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

Managing Disaster Funds for Response and Recovery

July 27, 2021

Disaster Risk Financing & Insurance Program

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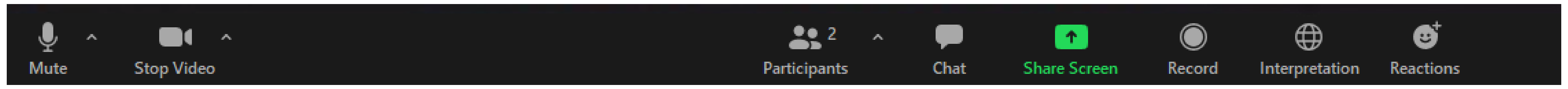
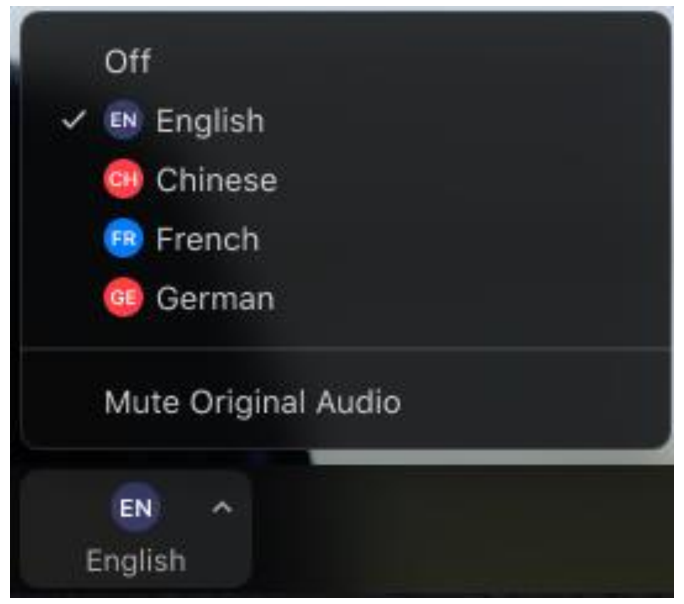
Step 1. In your meeting /webinar controls, click Interpretation





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Opening Remarks

Bolormaa Amgaabazar

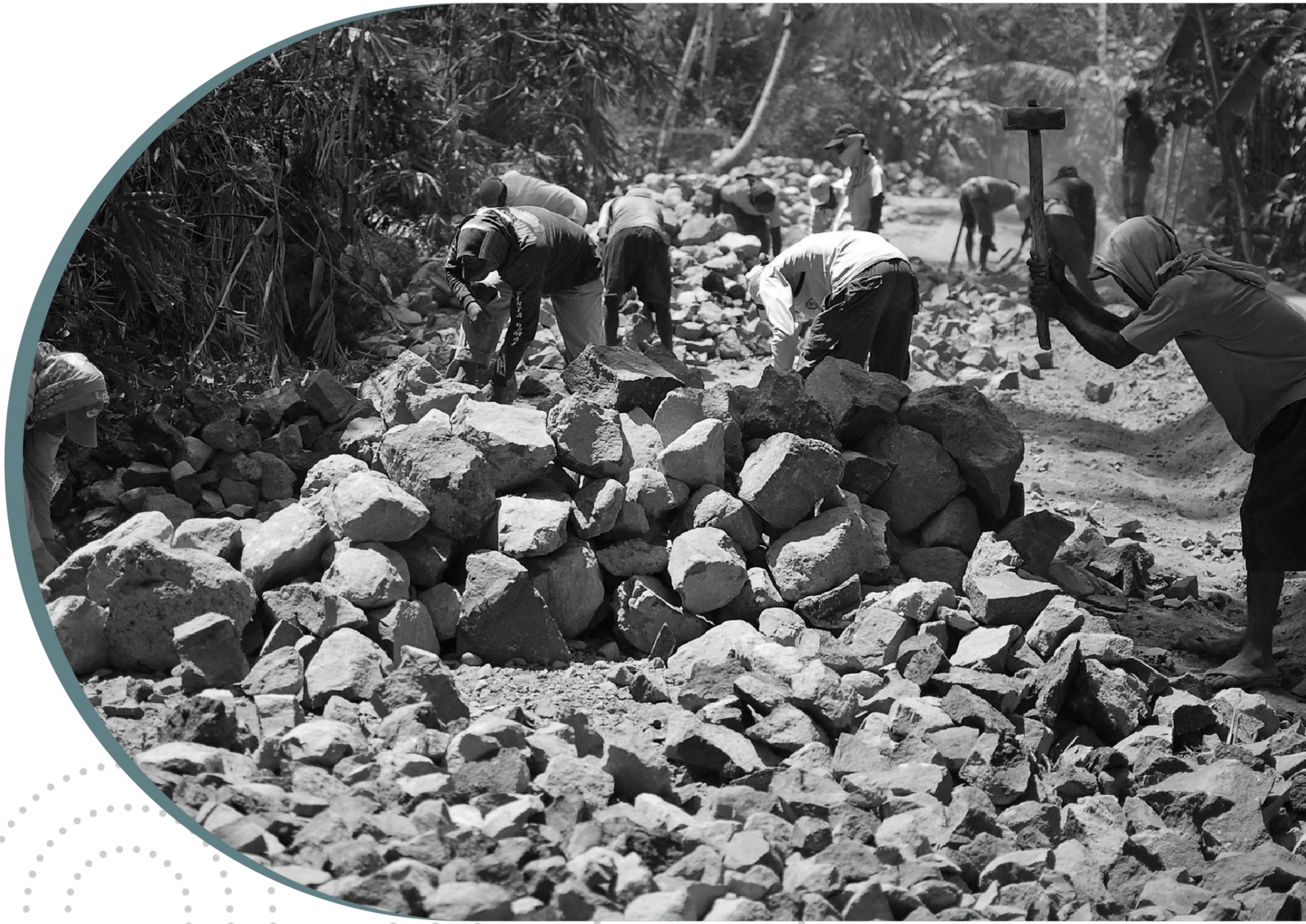
Portfolio and Operations Manager, Indonesia and Timor-Leste, WBG

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.



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 Sub-national 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, Indonesian
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

Word Cloud: Where are you currently based?

Option 01

Go to www.menti.com

Option 02

Scan the QR Code

Use Code: **7422 3291**

Poll 1: Recap

What was the last Webinar about?

- Why it is important to manage fiscal/financial impacts of disasters on subnational governments and who owns and pays for the risks
- Building subnational fiscal/financial resilience
- I did not attend the previous webinar – this is my first time
- I don’t remember

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Poll 2:

A national disaster risk financing strategy should:

- Be part of the government's overall budget expenditure strategy
- Actively involve all levels of government and the community
- Enable both national and subnational governments to design and implement local resilience and recovery expenditure
- All of the above

Option 01 –
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Knowledge Exchange Series on Building Sovereign Financial Resilience in Middle Income Countries

