Knowledge Exchange Series on Building Sovereign Financial Resilience in Middle Income Countries

Sovereign Disaster Risk Insurance

Sept 21, 2021

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

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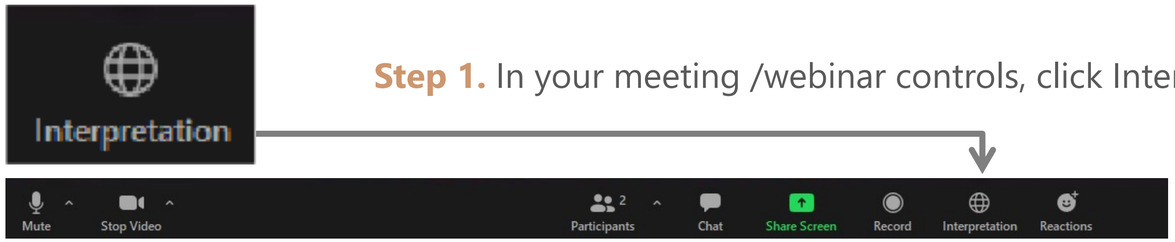
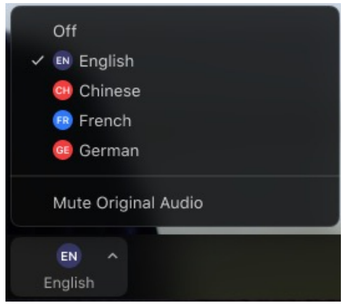
Simultaneous Interpretations

How to listen to Albanian, English, French, and Indonesian channels:



Step 1. In your meeting /webinar controls, click Interpretation.



Step 2. Click the language that you would like to hear.

Additional Step - (Optional) To hear the interpreted language only, click **Mute Original Audio**.

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Webinar Series

1-2 **Policies and frameworks for managing disaster related contingent liabilities**

Webinar 1: Managing disaster related contingent liabilities

Webinar 2: Fiscal & financial resilience for subnational governments

3-5 **Instruments for financial management of disasters**

Webinar 3: Disaster reserve funds

Webinar 4: Sovereign disaster risk insurance

Webinar 5: Catastrophe bonds

6 **Market development for disaster risks**

Webinar 6: Catastrophe risk insurance markets development

7-8 **Data, information and analytics for sovereign risk financing**

Webinar 7: Data and information for sovereign DRF

Webinar 8: DRF analytics training

Webinar Road Map

01 Managing Disaster-Related Contingent Liabilities

02 Fiscal and Financial Resilience for Subnational Governments

03 Disaster Reserve Funds

04 **Sovereign Disaster Risk Insurance**

05 Catastrophe Bonds

FACT SHEET 1-2

FACT SHEET 3-5

FACT SHEET 6

FACT SHEET 7-8

06 Catastrophe Risk Insurance Market Development

07 Data and Information for Sovereign Disaster Risk Financing

08 Disaster Risk Financing Analytics Training

Structure of Webinars

Total of 8 Fact Sheets & 8 webinars

Different guest speakers

Live audience polls: Please participate

Q&A: Please share your questions via chat box (If possible, please indicate which speaker(s) to address your question(s))

Simultaneous interpretation:
Albanian, English, French, Spanish or Vietnamese

Please be patient with interpreters when lag time occurs!

Certificate of Participation

Certificate of Participation

Participants will have an opportunity to obtain certificate(s) on successful completion of following criteria:

Certificate of Participation: Participants need to attend 4 out of 8 webinars and complete a short survey

Certificate of Completion: Participants need to attend 7 out of 8 webinars and complete a short survey

Opening Remarks

Cecile Thioro Niang

Practice Manager, East Asia and Pacific,
Finance, Competitiveness & Innovation (FCI) Global Practice,
World Bank Group

Overview

Middle-income countries face fiscal challenges in effectively responding to disasters, with many governments primarily relying on (short term) international support to fund disaster response.

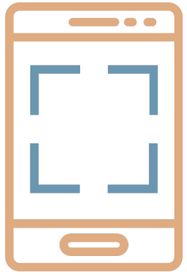
Since 2012, Switzerland's State Secretariat for Economic Affairs (SECO) and the World Bank's Disaster Risk Financing and Insurance Program (DRFIP) have developed a joint program to support middle-income countries (MICs) in building their financial resilience against natural disasters. The Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries (the Program) is one component of a broader WB-SECO partnership on fiscal risk management for MICs.

This webinar series, as part of the Program, aims to: assist governments with developing and implementing more effective and cost-efficient financial protection strategies to better manage government disaster related contingent liabilities; and bring countries together to share knowledge, experiences and good practices on disaster risk financing.

Word Cloud: Where are you currently based?

Option 01

Go to www.menti.com



Option 02

Scan the QR Code

Use Code:

Poll 1: Recap

What was the last Webinar about?

- Why is it important to hold money in a disaster reserve fund?
- Key considerations for establishing a disaster reserve fund.
- I did not attend the previous webinar – this is my first time.
- I don’t remember.

Option 01 –

Go to www.menti.com

Option 02 –

Scan the QR Code

Use Code:

Framing Presentation

Hang Thu Vu

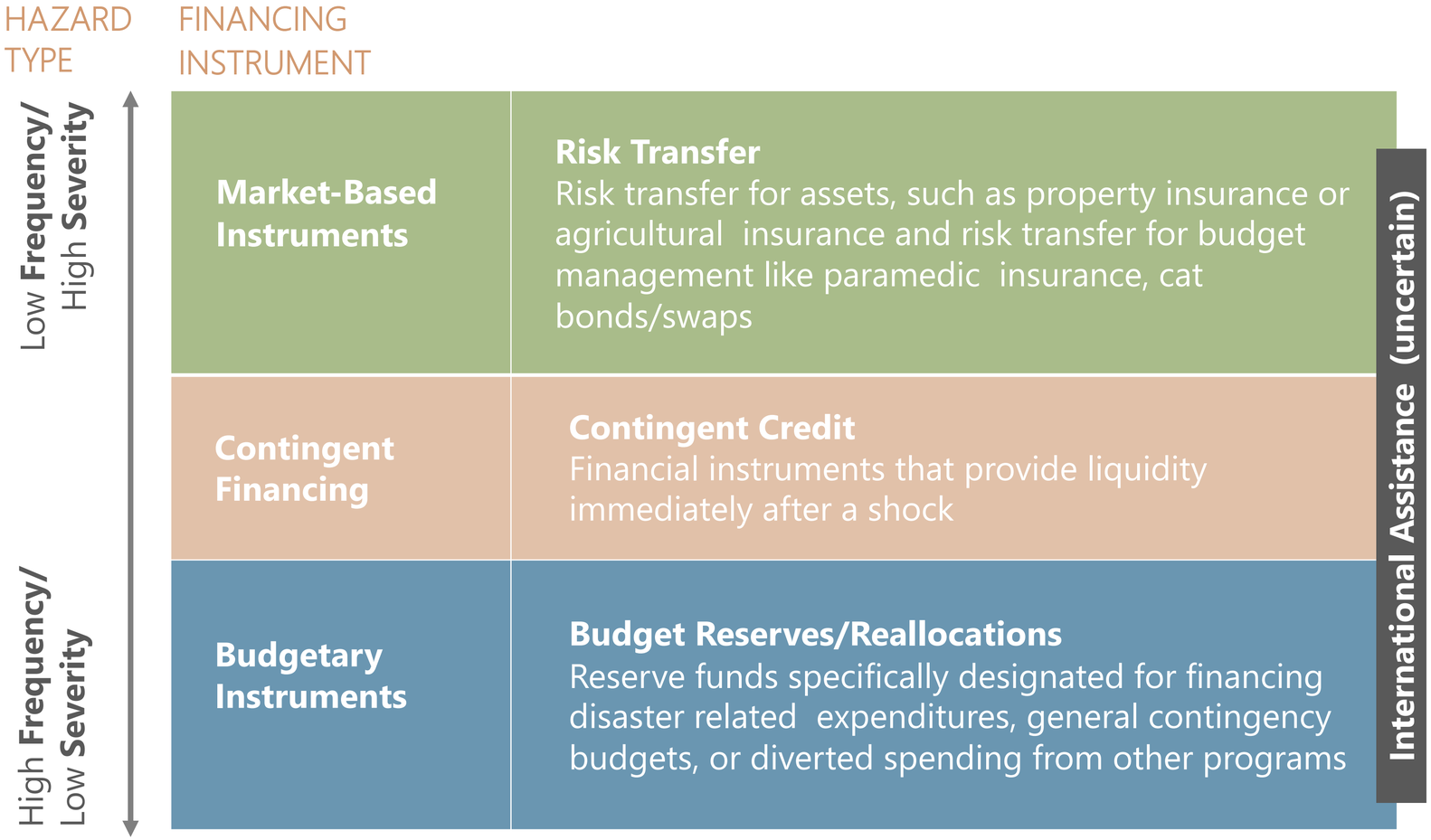
Senior Financial Sector Specialist, FCI Global Practice,
Crisis and Disaster Risk Finance, WBG

Why Sovereign Disaster Risk Insurance?

