Pacific Regional Disaster Risk Finance Symposium Program

# The Enabling Environment for Disaster Risk Financing

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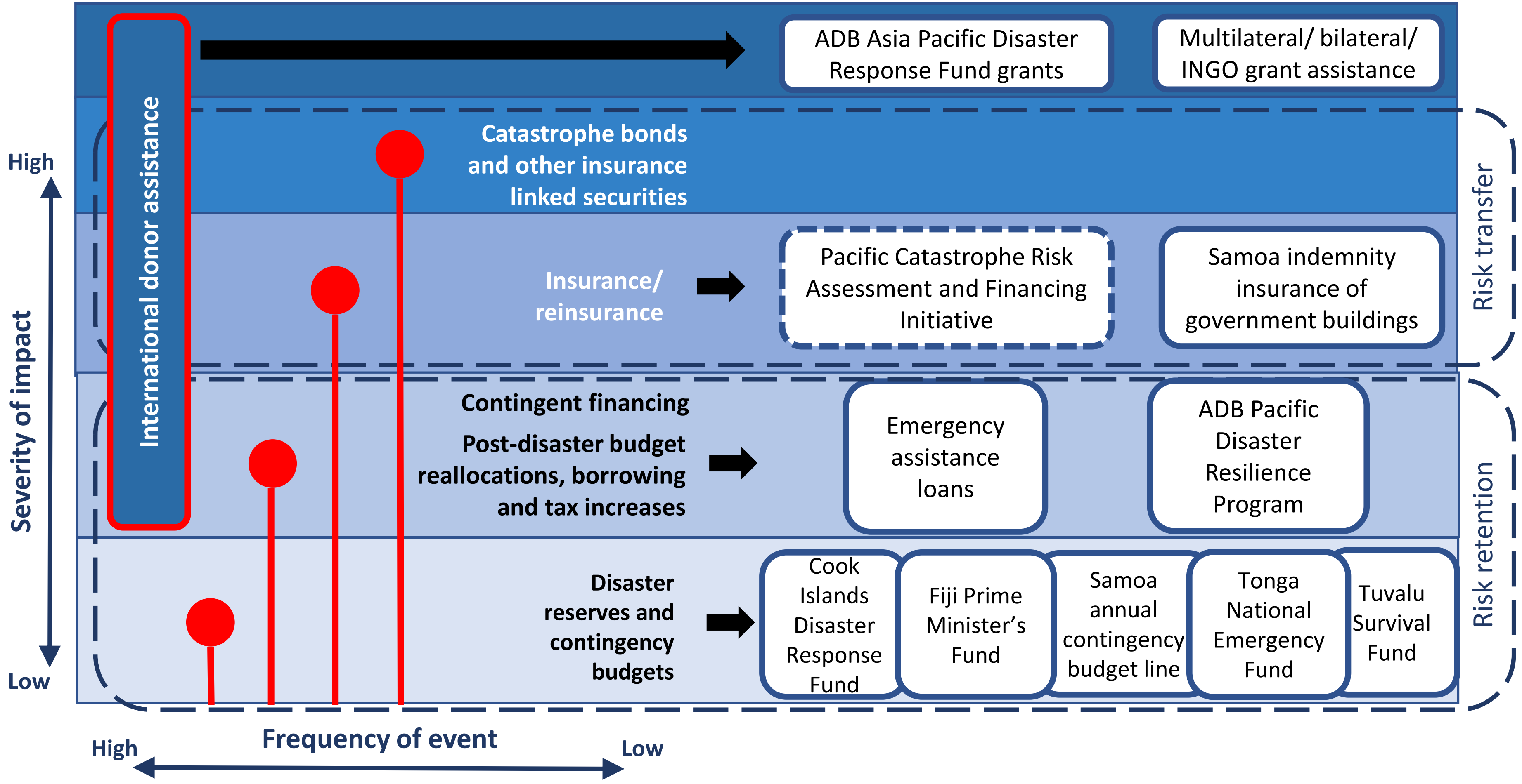
# ADB's disaster risk financing goals

To enhance financial preparedness for disasters as an integrated part of a broader program of work to enhance disaster resilience:

- Ensuring timely, adequate and assured flows of post-disaster funding
- Enabling building back better
- Applying the most cost-effective bundle of instruments  via a risk layered approach
- Smoothing recovery and reconstruction expenditure over time
- Embedding mechanisms to encourage risk reduction
- Stimulating the development of commercial risk transfer markets

# Post-disaster financing: risk layering in the Pacific

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# Disaster risk financing tools

## Households

*Ex ante*

- Savings in cash and kind
- Insurance (property, lives, health)

*Ex post*

- Reductions in spending/ postponement of "big ticket" purchases
- Public assistance/social safety nets
- Support from relatives and friends
- Borrowing

## Businesses

*Ex ante*

- Contingency reserves
- Insurance (property and other assets, business interruption)
- Capital market transactions

*Ex post*

- Delays in planned expansions/upgrades
- Public recovery assistance
- Tax breaks
- Borrowing

## Governments

*Ex ante*

- Annual calamity funds
- Contingency reserves
- Contingent loans
- Insurance (public property, wider contingent liability)
- Capital market transactions

*Ex post*

- Budget reallocations
- Tax increases
- Public borrowing
- International assistance

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In practice, however, the financial management of disaster risk remains less than optimal, particularly in developing countries.