Managing Disaster Funds for Response and Recovery

Framing Presentation

Samantha Cook, Senior Financial Sector Specialist, WBG

July 27, 2021

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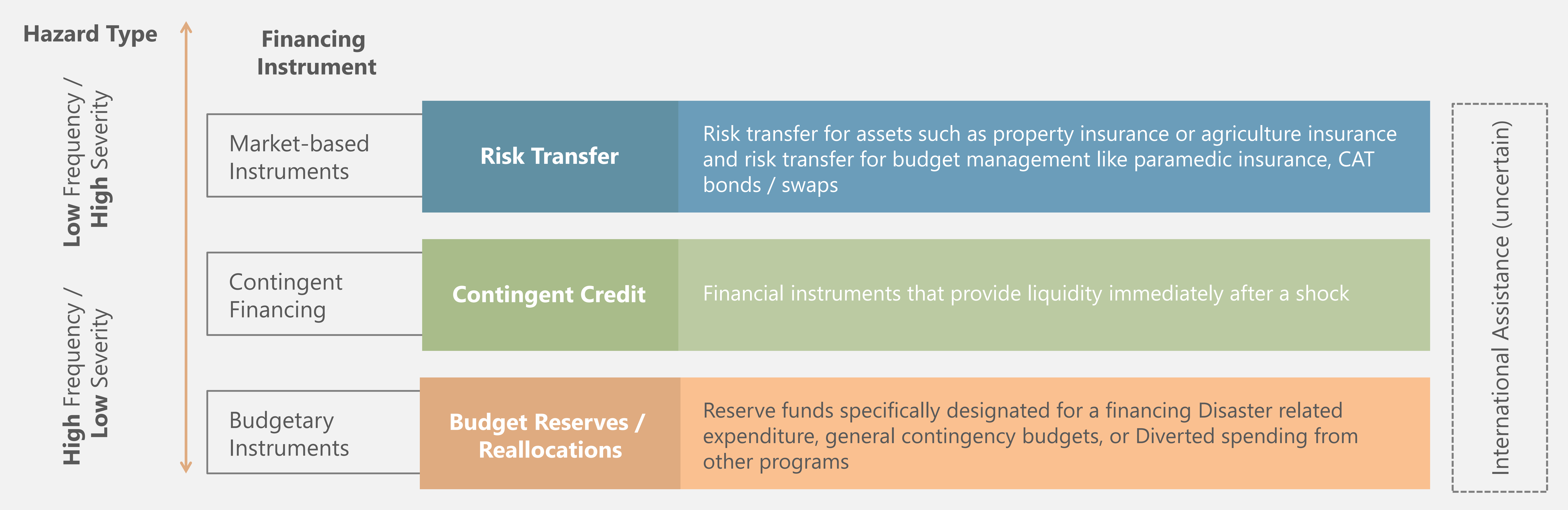
What is a disaster reserve fund?

- Disaster reserve funds are used to fulfil key policy objectives to strengthen financial resilience and to improve the financial management of disasters.
- The aim of a disaster fund is to provide the government with readily available resources to be used in the aftermath of a disaster.
- Funds can be used to provide emergency relief and response following a disaster, and funding for longer term rehabilitation and reconstruction needs.
- Can be established alongside other disaster risk financing instruments according to the government's financial protection strategy.



Why hold money in a disaster reserve fund?

Be prepared. Considerations such as *how much money we will need immediately* or *how we will spend it, and on what*, make regular budget planning a challenge. Saving for the worst case can help manage this uncertainty.

Act early. Helps reduce the negative impacts of disasters and crises. However, governments' resources are depleted day by day and an absence of reserves may worsen the crisis. Setting money aside will help governments to have the means to act early.

Respond. Preparing in advance requires thinking about how to manage financial costs before those costs materialize. "Rainy day funds" have been used for centuries as a source of quick liquidity.

Considerations for disaster reserve funds

Four components establishing a disaster reserve fund

Striking the right balance

Advantages		Limitations
• Funds immediately available for disbursement to minimize the impact of disasters. • Funds remain available even if no disaster occurs. • Improved transparency concerning the level of government that is responsible for various risks and disaster events. • Improved timeliness of response (allocating the funds) and fewer bureaucratic delays. • Improved transparency and accountability regarding public expenditures.	• Lower costs relative to insurance, given lower payments (covering annual expected losses without any risk buffer or profit load) and lower opportunity costs, as funds set aside to meet future disaster costs earn returns. • Reduced dependency on debt financing following disasters (for example, for economies concerned about credit ratings). • Provision of a structure for inter-agency coordination, and facilitation of the earmarking of budget funds on a recurring basis. • It may be the only available ex-ante financial tool for markets lacking insurance and disaster risk financing, or where access to such markets is limited.	• Opportunity costs involved in maintaining a liquid reserve. • Time delays involved in the initial build-up of an appropriate level of funds to cover disaster risks and following any depletion of funds; less protection compared with insurance during the build-up of funds. • May prove more challenging as the level of severity and frequency of disaster-related events increases; also, it may be difficult to build up sufficient reserves. Furthermore, there may be a temptation to use the funds for other purposes. • May provide weak incentives for mitigation of specific hazards.

Conclusion

Form an integral part of a disaster risk financing strategy.

Can significantly improve the speed, efficiency and effectiveness of response.

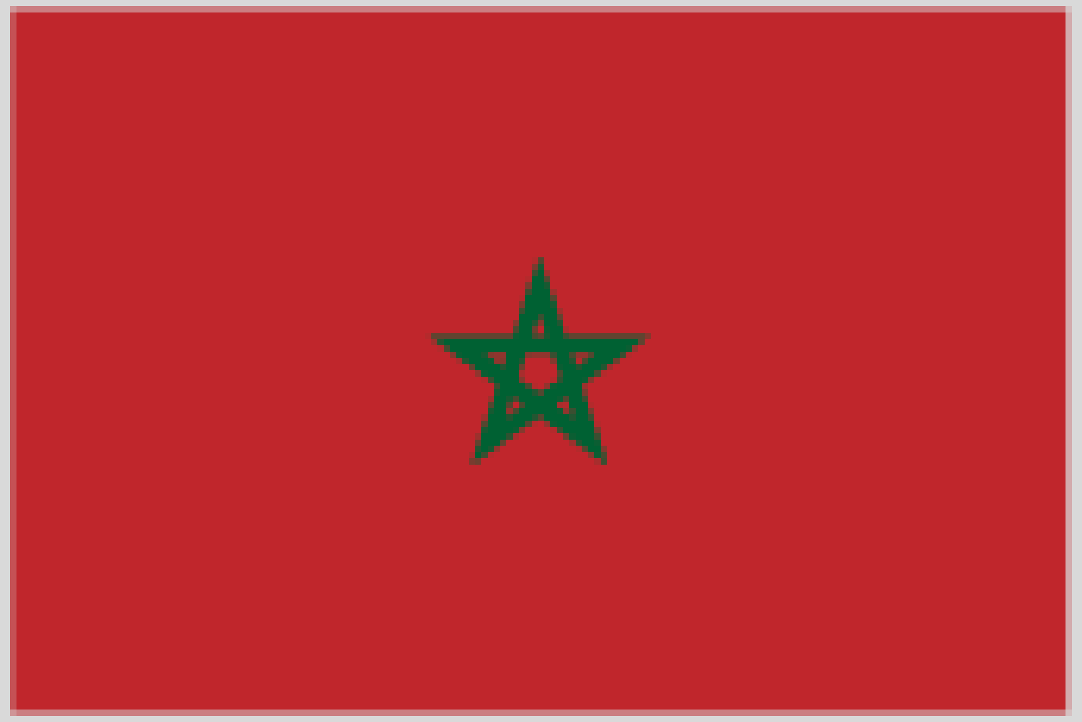
The opportunity cost of these funds need to be carefully managed by identifying the optimal amount to hold in reserve.

Need a clear and transparent governance structure surrounding access and acquittal processes.