Comprehensive Financial Protection against Disasters

- Governments seek combination of financing instruments for disaster response and recovery
- Risk layering allows matching the instruments against frequency and severity of expected disaster events
- Insurance is part of the risk financing options that provides a means for governments to transfer residual risks away from government balance sheets

The Layering Approach to Risk Financing



Source: The World Bank Disaster Risk Finance and Insurance Program

Note: CAT= catastrophe.

Disaster Risk Finance Instruments - Costs and Benefits

Factors to consider in evaluating instruments

Cost of capital

How cost-effective is the instrument in accessing financial resources after a disaster?

Timeliness

Can the instrument ensure that funding will be available at the right time?

Discipline

How well can the instrument support post-disaster spending discipline, and accountability and transparency?

Ownership

How well can the instrument clarify risk ownership? Is the entity that pays for it (for example, through a premium) also the entity that bears the risk?

Risk information

Can the chosen instrument help countries understand and price their risk?

Disaster Risk Insurance - Costs and Benefits

BENEFITS

- ✓ Provide quick liquidity for response and cost-effective capital to rebuild public infrastructures or restore essential public services after a disaster for a certain layer of risk
- ✓ Reduce the volatility of disaster impacts on government accounts and therefore promote budget stability.
- ✓ Develop a 'risk management' culture among risk owners and stakeholders by attaching a price to the risk
- ✓ Encourage resilience through quantification of premium discount benefits for different risk reduction measures.

COSTS

- ✓ Premium costs may not be economical against the expected return.
- ✓ Not suitable for covering all financial risks and will comprise only part of the DRF strategy, e.g. uneconomical for the smallest, most frequent potential losses.
- ✓ Premium costs are paid in advance, immediately impacting the budget.
- ✓ Insurance may not necessarily be available for all perils or types of assets.

Policy and Governance Considerations

1. Policy Considerations

Key objectives and priorities need to be clarified from the beginning:

- Who will be insured
- What perils will be insured against
- What level of protection will be provided through insurance
- How the program will be funded

2. Legislative Considerations

- Clearly articulate that coverage is (i) purchased where needed, (ii) appropriate and (iii) not being purchased where there is not value for money
- Allow public sector entities to have the funds and necessary authorizations to pay for insurance premiums
- Provide mechanisms to incentivize the uptake of insurance, for example, use of conditionality in access to other forms of government financing, enforcement of compulsory insurance purchase and associated verification of such purchases, etc.,
- Regulatory requirements for insurance products if such programs leverage commercial (re)insurance.

3. Institutional Arrangement

- The role of ministries of finance vis-à-vis other line ministries or agencies
- The role of private sector (insurer, reinsurer, brokers, loss adjusters, etc.)

Operational Considerations

Insurance Approach

Centralized, Partially Centralized and Decentralized Approach

Approach	Advantages	Disadvantages
 **Centralized:** Risks are aggregated into a program or vehicle	• Consolidated purchasing power and conduit to international market capacity • Management of pricing volatility • Financial efficiencies from risk pooling/better managed risk retention • Quality control for insurance coverage standards • Visibility over multiple classes of risk, allowing for comprehensive risk management	• High administrative and operational cost burden • Risk of disconnecting insurance decision-making from experience of risk • Removal of choice in financial decision-making from direct managers of assets
 **Partially Centralized:** framework agreement with the insurance market	• Facilitates access to commercial insurance • Standardizes insurance purchase process, increasing the chance of successful placement • Promotes competition on price • Provides robustness in overall terms of engagement between insurers and public sector (but not necessarily in terms of coverage itself) • Protects freedom of choice in financial risk management	• Relatively high level of effort to implement • Reduction of choice of suppliers • Application of minimum standards in insurance terms and pricing that may not be possible in certain market contexts • No additional financial efficiencies from risk pooling/better managed risk retention
 **Decentralized:** individual agency approaches	• Protects freedom of choice in financial risk management - keeping experience of risk and financial decision-making in the same place • Has no administrative or operational burden for government • Allow free market competition between suppliers	• Variability in price and coverage quality outcomes, with particular risk for small scale public entities with limited purchasing power • Increased risk of unsuccessful placements • No additional financial efficiencies from risk pooling/better managed risk retention

Operational Considerations

Risk Pooling

Advantages	Challenges
Diversified risk across multiple countries with different risk profiles.	Moral hazard. Members with substandard risk-management practices or risk-prone assets may join the pool;
Economies of scale through a shared fixed-cost base and reduced transaction costs of procuring services	Premium allocation/member contributions. As contributions are allocated across members, they will always be conscious of cost, and expect fairness and transparency in the way that pool costs are allocated and justified.
Increased budget certainty and price stability. Smoothing costs over insurance market cycles.	Continued commitment and financial contributions from key stakeholders — including governments and development partners.
Joint reserves (joint surplus capital) established to self-insure a part of the risk.	Sound operational design. It takes time and effort to design and implement an appropriate and effective risk-pooling structure.
Excess risk is transferred to the reinsurance and capital markets.	Members also need to share common principles in risk management, as well as other common identifying features.
Cheaper premiums. Increased attractiveness to markets due to the diversified pool of risks.	-
Better risk information about the entire portfolio.	-
Improved risk ownership and increased incentives for members to collaborate and share information and innovation.	-

Operational Considerations

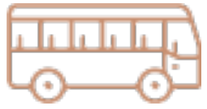
Product Format

1. 'Traditional' **indemnity-based** insurance products

2. **Index-based** (including parametric) insurance

3. **Hybrid indemnity and parametric** product.

Type of Coverage



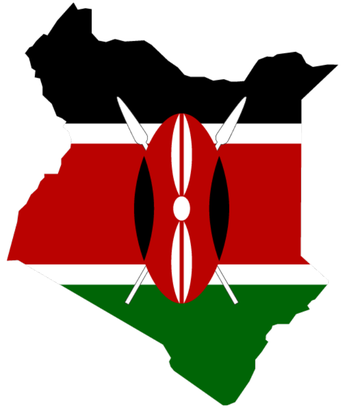
1. Public assets insurance

2. Agricultural insurance

3. Budget protection

Operational Considerations

Examples: Kenya Agricultural Insurance Program



Objective: To protect the vulnerable pastoral households.

Coverage: The fully subsidized insurance product offers a pre-determined minimum coverage level. It has been designed to protect rapidly deteriorating livestock assets. Although the livestock insurance cover is purchased by the government ("macro coverage"), in case of a drought, the insurance companies pay claims directly to the policyholders of the beneficiaries. This enables pastoralists to keep their livestock alive, particularly their breeding stock during droughts because they can purchase fodder/pasture. However, only five Tropical Livestock Units (TLUs) are covered, which is the equivalent of about 5 cows or 10 goats. As of October 2016, 14,000 pastoral households were insured.

Criteria: Eligible household should: (i) be active in pastoralism and own a minimum of five TLUs; (ii) not benefit from any of the programs under the Kenya National Safety Net Program; (iii) not own more livestock than above a certain ceiling; and (iv) have either a formal money transfer system (for example, a bank account or mobile money service) or commit to acquiring one after being considered a beneficiary.

Operational Considerations

Examples: Southeast Asia Disaster Risk Insurance Facility (SEADRIF)

SEADRIF
SOUTHEAST ASIA
DISASTER RISK INSURANCE FACILITY

Objective: SEADRIF was established as a regional platform for to provide technical and financial services to the member countries of the Association of South East Asian Nations (ASEAN). It receives financial support from donor partners, technical support from the World Bank, and administrative support from the ASEAN Secretariat in partnership with regional and other institutions. .

Product: SEADRIF's first product provides insurance to Lao PDR against climate shocks and natural disasters. The insurance policy has a three year period and consists of two complementary components: the parametric component and the finite risk component.

- **Parametric component** uses a stepped payout structure, it has fixed parameters that correspond to predefined levels of the modelled number of people affected by a flood, which trigger pre-agreed payout amounts. Specifically, 40% of the policy limit is payable in the event of a 'medium' disaster, and 100% of the policy limit is payable in the case of a 'severe' disaster. The parametric component must comprise a minimum of 50% of the total premium paid.

- **Finite risk component** provides countries with protection against events that might not trigger a payout under the strictly objective rules of the parametric component. This could be due to: 1) basis risk; 2) small flood events that don't trigger a payout under the parametric component; or 3) losses that are caused by natural disasters which are not flood-related.

In Summary

Sovereign Disaster Risk Insurance Has Many Benefits…

- It forms part of a comprehensive financial protection strategy.
- It can provide quick liquidity and/or capital for rebuilding public infrastructures and public services.
- It can be an instrument for governments to manage budget variability and improve budget stability.
- It encourages resilience, i.e. risk reduction measures through its price signal.

But Be Mindful of…

- Premium costs may not be economical against the expected return, and not suitable for covering all financial risks.
- Premium costs are paid in advance, immediately impacting the budget.
- Insurance may not necessarily be available for all perils or types of assets.
- Efficient policy, legislative, institutional and operational arrangements are required for efficient insurance program implementation.

