Submission

Executive Committee of the Warsaw International Mechanism for Loss and Damage

Brief compilation of lessons learned from relevant initiatives of the GFDRR and the World Bank Group aiming to address financial protection against natural disasters.

Overview on lessons learned

Financial protection against natural disasters

This document gives a good overview on different initiatives and their short history as well as some lessons learned since the beginning of insurances related to natural disasters.

Bellow a brief summary on some of the lessons (for detailed information please refer to page 45 and 50 of the mentioned document):

2005 - 2010

- Stand-alone financial instruments are not silver bullets; they cannot solve all the challenges associated with the impact of disasters and must be integrated into a comprehensive disaster risk management strategy.
- While stand-alone products may not be ideal from a purely financial perspective, the traction and interest they tend to create at a high level amongst policy makers can enable more strategic discussions on disaster risk management and financial protection more broadly.
- Accurate financial risk information—which reveals the full potential financial impact faced by the government—is crucial for disaster risk financing and insurance.
- A clear role emerged for the international community to support countries in better understanding their disaster risks and supporting policy makers in dealing with the uncertainty inherent in risk management.

2010 – 2014

- Experience suggests that sustainable, scaled up agricultural insurance should be based on an equal partnership between the public and private sectors. The public sector is essential in the provision of public goods [...].Government should also foster an enabling legal and regulatory environment to unlock the innovative potential of the private sector […].
- The idea of a central government agency responsible for risk management has been proposed by international organizations and the private sector. For example, The World Development Report 2014 recommends setting up national risk boards, and an institutional reform is already in place in Singapore and under consideration in Jamaica, Morocco, and Rwanda.
- Financial protection can help groups across society understand, price, and manage financial risk.
- Clearly financial protection needs to be complemented by prevention and risk reduction.
- The insurance industry has been warning that in some high-risk areas, such as parts of the United Kingdom and the U.S. state of Florida, climate change already threatens the insurability of catastrophe risk. Here the government plays a crucial role—such as through adequate government regulation of both insurance markets and land use planning—to avoid market failure (Geneva Association, 2013). For rapidly urbanizing developing countries this is an important reminder to integrate risk early in development and land use planning.

For more information on the financial protection please visit the GFDRR web page where you can find updated information on the different activities worldwide.

Specific initiatives

Disaster Risk Financing and Insurance (DRFI) Program

Characteristics:
The DRFI is a joint partnership between the World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR). The Program aims to increase governments' financial response capacity to natural disasters. DRFI is one of the five pillars of the WB-GFDRR's comprehensive Disaster Risk Management (DRM) framework which promotes the mainstreaming of disaster risk reduction and climate change adaptation in a broader country development agenda.

Lessons learned:
For more information please refer to the web page of the program which provides supplementary information on activities in different countries like Panama.

Cat DDO - Deferred Drawdown Option for Catastrophe Risks

Characteristics:
For more detail information about key features please refer to this note.

- A contingent loan issued by the World Bank that provides immediate liquidity following a natural disaster.
- Funds become available for disbursement after the declaration of a state of emergency due to a natural disaster.
- The CAT-DDO is contingent upon the country maintaining a satisfactory disaster risk management program in place, monitored by the World Bank at least every 12 months.
- CAT-DDOs can be renewed, allowing countries to have access to the funds up to 15 years from the data of initial approval.

For information on some applications of Cat DDO you can refer to experiences in Guatemala and Costa Rica.

MultiCat Program

Characteristics:
For more detail information about key features please refer to this note.

- The MultiCat Program helps member countries issue catastrophe bonds to insure themselves against the risk of natural disasters.
- Supports wide variety of structures, including the pooling of multiple risks in multiple regions.
- The World Bank acts as arranger: assists in formulating disaster risk management policy; offers off-the-shelf documentation; supports preparation of legal and operational framework; selects service providers.

For more information and lessons learned on Catastrophe Bonds see here.
For information and lessons learned on the first country (Mexico) using the MultiCat program from the World Bank see this document and this one.