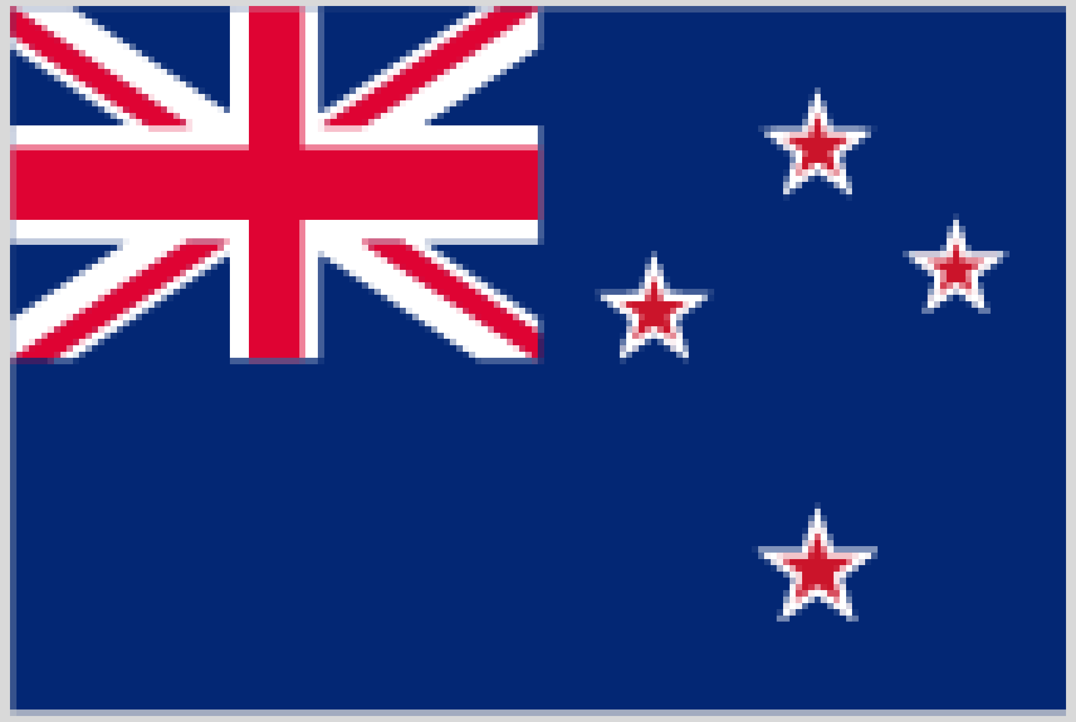
Thank you

Indonesia

Morocco



New Zealand



Managing Disaster Funds for Response and Recovery

Indonesia

July 27, 2021

Kristiyanto, Senior Policy Analyst at Fiscal Policy Agency, Ministry of Finance, Indonesia

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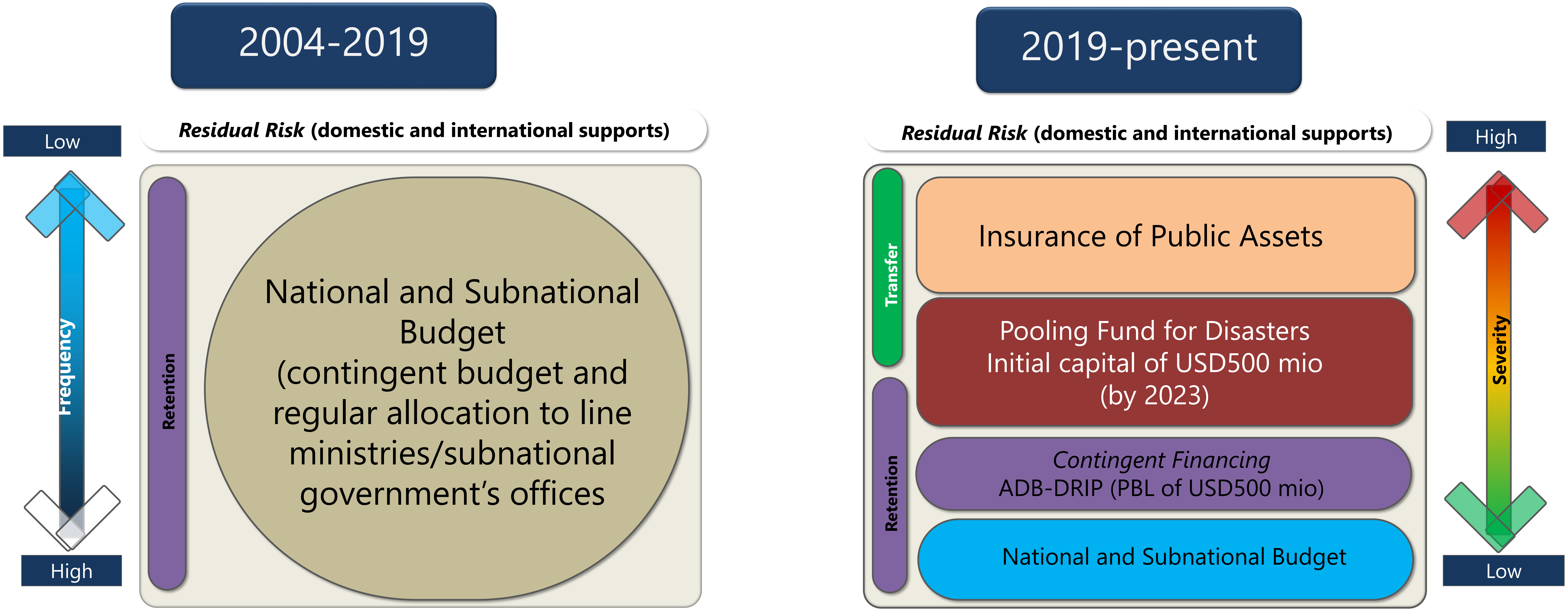
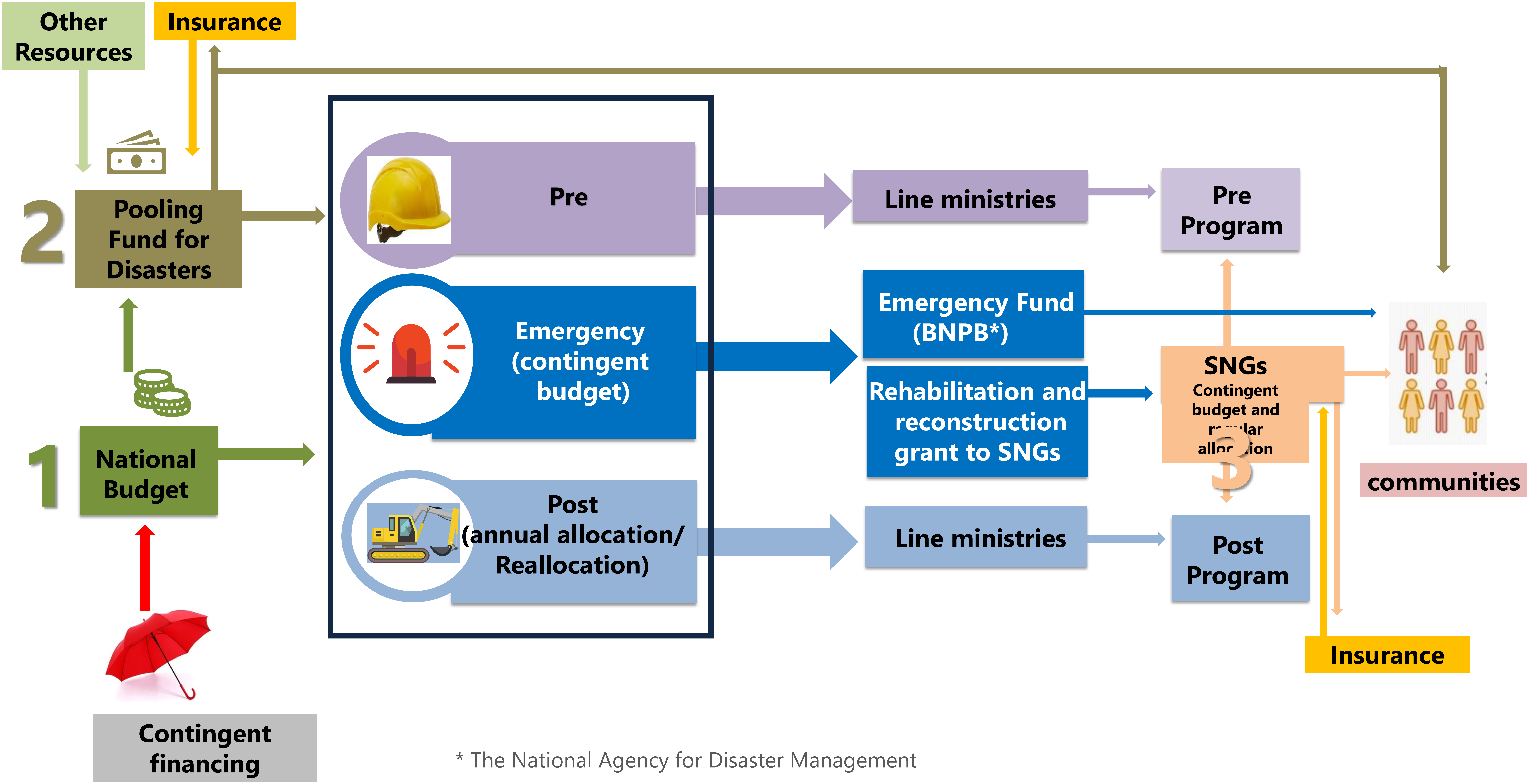
Indonesia: Disaster Financing Instruments



