihoods of large populations are a major challenge in Southeast Asia and often leave governments with a critical need for short-term liquidity to finance response and recovery. In Myanmar, for example, floods in a single year—2015—displaced 1.6 million people and caused an estimated US$1.5 billion in losses and damages.

In response, the governments of Cambodia, Lao PDR, and Myanmar have come together to explore a joint regional mechanism to strengthen their financial resilience to climate and disaster risks.

In May 2017 these countries and Japan signed a memorandum of understanding on the establishment of a Regional Technical Working Group to work toward SEADRIF, a regional catastrophe risk pool to provide rapid response financing in the immediate aftermath of a disaster.

SEADRIF will be a regional catastrophe risk pool akin to a reinsurance-based disaster liquidity facility, designed to provide participating countries in Southeast Asia affected by natural disasters with immediate rapid response financing. Countries participating in the SEADRIF also benefit from advisory services at the national level to build and implement comprehensive disaster risk finance strategies, as well as from the development of innovative joint regional financial solutions. Initially focused on Cambodia, Lao PDR, and Myanmar, SEADRIF could expand to other countries to strengthen regional cooperation and financial resilience. Initial conversations have started with additional governments, and ASEAN+3 finance ministers have encouraged other economies to join.

The World Bank Group is supporting the preparation and implementation of SEADRIF through a comprehensive set of financial and advisory services to Cambodia, Lao PDR, and Myanmar. These services are embedded in disaster risk management lending operations that also include resilient infrastructure and hydromet investments.

The overall engagement with the countries also includes work at the national level to develop and implement comprehensive DRF strategies. This work is financed by the government of Japan, the Rockefeller Foundation, and the Global Facility for Disaster Reduction and Recovery (GFDRR), and it is implemented by the World Bank Group's Disaster Risk Financing and Insurance Program (DRFIP).

**Countries across Asia have clearly demonstrated strong political momentum for, and increasing commitment to, exploring regional DRF solutions.**

## Priorities for the Establishment of a New Regional Facility

Countries across Asia have clearly demonstrated strong political momentum for, and increasing commitment to, exploring regional DRF solutions. Equally, many countries are taking actions at the national level to implement DRF policies and mechanisms. Any regional initiative should build on such existing structures at the national level. The challenges Asian countries face from natural hazards vary; and the national level mechanisms they have created to address them exhibit various levels of maturity.

However, despite the diversity of risk exposure in the Asian region, there are commonalities. Experience gained from bilateral support to countries, dialogue in the region, and recent disasters suggests that countries' current priorities for use of financial instruments can be placed in three broad categories. Any potential regional platform would need to be aligned to these priority areas in order to add value that complements already existing national and subnational mechanisms.

**The three priorities identified are described below and represent the biggest needs shared by most of the countries in the region.**

01. ***Rapid response financing.*** Access to rapid response financing is a priority issue for economies at risk of severe shocks, such as large earthquakes and tropical cyclones (e.g., Indonesia, the Philippines, Nepal, Myanmar); at the same time, it is also important for economies that are exposed to recurrent flooding but have limited resources to respond (e.g., Myanmar, Cambodia, Lao PDR, Sri Lanka). Post-disaster rapid response financing may be mobilized for very different purposes across countries. For some, rapid response financing is valuable as bridge financing that helps to avoid budget disruption. For others, it allows urgent action (e.g., emergency services, financial assistance to affected populations) in the face of severe budget constraints.

02. ***Public asset insurance.*** Catastrophe risk insurance for public assets is a focus for a growing number of countries as they invest in new infrastructure and buildings. In Indonesia and Vietnam, for example, governments are beginning to develop public asset insurance programs. Property catastrophe risk insurance for public assets has already been utilized in the Philippines, and the government is seeking to increase insurance uptake even further.

03. ***Private asset insurance.*** Property catastrophe risk insurance for private assets is becoming a focus for countries where property damage from disasters poses a risk to a growing middle class and small businesses. Thailand, for example, set up a National Catastrophe Insurance Fund to shore up the domestic insurance industry following the devastating 2011 flooding. The Philippines is also in the early stages of exploring how a catastrophe risk insurance pool could reach more households and businesses with catastrophe risk insurance through the insurance market.

**Access to rapid response financing is a priority issue for economies at risk of severe shocks**

# Moving Forward

There is increased political demand for a regional DRF solution. Equally, disaster risk finance policies and mechanisms are developing in countries across Asia. Despite increasing demand and momentum, however, no regional platform exists. The design of a regional disaster risk financing facility for developing countries in Asia would have to accommodate countries' differing priorities, take into account the needs of both large and small economies, and allow for heterogeneous exposure to hazards across the region. Interventions around the following five pillars should form the basis for the institutional design, legal framework, geographic scope, financial mechanism, and peril coverage of a regional platform:

01. ***Combine financial instruments.*** A regional facility should explore new ways of providing post-disaster financing to governments—combining contingent financing and risk transfer to minimize the cost of rapid response financing.

02. ***Link with disbursement channels.*** Post-disaster financing mobilized through a regional facility should be linked with disbursement channels at the national and subnational level. This arrangement helps ensure that financial resources reach the intended beneficiaries rapidly and reliably. Existing channels such as social protection systems or national public asset insurance schemes should be leveraged to distribute funds in an efficient and timely manner.

03. ***Formalize the political commitment of stakeholders.*** Political momentum to strengthen regional collaboration for financial resilience must be translated into concrete actions and commitments. Strong political champions across the region and ownership through regional organizations will play a critical role in any sustainable financial mechanism.

04. ***Collaborate with the private sector.*** The private sector plays a crucial role in the development of cost-effective catastrophe risk products.  Private risk carriers provide financial capacity to transfer risk off governments' balance sheets. They are also important providers of technical expertise for the design and functioning of effective risk-pooling schemes.

05. ***Provide credible and consistent risk data.*** Reliable catastrophe risk models and high-quality live hazard data are key to quantify risks and to design financial policies, strategies, and mechanisms that respond effectively to disasters. A regional facility can leverage additional investments in exposure and vulnerability data, along with investment in local capacity for recording and reporting hazard and damage information. These data not only will be required for the design of a regional parametric disaster risk financing mechanism, but also can help governments make more informed decisions in all aspects of disaster risk management.

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