PCRAFI's Pacific Catastrophe Risk Insurance Pilot

Characteristics:
Parametric insurance, fast disbursement in the immediate aftermath of disaster, risk pooling mechanism. More information can be found here (2014) or here (2013).

For more information please refer to the web page of PCRAFI.

Lessons learned:

- Insurance is only one component of comprehensive financial protection**.** Need to better communicate the benefits as well as limitations of the pilot program—for instance, that it covers only a portion of the losses when they disrupt the provision of government services.
- Partnering programs increase efficiency and effectiveness.

For more information on the following lessons please refer to Pacific Catastrophe Risk Insurance Pilot 2015 page 36.

- Sovereign insurance for catastrophes cannot cover all disaster losses and should be combined with other financial solutions to handle events that would not normally trigger a catastrophe insurance payout - such as mutual insurance funds, insurance of public assets, country reserves/contingency funds, and social protection for the most vulnerable.
- Catastrophe risk insurance products could be refined to allow for more comprehensive coverage: Softer triggers, like a declaration of natural disasters by the affected country, could be considered to allow the countries immediate access but limited funds after a disaster. However, such triggers might not be accepted by the private reinsurance market in the short term and would require dedicated regional funds.
- Risk pooling can be highly beneficial but requires strong discipline and coordination among participating countries. Delays from one country will create delays for all of the participating countries.
- Support at the highest level of government is a factor of success.
- The ex-ante nature of an integrated Disaster Risk Financing and Insurance strategy has required that the ministries meet to discuss how the existing procedures can be improved; these interactions have in many cases improved their relationship. A good relationship is key when supporting or creating an effective national Disaster Risk Management System.
- Institutional capacity building in public financial management of natural disasters is required.
- An integrated Disaster Risk Financing and Insurance strategy should be developed in a way that features additional financial resources, such as national reserves or contingent credit, to complement the insurance program.
- The private sector has expressed interest in the country-specific risk models for its own future use. Local insurance companies could use the models and standards that have been established to build their capacity to provide insurance against the catastrophic perils of tropical cyclone and earthquake/tsunami. This practice would benefit both the public and private sectors, as local insurers would be in a better position to price these perils more accurately within the domestic market place. It might also encourage increased uptake of insurance from private individuals and thus help to reduce some of the post-disaster financial burden on the public purse.

Caribbean Catastrophe Risk Insurance Facility (CCRIF)

Characteristics:
Sovereign risk protection, fast disbursement in the immediate aftermath of disaster, risk pooling.

For more information please refer to the web page of CCRIF.

Lessons learned:
For detailed information about the following Lessons please refer to the Report No ICR00002332 page 34.

- Consultations with a wide range of experts and stakeholders are important in developing and successfully launching an innovative development instrument.
- Donor support can be essential in the first phases of an innovative and untested development instrument. For example, an Initiating Brief for a Trust Fund was prepared to support the creation and operation of the CCRIF, this resulted in a significant reduction of insurance premiums and provides stability to CCRIF until it became self-sustainable.
- The private sector expertise and hands-on knowledge of relevant markets is vital to the success of a project that seeks to respond to a market failure.
- When public funds – e.g., capital contributions from donors and beneficiary governments, both ultimately provided by taxpayers – support an independently and commercially managed entity, it is important that those managing the entity have experience with stewardship of public resources.
- On-going communications with clients and other stakeholders are essential in piloting successfully an innovative development solution.
- A lean organizational structure can be very effective.
- In a highly innovative project, it is important for donors to give the implementing agency scope for creativity and flexibility, while still ensuring compliance with acceptable fiduciary and operational policies.

Private sector – Pacific Islands

Interesting recommendations from the 2015 Forum Economic Ministers Meeting (FEMM) of the Pacific Islands can be found in the FEMM report. Only few recommendations are listed below:

- The need to build the capacity of private sector to access finance for business solutions, and the need to commit support towards efforts on financial literacy programs for the private sector.
- The private sector called on governments to take measures to improve the business and investment climate in Forum Island Countries including the simplification process of the cost of doing business.

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