Indonesia: Disaster Financing Instruments

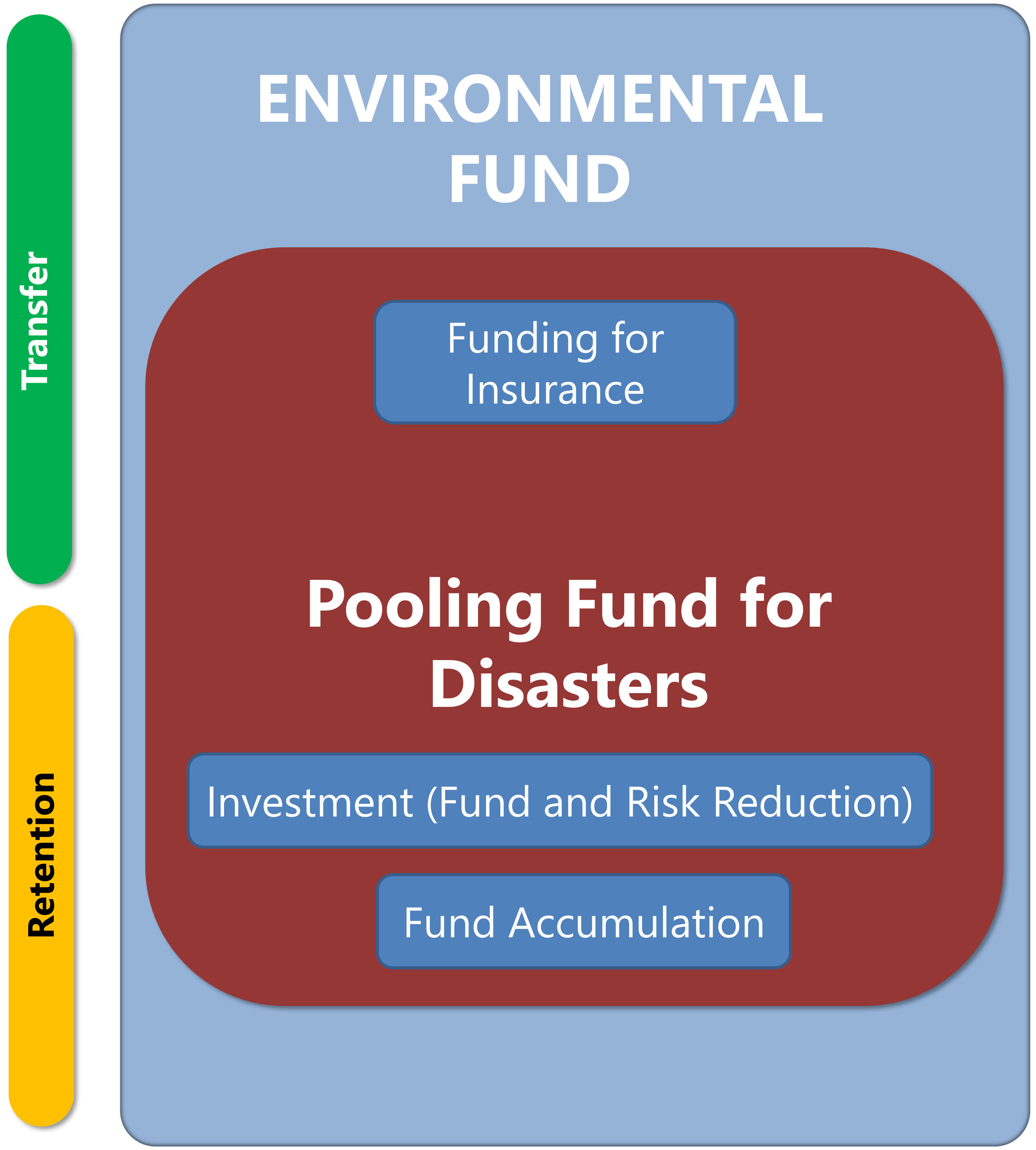


* The National Agency for Disaster Management

Pooling fund for disasters

Features

- Financing scheme to increase fiscal space and decrease fiscal risk to disasters.
- Fund management (collecting, investing and channeling)
- Source of funds: Budgets and Donors
- Financing innovation
- Value added: fund accumulation (self insurance), risk transfer and risk reduction
- To finance pre, post and emergency response for natural and non-natural disasters.
- Routine funding activities: risk transfer and risk reduction
- BNPB (the National Agency for Disaster Management) plays key role in channeling the fund
- The Pooling Fund will be managed by BPDLH (the Environmental Fund Management Agency) within the MoF
- Alignment of disaster management and environmental funding policy
- Mandated by Budget Law and Presidential Regulation



Pooling fund for disasters

Challenges	Lessons learnt
Building the consensus within the MoF as well as among all stakeholders on the importance of investing for resilience	Joining training related to DRF provided by Development partners, to accumulate better understandings
Formulating risk financing strategy, investment strategy and mobilize resources to pooling fund	Benchmarking policy from international best practices, particularly from some countries implementing DRF strategy and pooling fund
Formulating pooling fund's regulatory framework and procedures to avoid duplication	Leadership as shown by President, Vice President, and Ministers
Understanding risk: Data collection on disaster vulnerabilities etc	Dedicated team to implement the DRF project and inter-ministerial coordination process

Managing Disaster Funds for Response and Recovery

Morocco

July 27, 2021

Abdeljalil EL HAFRE, Division Head, Insurance and Social Welfare Division, Treasury and External Finance Department, Ministry of Economy and Finance, Morocco.

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The risk of natural disasters in Morocco is both chronic and severe:

- Over the past decade, Morocco experienced many major floods. The one that occurred in Guelmim in 2014 alone caused 47 deaths and overall economic losses of 5.5 billion dirhams (USD 520 million). The impact of this phenomenon is likely to be exacerbated under the effect of climate change, urban pressure and phenomena of increase and concentration of assets.