Sovereign Disaster Risk Insurance

Indonesia

Sept 21, 2021

Encep Sudarwan, Director of State Asset, Directorate General of State Asset Management, Ministry of Finance, Indonesia

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Indonesia Vulnerability to Disasters

Demographics

- Population : 270,203,917 people
- Cities : 514
- Islands : 17,504
- Land : 1,916,906.77 km²
- Ocean : 3,110,000 km²

State Fixed Assets (2020)*

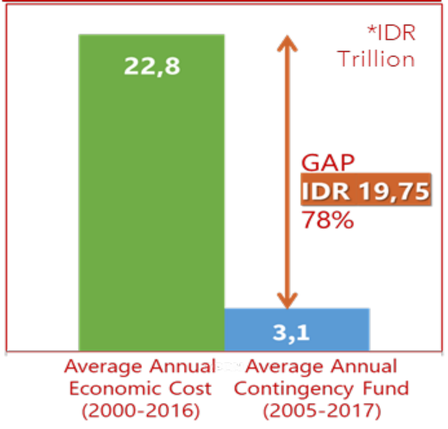
Land	4.539,89 T
Machineries	706,97 T
Building	395,81 T
Road & Bridge	940,90 T
Other Aset	55,49 T
Construction	161,81 T

*IDR Trillion

Annual Average Economic Loss Due To Disasters (2000 - 2016) in IDR Trillion

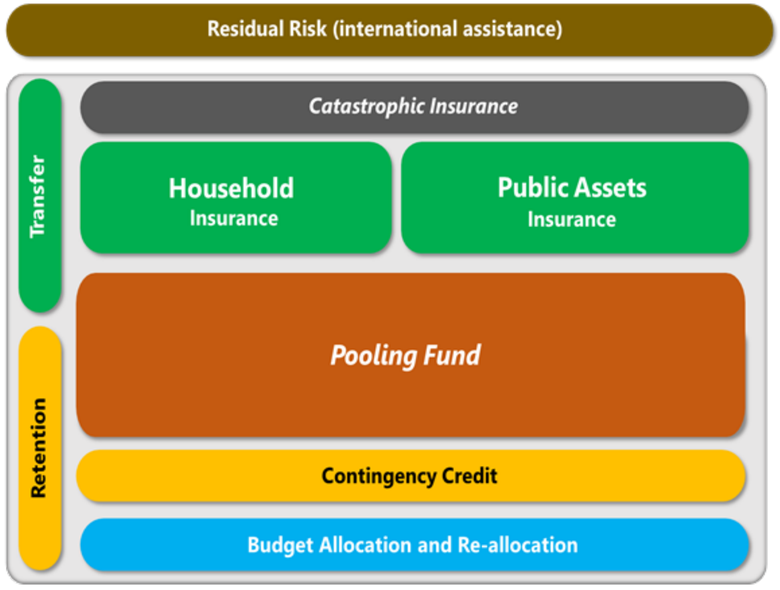
Earthquake	7,56
Wildfire	5,32
Flood	4,64
Tsunami	2,71
Landslides	1,29
Volcanic Eruption	1,25
Extreme Weather	0,05
Storm Surges	0,02
Drought	0,01

Disaster Financing GAP*



Steps To Public Assets Insurance

DECLARATION
2018



PROCESS
2018-2019

Assets Revaluation
Inventorisation and valuation of fixed assets in all line ministries

Regulation
Make the new regulation of public assets insurance in Indonesia (MoF Regulation Number 97 Year 2019)

Standard Policy
Set up the Public Assets Insurance Policy Standar in collaboration with the Financial Services Authority (OJK) – All Risks, Single Tariff

Procurement System
Design procurement mechanism that inline with the procurement system in government and industry In collaboration with OJK, KPPU & LKPP

Insurance Consorsium
Establishing an public assets insurance consorsium.
Minimum Requirements for Consortium Members:
- Risk Base Capital 120%
- Equity IDR150 billion
- Liquidity Ratio 100%

IMPLEMENTATION
2019-2021

2019 : MoF – with 1,360 buildings were insured for value IDR 10.8 Trillion
2020 : 13 Line Ministries – with 2,112 buildings were insured with a value of IDR 22.73 trillion
2021 : 51 Line Ministries (August 31st) – with 4,334 buildings were insured with a value of IDR Rp32,40 trillion (It is expected that all ministries will be insured by the end of the year).
→The Sharia Insurance Industry is planned to join the Public Asset Insurance Consortium
2022 : Planned fully insured

Characteristic of Public Assets Insurance in Indonesia

ONE PRODUCT

The authority (OJK) approve the new insurance policy standard that was proposed by the insurance association. The policy standard cover all risks include fire, lightning, explosion, air craft, smoke (FLEXAS), riot, strike, malicious damage, civil commotion (RSMDCC), typhoon, storm, flood, water damage (TSFWD), earth quake, volcanic eruption, tsunami (EQVET), terrorism and others

KABMN

ONE SELLER

The industry create an consortium to implement the public assets insurance in order to maximize coverage profile. Now, 56 insurance and reinsurance companies join the consortium. The consortium appointed one company as administrator and one company as policy issuer.

PROCUREMENT CONDUCT

The public assets insurance are implemented inline with the procurement system in government and industries, that was standardize for all line ministries and consortium.

ONE RATE

The policy standard gave the same premium rate to all items and all insured. Items includes office buildings, health buildings, education buildings, and facilities in the building.

CENTRALIZED BUYER

Each line ministry centralized their procurement to one spending units. Next, it will be redesign to one buyer for all line ministries.

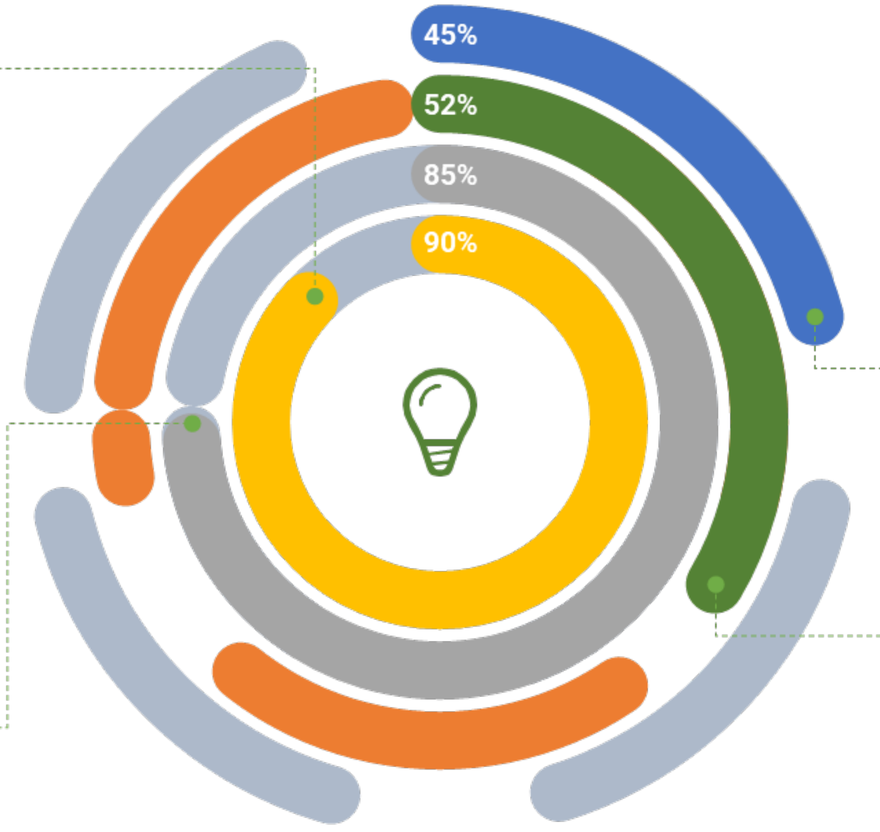
FLEXIBILE REGULATION

All mandatories insurance due to the law still can be implemented to the market such as aviation. Abroad assets can implementing insurance in accordance to the regulation of each country.

Next Steps To Public Assets Insurance

Accelerate

Accelerating the implementation by mking policies to ensure all ministries implement insurance by 2021, socializing policies massively and creating an online public asset insurance training mechanism.



Expand

1. Expand insurance coverage by expanding public asset insurance objects such as
   - Infrastructure,
   - Vehicle, and
   - machineries

1. Strengthening risk underwriters by joining the sharia insurance industry into the public asset insurance consortium

Strengthen

Strengthening information systems by realizing an asset information system that supports the entire public asset insurance process.

Poolingfund

With the issuance of Presidential Regulation Number 75 of 2021 The Government of Indonesia will implementing the next stage of the DRFI strategy, pooling funds, with public asset insurance as one of the tools used.

国の信用を守り、
希望ある社会を次世代に引き継ぐ

Sovereign Disaster Risk Insurance

Japan

Sept 21, 2021

Mari Ishiguro, Deputy Director of the Financial System Stabilization Division, Ministry of Finance, Japan

Disaster Risk Financing & Insurance Program

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Earthquake Insurance in Japan

Contents

JP's EI is built to contribute to the stability and rebuilding efforts of disaster victims who have lost their homes or property in the most efficient way.