- Morocco is exposed also to earthquakes like the Agadir earthquake in 1960 which destroyed totally the city and killed 25,000 and injured 12,000 people, or that of Al-Hoceima which occurred in 2004 which killed 628 people and caused more than 3.2 billion dirhams (USD 360 million) in direct economic losses. A much greater risk exists in the Fez and Tangier regions, which are located on the African / European plate.

- Preparatory work for the establishment of a catastrophic event consequences coverage scheme began in 2004, just after the Al Hoceima earthquake.

- Law No. 110.14 establishing a Moroccan DRF Program was adopted by Parliament in August 2016 and entered into force on January 1st 2020.

The Moroccan DRF covers

Natural phenomenon
- Flood
- Earthquake
- Tsunami

Human violent action
- Terrorism
- Riots and popular movements

It combines two schemes

Insurance scheme
- For policy holders (people and businesses)

Solidarity scheme
- For uninsured people

Insurance Scheme

The Law No. 110-14 made the guarantee against disasters a mandatory inclusion in insurance policies:

Insurance policy covering damage to property (houses, industries, cars, …);

Insurance policy covering motor vehicle liability;

Insurance policy covering bodily third-party liability.

The guarantee covers:

- Damage caused directly to the insured property;
- The guarantee under civil liability insurance policies for motor vehicles:
    - Bodily injury suffered by the driver and any person transported in the insured vehicle at the time of the disaster, as well as the injury suffered by their beneficiaries as a result of their death;
    - Bodily injury suffered by the owner of the vehicle, his spouses and dependent children, as well as the damages suffered by their beneficiaries as a result of their death;
    - Damage to the insured vehicle;
- Bodily injury suffered by victims as well as the damages suffered by their beneficiaries due to their death for the guarantee covering bodily third-party liability.

Solidarity Scheme

The Law No. 110-14 created a solidarity fund (public establishment) to give to uninsured people a compensation for:

- Permanent physical disability for bodily injury;
- Loss of resources to beneficiaries of deceased or missing victims;
- Loss of use of the main residence to tenants;
- To the owners of a residence rendered uninhabitable.

The solidarity fund is mainly funded by a parafiscal tax (USD 20 million annually).

The financial strategy of the solidarity fund is based on three components:

- Fund reserve up to USD 20 million, to cover the frequent risks of low costs as well as management fees;
- Contingent loans up to USD 80 million which will be mobilized in the event of a catastrophic event of medium magnitude;
- International risk transfer through the use of insurance or the financial market (CAT Bonds) to cover the most expensive risks, especially earthquakes.

Governance of the Moroccan DRF Program

Law No° 110-14 sets up a governance of the regime articulated around 3 bodies:

The Monitoring Commission that gives the government an opinion on the catastrophic nature of the event and assists the solidarity fund in the assessment of damage affecting houses.

The Expertise Committee that provides the monitoring committee with a preliminary overall assessment of the damage caused to buildings, gives its opinion on residences damaged by a catastrophic event and evaluate the rental value, the damage caused and the cost of new reconstruction of each house destroyed.

The Dispute Resolution Commission that rules on any dispute between victims or their beneficiaries to the Solidarity Fund.

Declaration of an event as a disaster

Bringing the DRF Program into play

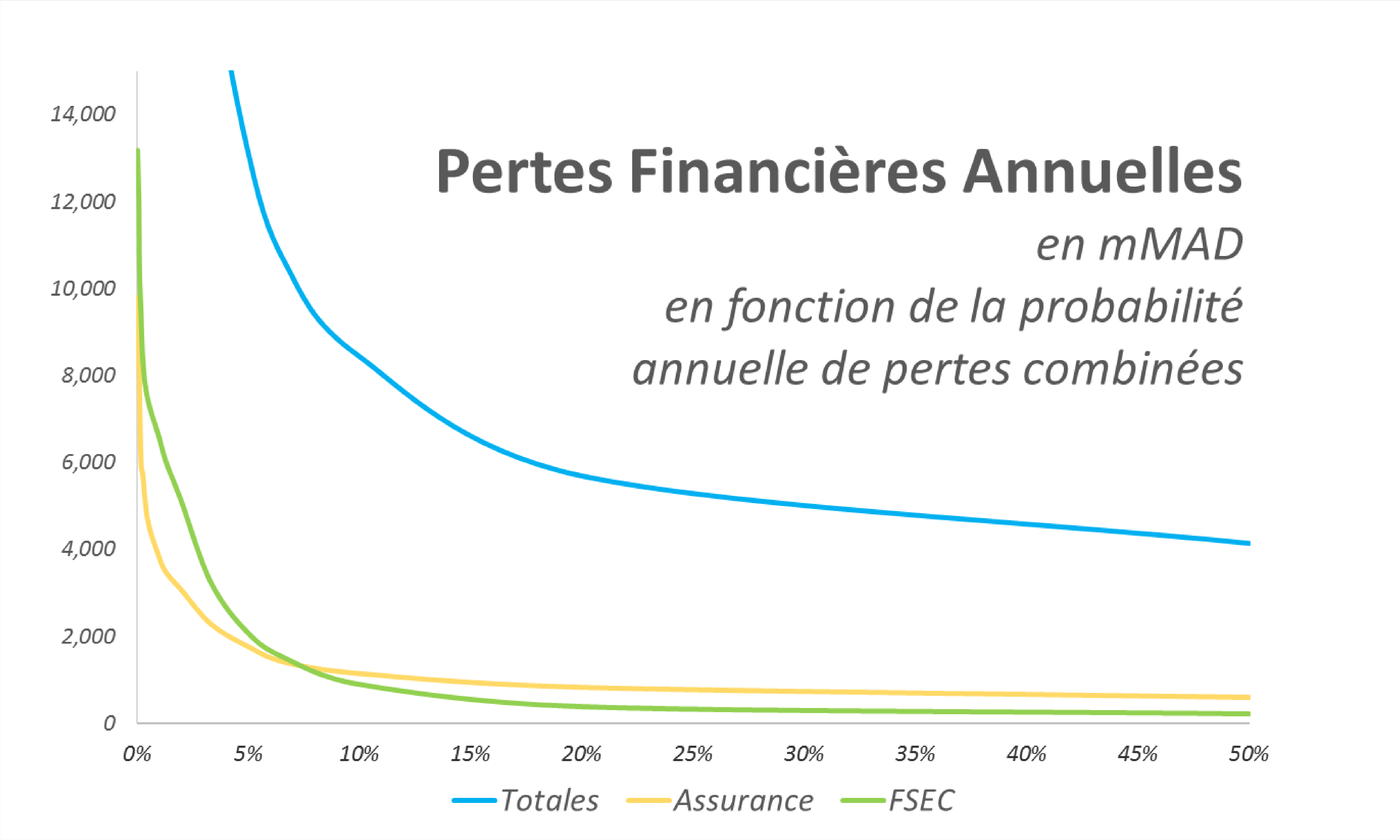
Publication of the Decree

- Implementation of the guarantee for the insurance component
- Implementation of the guarantee for the solidarity component
- Registration of victims on the repository of victims

The decree of The Prime Minister recognizes the event as a disaster and defines the areas and period affected by the disaster.

The pricing of the CAT guarantee

- For the pricing of the CAT guarantee, we developed a probabilistic model of the risks of natural disasters to estimate the losses they generate.
- This model simulates 100,000 earthquakes and 10,000 floods and gives an estimate of the probable financial losses linked to natural disasters (EQ and FL).
- Once the insurance losses had been estimated, it was necessary to define a pricing which takes into account the risks associated with each guarantee (vehicles, home damage, commercial, industrial, etc.).
- Same model was used to estimate the losses of solidarity fund and to define its financial strategy and the amount of parafiscal tax.