How to design the system:

1. Create strong financial resilience

- Build a strong private insurance sector
- Limit public exposure

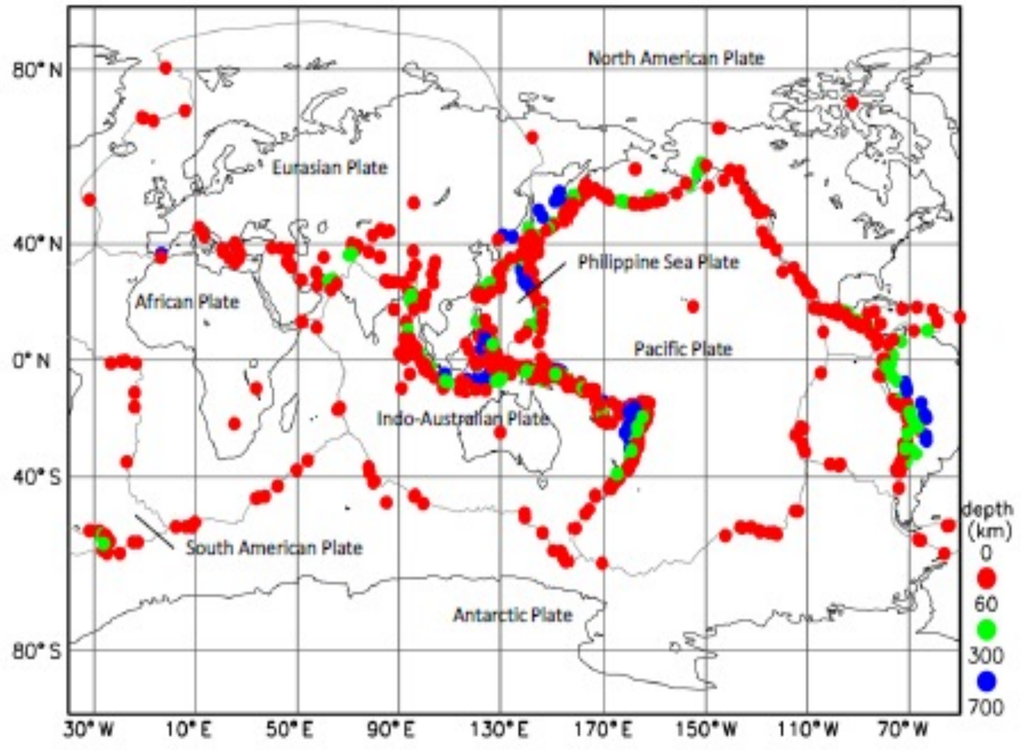
2. Ensure households acquire the coverage provided by the program

- Focus on TRUST
  - Swift payment
  - Transparency

Background

- **Japan:** An earthquake-prone country
- Earthquake insurance in JP established in 1966 (Act on Earthquake Insurance)
  - Insurance liability shared between private insurers and the government

Worldwide Hypocenter Distribution (for Magnitude 6 and Higher Earthquakes) and Plate Boundaries



Note: 2010–2019
Source: Cabinet Office 2020 White Paper Disaster Management in Japan

Major Earthquake in Japan (Since Meiji (1868-) period)

Disaster		Date	Number of Fatalities and Missing Persons
Nobi Earthquake	(M8.0)	October 28, 1891	7,273
Meiji Sanriku Earthquake and Tsunami	(M8.25)	June 15, 1896	Approx. 22,000
Great Kanto Earthquake	(M7.9)	September 1, 1923	Approx. 105,000
1927 Kita Tango Earthquake	(M7.3)	March 7, 1927	2,925
Showa Sanriku Earthquake Tsunami	(M8.1)	March 3, 1933	3,064
1943 Tottori Earthquake	(M7.2)	September 10, 1943	1,083
Tonankai Earthquake	(M7.9)	December 7, 1944	1,251
Mikawa Earthquake	(M6.8)	January 13, 1945	2,306
Nankai Earthquake	(M8.0)	December 21, 1946	1,443
Fukui Earthquake	(M7.1)	June 28, 1948	3,769
Tokachi-oki Earthquake	(M8.2)	March 4, 1952	33
1960 Chile Earthquake and Tsunami	(Mw9.5)	May 23, 1960	142
1964 Niigata Earthquake	(M7.5)	June 16, 1964	26
1968 Tokachi-oki Earthquake	(M7.9)	May 16, 1968	52
1974 Izu-hanto-oki Earthquake	(M6.9)	May 9, 1974	30
1978 Izu-Oshima-kinkai Earthquake	(M7.0)	January 14, 1978	25
1978 Miyagi-ken-oki Earthquake	(M7.4)	June 12, 1978	28
Nihon-kai-chubu Earthquake	(M7.7)	May 26, 1983	104
Nagano-ken-seibu Earthquake	(M6.8)	September 14, 1984	29
Hokkaido-nansei-oki Earthquake	(M7.8)	July 12, 1993	230
Great Hanshin-Awaji Earthquake	(M7.3)	January 17, 1995	6,437
Mid Niigata Prefecture Earthquake	(M6.8)	October 23, 2004	68
Iwate–Miyagi Nairiku Earthquake	(M7.2)	June 14, 2008	23
Great East Japan Earthquake *	(Mw9.0)	March 11, 2011	22,288
The 2016 Kumamoto Earthquake	(M6.5) (M7.3)	April 14, 2016 April 16	273
The 2018 Hokkaido Eastern Iburi Earthquake	(M6.7)	September 6, 2018	43

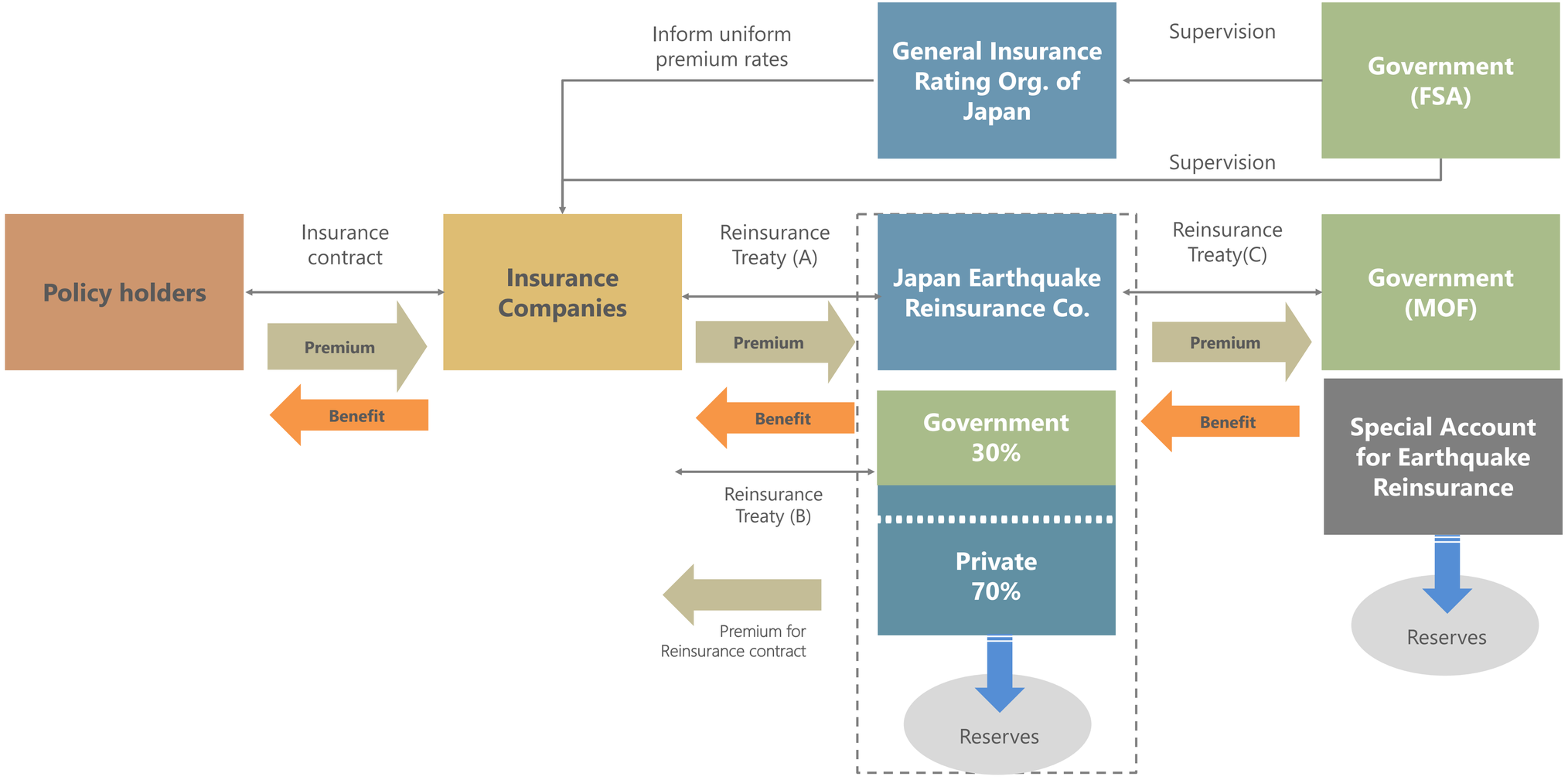
* Mw: Moment Magnitude
Source: Cabinet Office 2020 White Paper Disaster Management in Japan