Challenges

- Thanks to this plan, all Moroccans are covered against bodily injury and loss of their home.

- The use of new technologies can help to improve the functioning of the regime and the risk transfer.

- The development of inclusive insurance will improve the coverage of the insurance scheme and provide margins for the solidarity fund to cover other perils like drought or pandemics or losses like business interruption for small enterprises.

- The Moroccan DRF Program should connect with other government programs like the national strategy of DRM (already done) but also with the National Strategy of Financial Inclusion and the Social Protection Program.

Managing Disaster Funds for Response and Recovery

New Zealand

July 27, 2021

- **Sid Miller**, Chief Executive of the Earthquake Commission (EQC), New Zealand
- **Scott McHardy**, Head of Risk Financing at the Earthquake Commission (EQC), New Zealand

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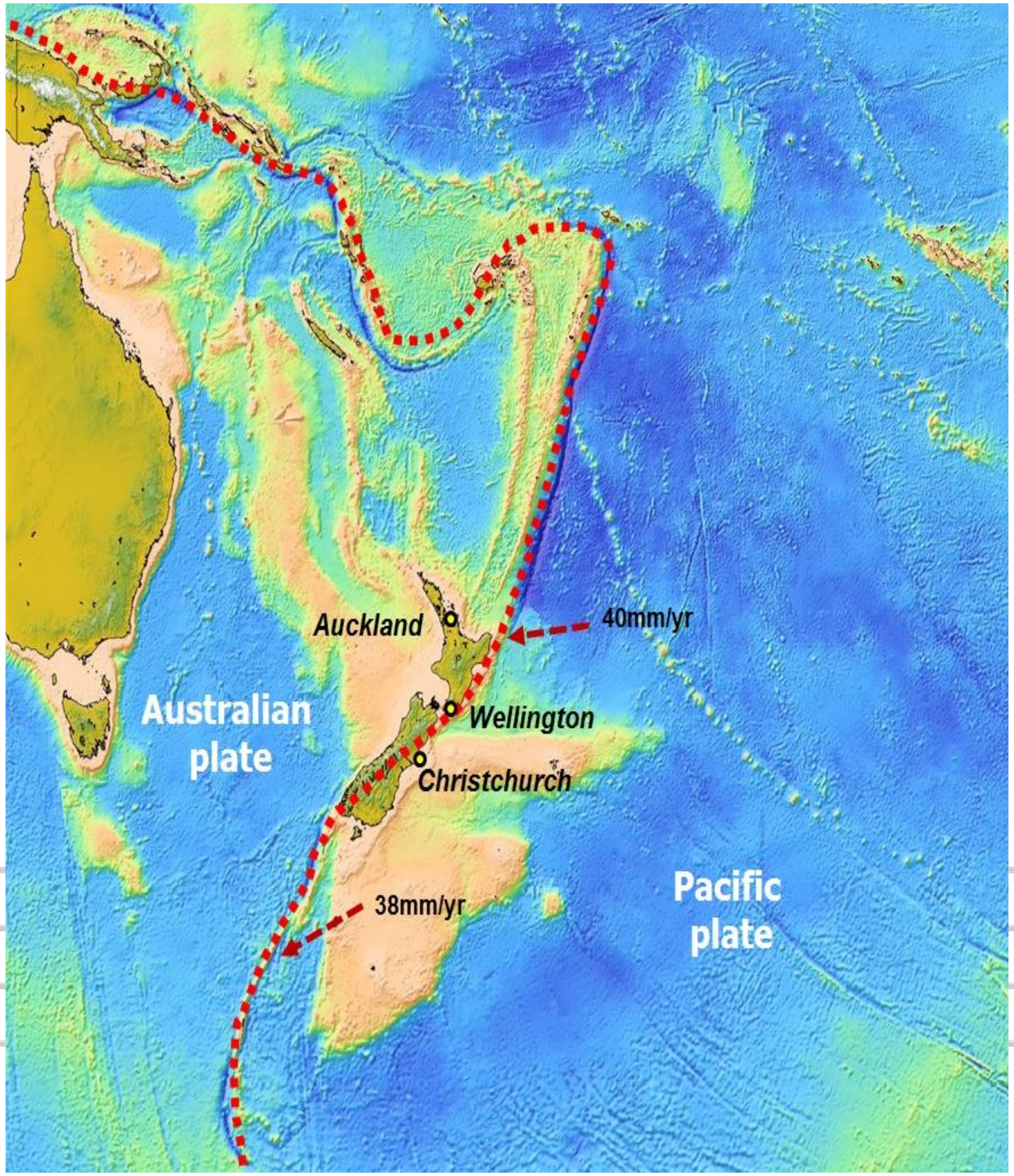
New Zealand lives with natural hazard risks…

New Zealand's location on the Pacific "ring of fire" means it is prone to earthquakes, volcanic eruptions and tsunami, in addition to a range of meteorological/weather related events

Every year there are about 15,000 earthquakes in New Zealand. About 100 – 150 of these are large enough to be felt by the population

In spite of this, New Zealand has positioned itself as a viable insurance and reinsurance market with a mixture of public and private insurance provision