Product Design Overview

<table>
<tr><td>Objective</td><td colspan="4">To contribute to the stabilization of the livelihoods of the people affected following earthquakes
(Act on Earthquake Insurance (enacted in 1966))</td></tr>
<tr><td>Insured Property</td><td colspan="4">Residential buildings and/or household goods</td></tr>
<tr><td>Loss to be indemnified</td><td colspan="4">Loss or damage due to fire, destruction, burial or being carried away in a flood, resulting directly or indirectly from an earthquake or volcanic eruption, or tsunami following these events (so called “earthquake etc.”)</td></tr>
<tr><td>Insurable Proportion</td><td colspan="4">Between 30% & 50% of the fire insurance policy insured amount
• Limit of insured amount exists:
Residential Buildings – JPY 50 Million
Household goods. – JPY 10 Million</td></tr>
<tr><td>Payment of Insurance Claims</td><td colspan="4"><table>
<tr><th colspan="2">Contracts commenced on or before 2016</th><th colspan="2">Contracts commenced on or after 2017</th></tr>
<tr><td>Total loss</td><td>100% of insured amount (limited to the market value)</td><td>Total loss</td><td>100% of the insured amount (limited to the market value)</td></tr>
<tr><td rowspan="2">Half loss</td><td rowspan="2">50% of the insured amount (limited to 50% of the market value)</td><td>Large half loss</td><td>60% of the insured amount (limited to 60% of the market value)</td></tr>
<tr><td>Small half loss</td><td>30% of the insured amount (limited to 30% of the market value)</td></tr>
<tr><td>Partial loss</td><td>5% of the insured amount (limited to 5% of the market value</td><td>Partial loss</td><td>5% of the insured amount (limited to 5% of the market value)</td></tr>
</table></td></tr>
<tr><td>Method of contract</td><td colspan="4">Incidental to fire insurance contract</td></tr>
<tr><td>Premium rate</td><td colspan="4">Calculated reflecting the structure and location of the insured buildings and of the buildings accommodating the insured household goods
(Basic rate * Discount rate)</td></tr>
<tr><td>Insurance period</td><td colspan="4">Short term (1 year) or Long term (2- 5 years)</td></tr>
</table>

Earthquake Insurance Scheme (Risk-sharing scheme)

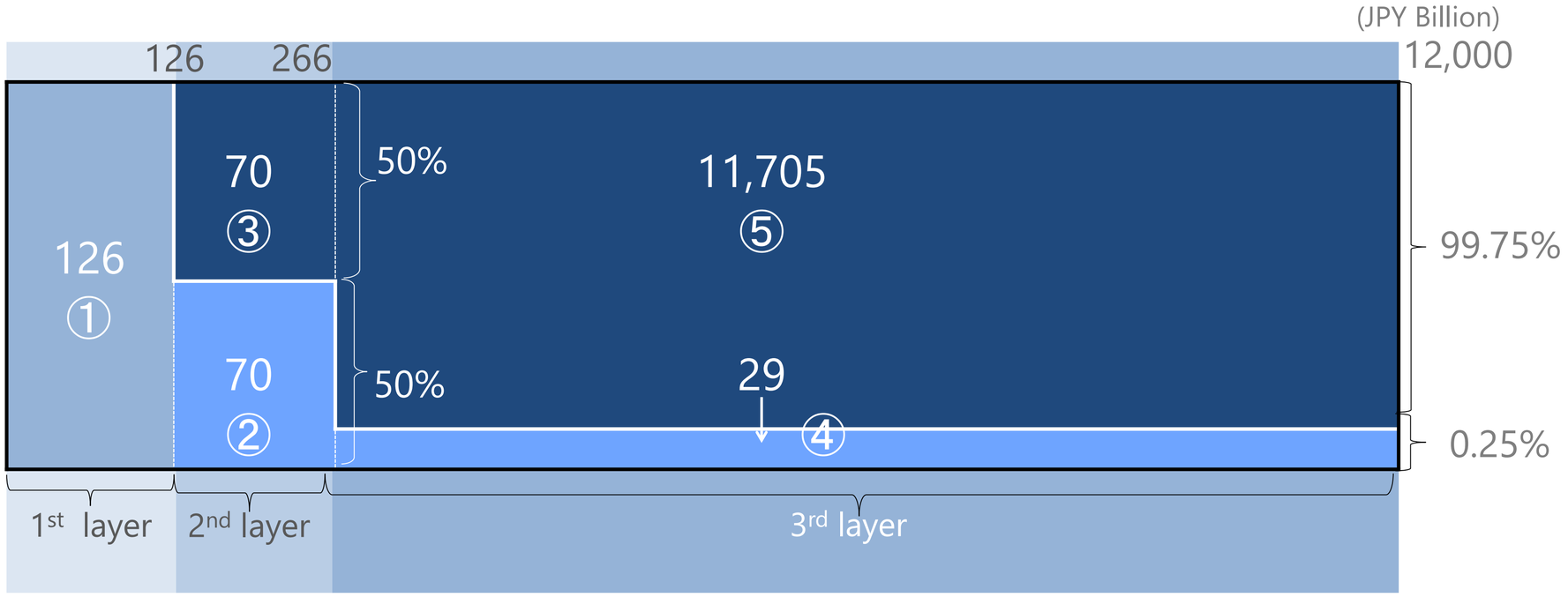
- Independent entity (JER) administers the insurance pool and manages investment of liability reserves of the private sector
- Government manages liability of reserves of the public sector in a special account



Liability allocation

- Ceiling to the maximum amount to be paid due to a single Earthquake is set in advance
- Allocation between private and the government changes depending on the amount of claims made (Three layer system)

Sum of Estimated private insurance premium income in coming year and next year



Private Sector	:	JPY 225 Billion (①+②+④)	1.9%
Government	:	JPY 11,775 Billion (③+⑤)	98.1%

Advantages of Government taking role in EI

1.

Reduces the volatility of financial losses

2.

Mitigate the macroeconomic implications of major natural disasters for households via swift payment

3.

Reduces public sector exposure

Building Resilience and Ensuring Swift Payment

- Risk-sharing scheme and liability allocation enables to limit public sector exposure
- **90%** of total claims were paid within 3 months of the earthquake in Great East Japan 2011

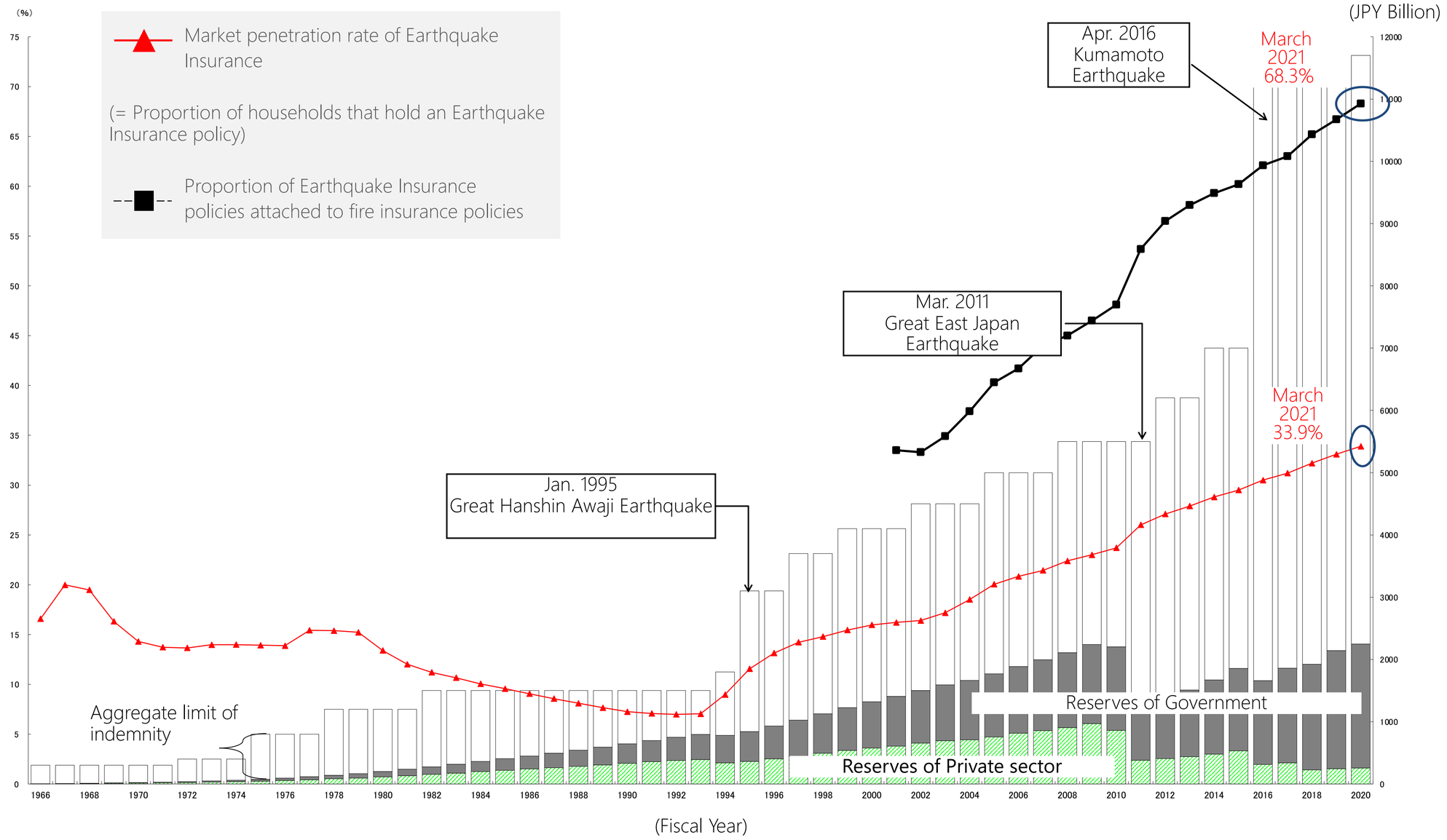
Major Claims paid from Earthquake Insurance

(As of March 31, 2021)

	Earthquake	Date	Magnitude	Number of policies	Claims paid (JPY Billion)	
					Private	Government
1	Great East Japan	Mar-11	9.0	824,049	1,288.1	586.6
2	Kumamoto	Apr-16	7.3	214,003	389.8	137.3
3	Northern Osaka	June-18	6.1	152,404	120.6	16.1
4	Great Hanshin Awaji	Jan-95	7.3	65,427	78.3	6.2
5	Hokkaido Eastern Iburi	Sep-18	6.7	70,360	51.7	-
6	Off Miyagi Prefecture	Apr-11	7.2	31,019	32.4	-
7	West Off Fukuoka Prefecture	Mar-05	7.0	22,066	17.0	-
8	Geiyo (Hiroshima & Ehime Prefectures)	Mar-01	6.7	24,453	16.9	-
9	Mid Niigata Prefecture(2004)	Oct-04	6.8	12,609	14.9	-
10	Mid Niigata Prefecture(2007)	Jul-07	6.8	7,873	8.3	-

Spread of Earthquake Insurance & Aggregate Limit of Indemnity

- Promotion of Earthquake Insurance is important and still in progress…
- Having enough buffer (adequate reserve) is the key in building resilient system



Conclusion

JP's EI is built to contribute to the stability and rebuilding efforts of disaster victims who have lost their homes or property in the most efficient way.

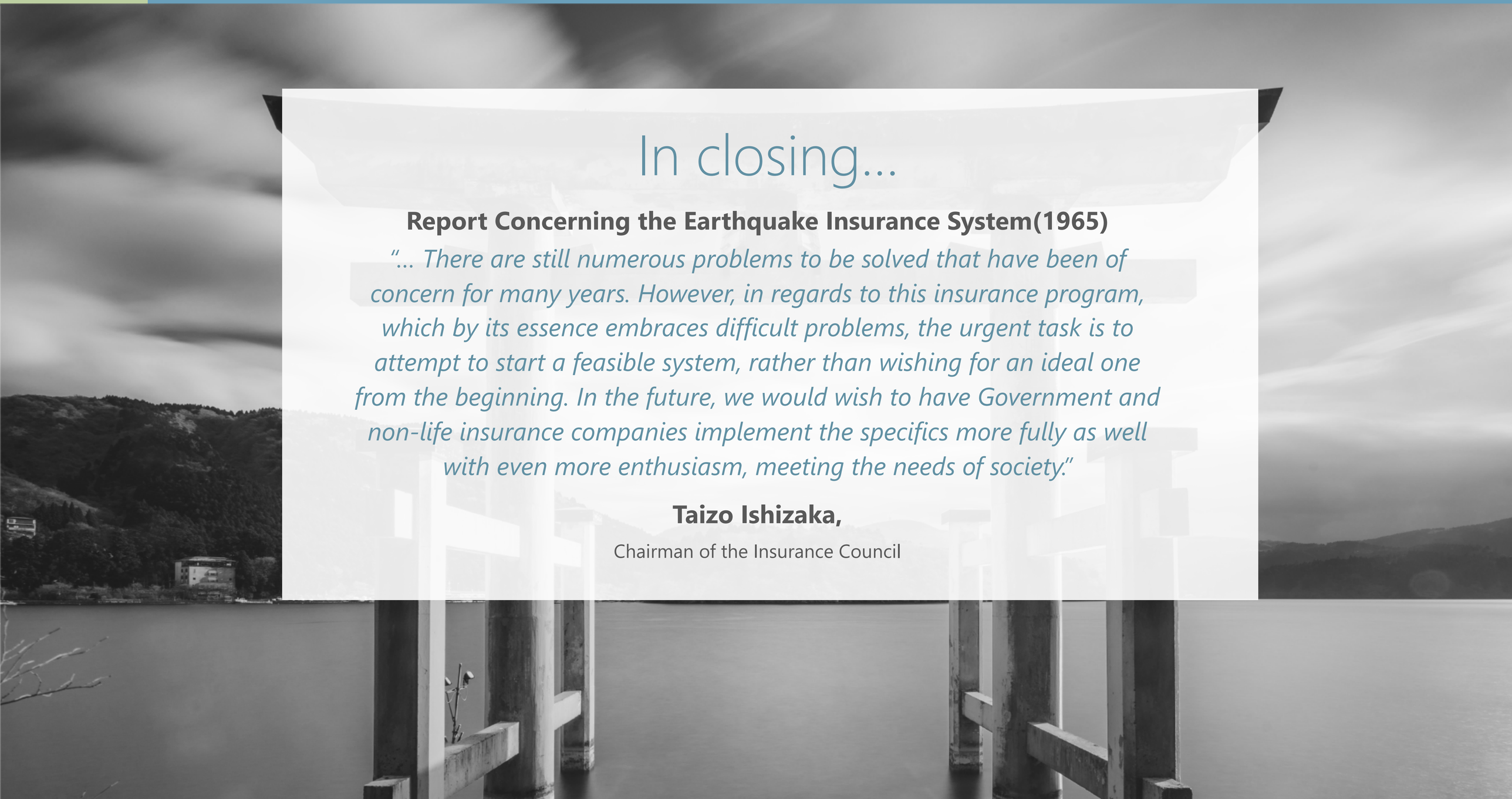
How to design the system:

1. Create strong financial resilience

- Build a strong private insurance sector **(More premium to private sector reserves)**
- Limit public exposure **(Liability allocation)**

2. Ensure households acquire the coverage provided by the program

- Focus on TRUST
  - Swift payment **(JER managing the reserves)**
  - Transparency **(Separate account)**



In closing…

Report Concerning the Earthquake Insurance System(1965)

"… There are still numerous problems to be solved that have been of concern for many years. However, in regards to this insurance program, which by its essence embraces difficult problems, the urgent task is to attempt to start a feasible system, rather than wishing for an ideal one from the beginning. In the future, we would wish to have Government and non-life insurance companies implement the specifics more fully as well with even more enthusiasm, meeting the needs of society."