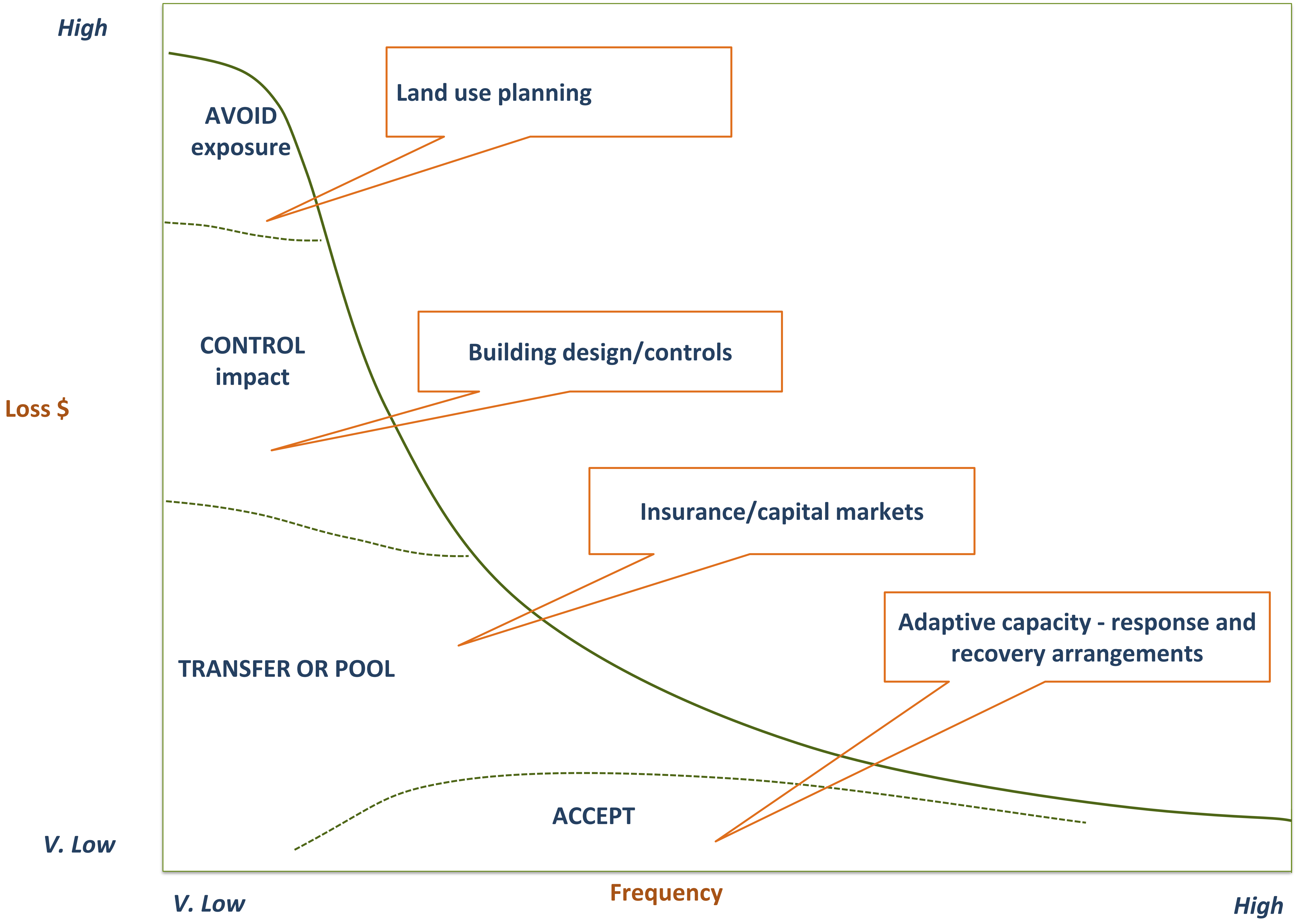


… and has had to adapt to manage this

Government's financial risks can be highly correlated, particularly with regard to natural hazards

Governments also face risks from non-correlated events, e.g., pandemics, bio-security incursion, global instability

Risk financing mechanisms can provide timely access to capital to support government and community recovery



The Earthquake Commission at a Glance

Established in 1945, EQC was reformed in 1993 to focus solely on natural catastrophe insurance for residential property.

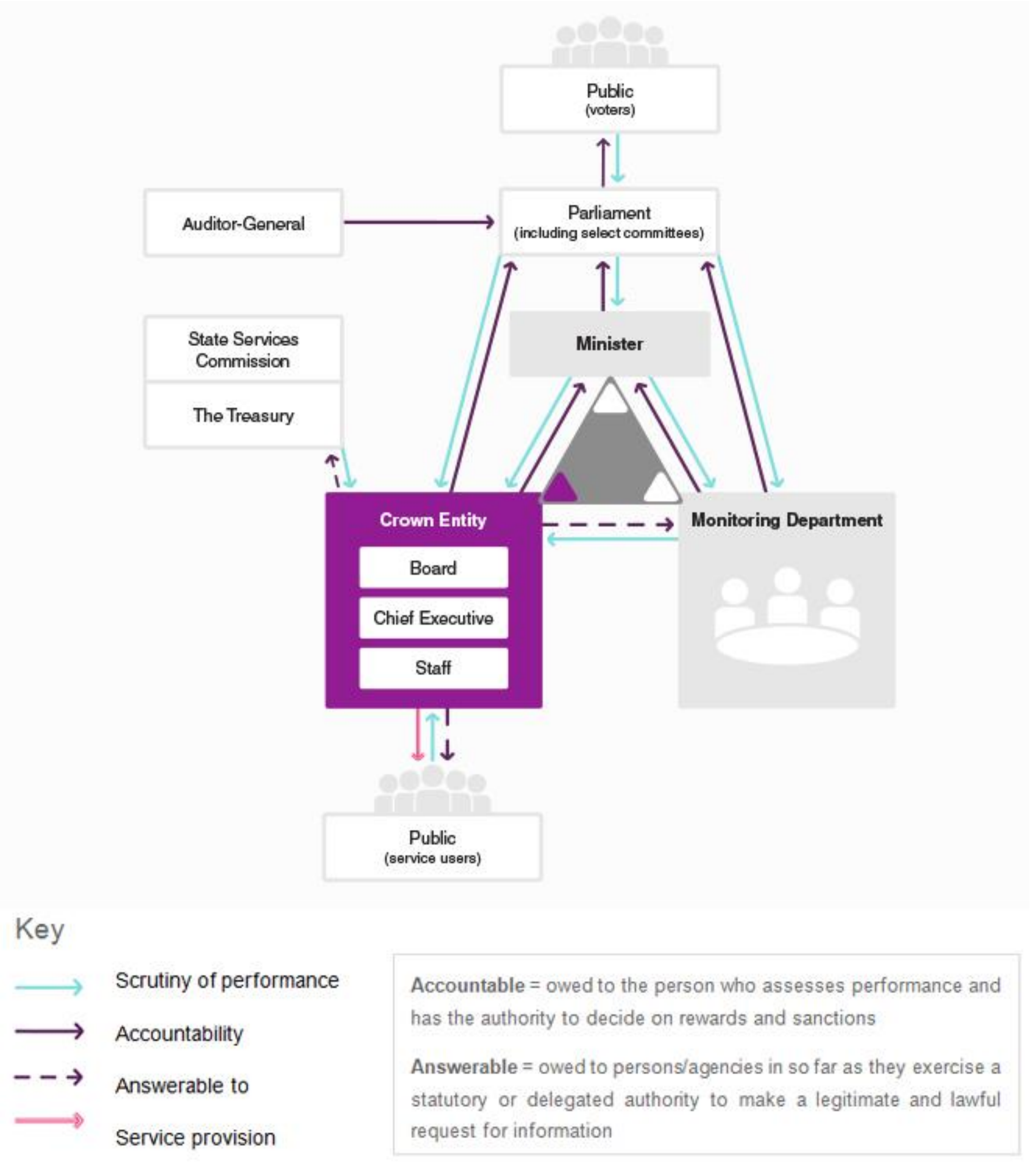
Owned and fully underwritten by the New Zealand Government

EQC undertakes a number of complementary functions:

- Provides "first loss" cover on residential dwellings per event against specific natural hazard perils, including earthquakes, volcanoes and tsunami
- Invests in research and core infrastructure to support research and hazard monitoring e.g. GeoNet (national geological hazards monitoring network)
- Supports the Government's fiscal position through its reinsurance programme
- Facilitates preparedness for future events

EQC actively partners with the private insurance market in New Zealand, putting customer welfare at the forefront of its activities

EQC is governed by a Board appointed by a Minister



Reprint as at 1 December 2020

Earthquake Commission Act 1993

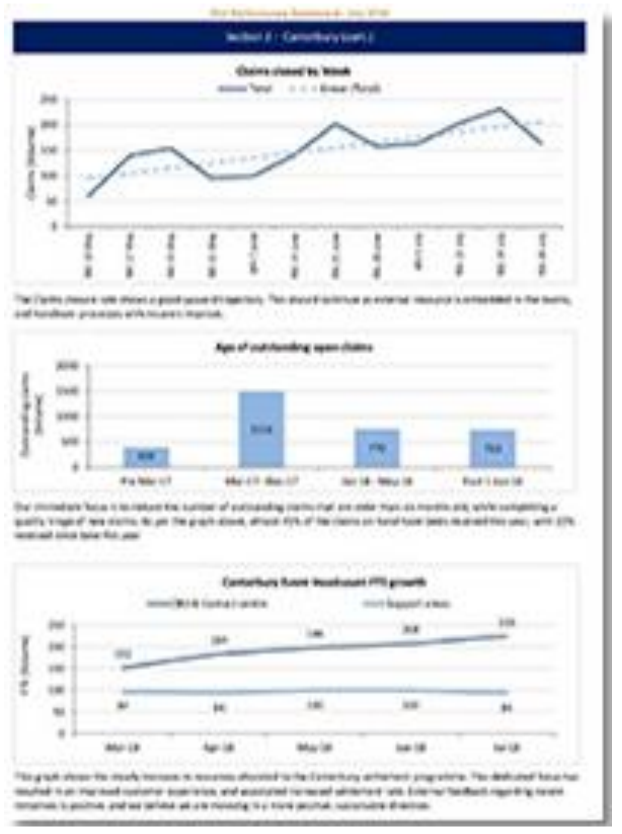
Public Act 1993 No 84
Date of assent 10 August 1993
Commencement see section 1(2)

Note

Changes authorised by subpart 2 of Part 2 of the Legislation Act 2012 have been made in this official reprint.