Taizo Ishizaka,

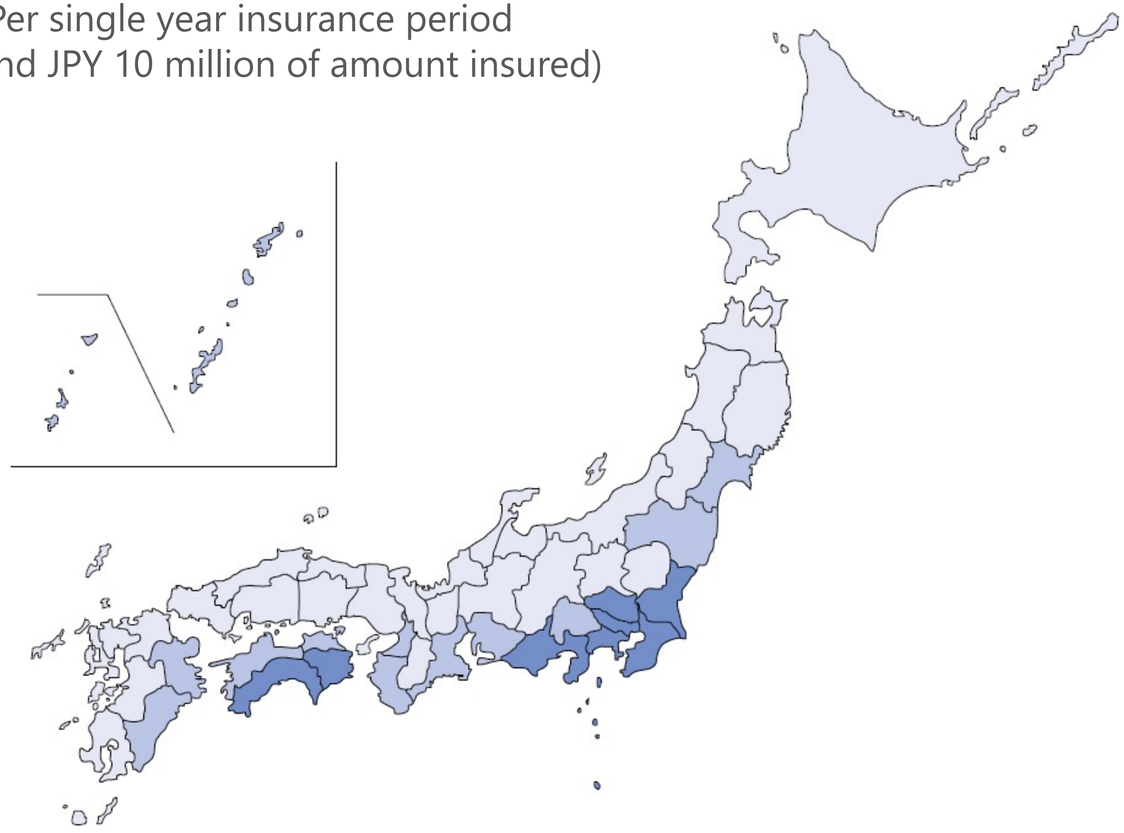
Chairman of the Insurance Council

Appendix: Premium Rate

1. Basic Rate

Zone		Rates for Buildings & Movables	
		Non-wooden	Wooden
Zone 1		7,400	12,300
Zone 2	1)	9,700	19,500
	2)	11,800	21,200
Zone 3	1)	17,700	36,600
	2)	20,400	
	3)	17,700	41,800
	4)	27,500	42,200

(Per single year insurance period
and JPY 10 million of amount insured)

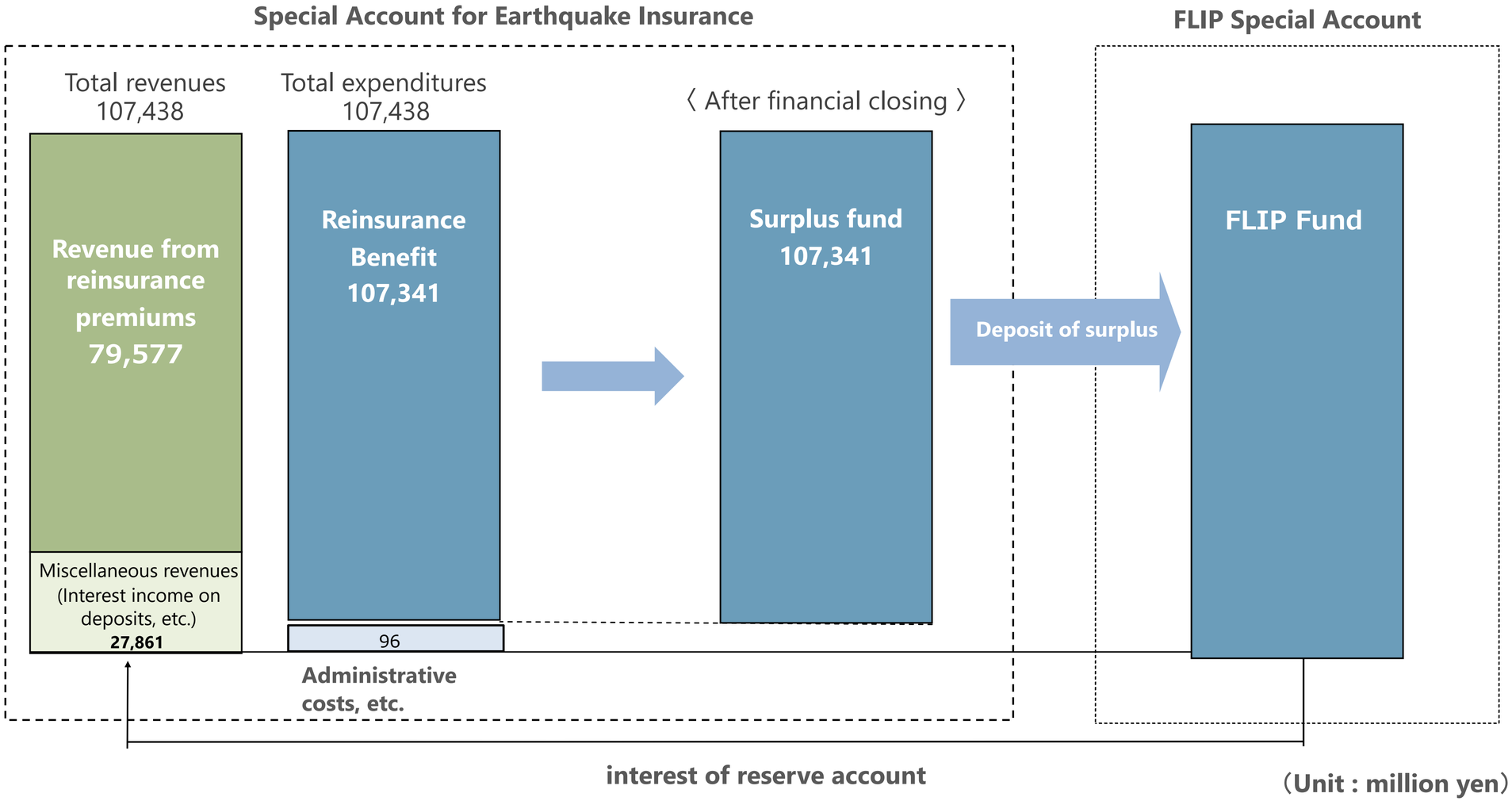


2. Discount Rate

Discount		割引率
Seismic isolated building discount		50%
Earthquake-resistance class discount	Class 3	50%
	Class 2	30%
	Class 1	10%
Earthquake-resistance diagnosis discount		10%
Building age discount		10%

Appendix: Special Account for Earthquake Reinsurance

Reinsurance premiums are collected and managed separately in the Special Account for Earthquake Reinsurance.



Note :

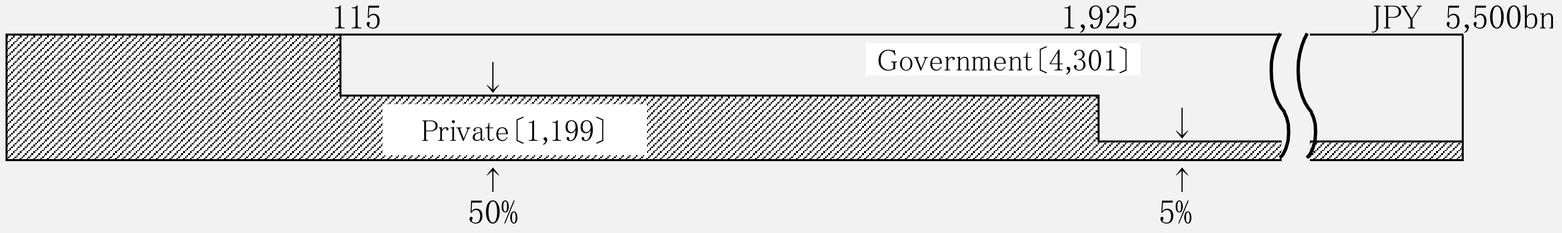
(1) Figures have been rounded down to the nearest one million yen, and so may not add up to the indicated total.

(2) When the special account does not have sufficient reserves to pay liability, in order to finance the shortfall, it will borrow (with interest) or borrow from the general account (with no interest). The amount borrowed will be pay back with future premiums.

Appendix: Revision of liability allocation

Revision of liability allocation

April 1, 2009～

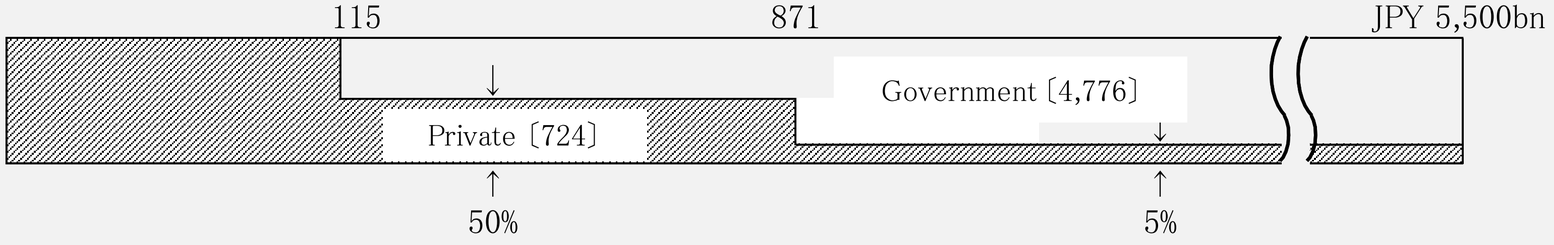


(JPY Billion)

Government	4,301
Private	1,199

After the Great East Japan earthquake, private sector's liability reserves dropped sharply

May 2, 2011～



Government	4,776
Private	724

Sovereign Disaster Risk Insurance

South Africa

Sept 21, 2021

Shepherd Muzamba
Director, Investment Funds, Financial Sector Policy Unit, National Treasury, South Africa

Disaster Risk Financing & Insurance Program

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STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA
TOGETHER WE CAN BEAT THE CORONAVIRUS

NATIONAL TREASURY

AGRICULTURAL INSURANCE: RELEVANCE AND POLICY OBJECTIVES

national treasury
Department:
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REPUBLIC OF SOUTH AFRICA

NT Policy Objectives

1. To **increase the financial resilience of farmers** and government to climate shocks.

2. Transfer the cost of climatic shock response from Government, reducing implicit and explicit contingent liabilities of production shocks.

3. To **promote and enhance financial inclusion** objectives (in the context of emerging farmers)

4. To **de-risk lending** to farmers (insurance serves as some form of collateral, thus facilitating access to access credit) and stimulate investment in the sector.

5. To **mitigate production risk** from the rural lending system (thus unlocking access agri-related credit for farmers with weak credit profiles).

6. To **make insurance products more affordable** to SMMEs (lack of affordability one of the reasons for not having insurance cover).

7. To **protect farmers from the financial impacts of production shocks** through the provision of timely payouts increase the financial resilience of farmers and the government to climactic shocks.

Relevance of Agricultural Sector

The agricultural sector is a significant contributor to employment and a key contributor exports and GDP

On a national level, the agriculture and agro-processing sectors contribute to **9.4%** of employment, **12.1%** of exports and **6.9%** of GDP

The sector has experienced climatic shocks **(droughts)** since 2015, threating levels of output and food security in South Africa

The **increasing frequency and severity of drought** disruptions has led to negative economic effects (against the fiscus and growth outlook)

The agricultural sector employs about **16 million workers**, adding to the significance of the sector within the South African economy

It is our view that both **financial** and **non-financial** support are equally important and should go hand in hand.

Importance of Agri-Insurance

Farmers/Private sector/ households	Government	Micro insurance
Provides access to compensation for production losses and damage to productive assets	Smoothens public expenditure across years by reducing the volatility of the cost of disasters, and hence protects the stability of public finances	Helps distribute risk and burden of recovery between public and private sectors
• Helps distribute risk and burden of recovery between public and private sectors • Allows for the adoption of higher yielding but riskier-farming method	Clarifies contingent liability arising. through disaster exposure of public assets, the private sector and State owned enterprises and the poor	Incentivise investment in risk reduction
Increases awareness and understanding of financial vulnerability to agricultural risks		Studies have shown that SMMEs do not have insurance cover for underlying risks (important to have insurance cover)

Agri-Insurance and Financial Inclusion

- **National Treasury (NT)** has worked with various stakeholders to pursue the financial inclusion agenda, including active participation in the **G-20 Global Partnership for Financial Inclusion (GPFI).**

- The NT **Financial Inclusion Policy** document (published in 2020) provides a **pathway to full financial inclusion**, starting with obtaining a bank account and deepening through other **financial products including insurance**.

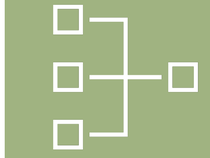
- The policy document sets out various pillars aimed at supporting and enhancing the successful implementation of the financial inclusion work program (*pillar 1 illustrates the role of insurance in financial inclusion*).

- **Pillars 1 and 2 of Financial Inclusion Policy (covers individuals and SMMEs)**
  - **Priority 6**: Promote appropriate, affordable and quality insurance
  - **Priority 12 (Pillar 2)**: Suitable Insurance for SMMEs: To explore the need and potential for specific agricultural insurance in South Africa including weather index insurance.

Envisaged Next Steps

Facilitate dialogue between relevant key stakeholders (including insurance services industry) to commit and participate in the agri-insurance proposals, **including index insurance** and the launch the **AYII program**.

Establishment of **key performance indicators to assess the success** (or lack of) of the pilot phase of the agri-insurance program.



Continue engagements on the **proposed agri-insurance framework.**

Continue engagements on **funding to finance the pilot program.**

Formation of an **Agriculture-insurance Steering Committee (SC)** and Project Management Unit (PMU).

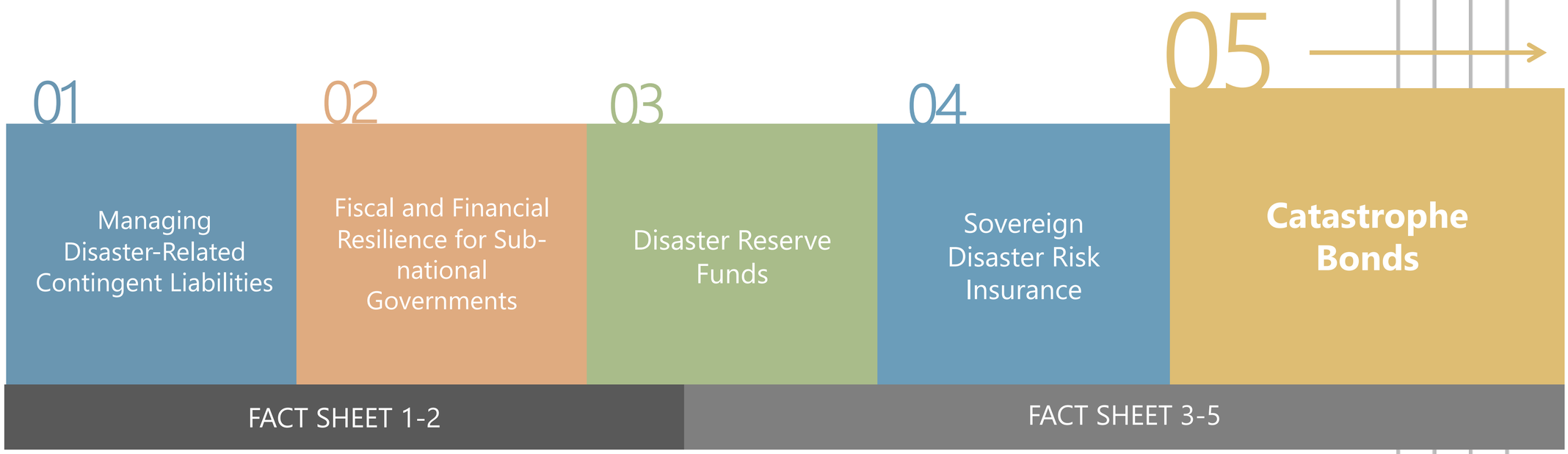
Improvement of collection of data on smallholder livestock producers and their livestock ownership, to facilitate better decision-making.

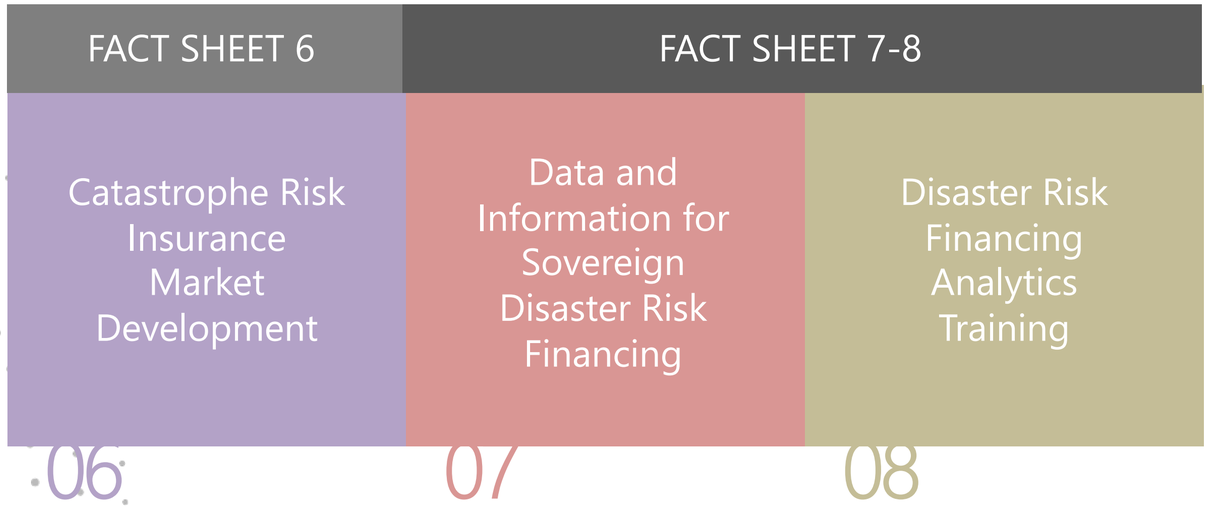
Q&A

- **Please share your questions in English via chat box.**
- **If possible, please indicate which speaker(s) to address your question(s).**

Scan the QR code to join the Disaster Risk Finance Community!

Next Webinar





Thank you

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