Note 4 at the end of this reprint provides a list of the amendments incorporated.

This Act is administered by the Treasury.



All available at www.eqc.govt.nz

EQC's Risk Financing Strategy

EQC's risk financing strategy is aimed at ensuring we have the ability to meet our financial commitments in the event of a natural disaster.

There are four sources of finance for EQC which are:

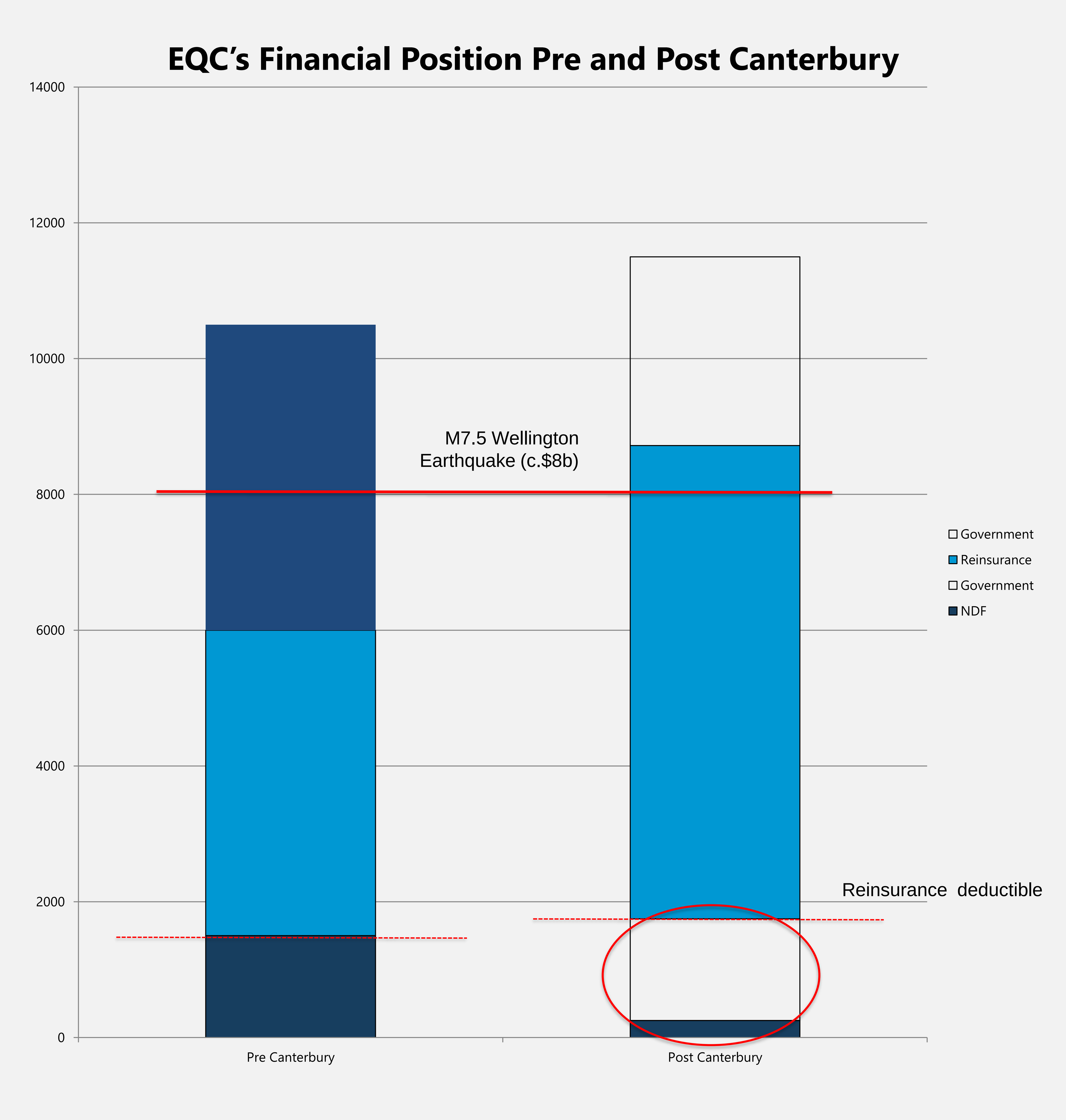
> Premium income from insured home owners (c.NZ$500m in 20/21)

> Investment income (c.NZ$1.0m in 20/21)

> Reinsurance (c.NZ$7 billion for 21/22)

> The Crown guarantee (EQC has drawn down NZ$240m since 2018)

The Canterbury and Kaikōura earthquakes exhausted the Natural Disaster Fund



Reflecting on what has worked

Risk Finance

- EQC has established deep relationship with key players in reinsurance markets
- New Zealand has continued to access reinsurance markets on the basis of these relationships

Recovery

- Substantial proportion of costs have been borne by private insurance industry rather than the Government
- Resources have been available to rebuild Canterbury (in particular to deal with extensive – and largely unanticipated – land damage)

Research

- Response has taken advantage of substantial EQC investment in natural hazard research (e.g. GeoNet hazard monitoring system)

Resilience

- EQC scheme has ensured extremely high levels of natural hazard insurance the residential market

There is no "One Size Fits All" solution

The EQC scheme has evolved over time

- First-loss co-insurance model
- Residential buildings and land only
- Defined perils (added to over time)
- Partnership with insurers to create single settlement pathway for customers
- Information and data sharing with private insurers to build resilient system
- Financial limits for the scheme have been adjusted (EQC cap and levy rates)
- High levels of coverage based on uniform pricing

Design questions that need to be addressed include:

- What is the policy driver for governments for the development of insurance-like mechanisms?
- What do you want to cover (assets, incomes etc) , against which perils and to what financial limits?
- In terms of pay-out, what is more valuable, e.g., speed, accuracy, equity?
- What can be revealed or inferred about a community preferences, e.g., willingness to pay, ability to put up with?

What next for EQC's Risk Finance

The Review of the EQC Act will look at a range of financial aspects of the cover provided by EQC such as the cap and how frequently we review the premiums charged for EQC cover.

Over time EQC will need to:

- Ensure that the premiums charged by EQC are sufficient to meet the expected future costs of claims and running the EQC scheme
- Continue the development a robust assurance programme for its premium income
- Develop its investment strategy for rebuild of Natural Disaster Fund
- Carefully consider the different trade-offs between spending now and saving for later
- Continue to engage with Treasury and the Government to understand the Crown's risk appetite
- Better understand consumer responses to changes in EQC cover and pricing

Q&A

Please share your questions in English via chat box.

If possible, please indicate which speaker(s) to address your question(s).

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Next Webinar

01
Managing Disaster-Related Contingent Liabilities

02
Fiscal and Financial Resilience for Sub-national Governments

03
Disaster Reserve Funds

04
Sovereign Disaster Risk Insurance

05
Catastrophe Bonds

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Catastrophe Risk Insurance Market Development

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Thank you

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