Sub-optimal arrangements exacerbate the economic and social consequences of disasters

# ADB TA9007 and TA6561: Strengthening the Enabling Environment for Disaster Risk Financing (Phases 1 and 2)

## Aim

To explore the current application of disaster risk financing solutions, related demand and supply constraints, and opportunities to strengthen the enabling environment

The country diagnostics focus on Cambodia, Fiji, Kyrgyz Republic, Nepal, Pakistan, Philippines, and Sri Lanka,

A standard methodology is applied to explore:

- current sovereign disaster risk financing practice
- disaster insurance markets and products, including levels of penetration, pricing methodologies, distribution channels etc.
- capital market solutions
- disaster risk financing regulatory, legislative, and tax regimes
- reinsurance practice and capacity

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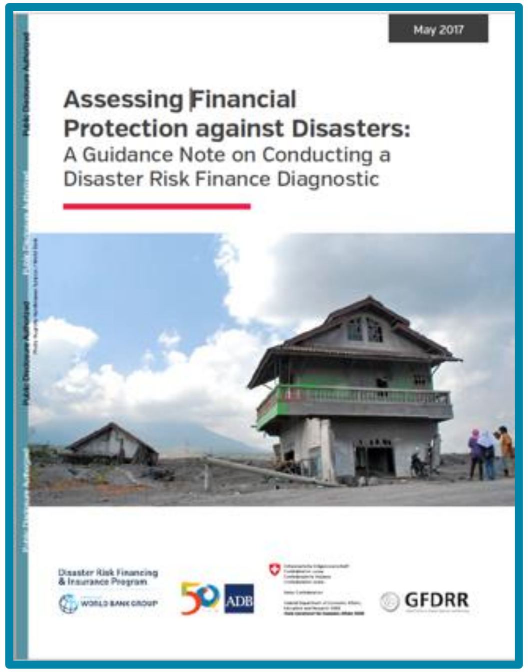
# Assessment of the sovereign disaster risk financing landscape

## Assessment of fiscal shocks associated with disasters:

- contingent liability of the government,
- fiscal risk assessment of disaster shocks
- public disclosure of disaster-related fiscal exposure




## Existing disaster risk financing arrangements

- annual contingency budget,
- dedicated budget lines for disaster risk reduction,
- dedicated disaster reserve funds,
- line agency funding,
- contingent financing arrangements,
- insurance of public assets,
- any other forms of sovereign insurance
- risk transfer arrangements through capital markets

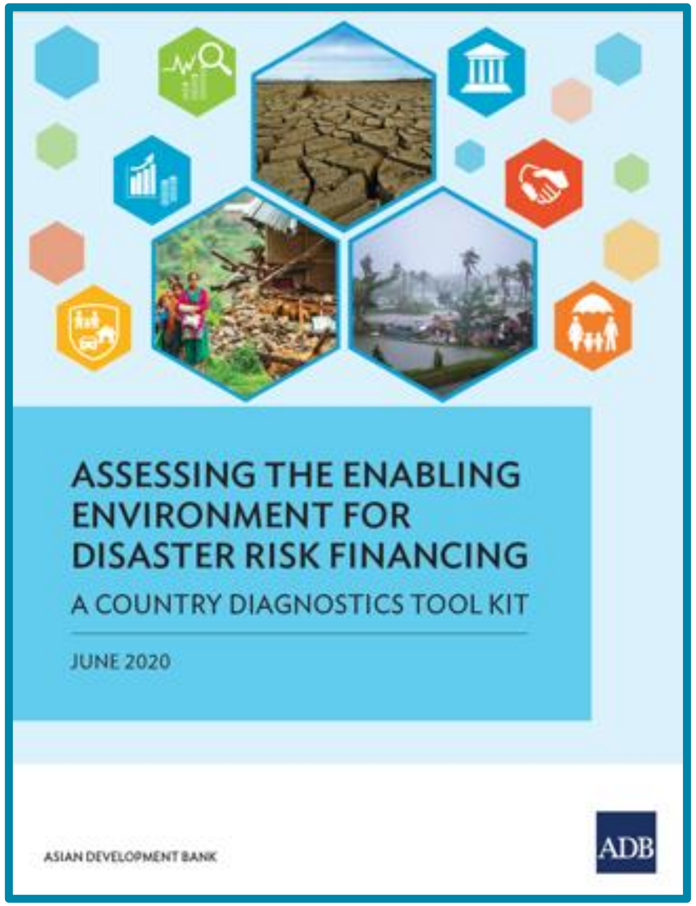
## Ex post disaster risk financing:

- post-disaster budget reallocations,
- external assistance
- other ex post mechanisms

# Diagnostic framework: Key dimensions of the enabling environment for disaster risk financing

A well-designed national disaster risk financing strategy includes measures to strengthen the enabling environment

# Government policy and strategy




- Comprehensive disaster risk management (DRM) policies and their effective implementation
- Comprehensive national disaster risk financing strategy
- Effective insurance, reinsurance and capital market (IRCM) policy formulation and execution
- Tax incentives for users and providers of IRCM solutions
- Premium subsidies for low-income and vulnerable groups

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# Economic conditions and other support factors

- An expanding economy and low inflation
- Well-developed insurance and capital markets
- Comprehensive disaster risk data
- Professional financial services
- Strong government technical DRM capacity

# Product attractiveness (availability and affordability)

- Appropriate disaster insurance products
- Consumer-friendly products and services
- Strong consumer awareness
- Mandatory market-based insurance for disaster risks
- Mandatory international reinsurance or retrocession for disaster risks
- Use of capital market solutions

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# Credibility of insurance and capital market stakeholders

- Reputable regulator
- Solvent insurance and capital market players
- Fair pricing and claims-paying culture
- Understandable products
- Accessible and effective complaints and redress mechanisms

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## Social protection

- Effective social protection strategy
- Public coverage of nontransferable risks

## Unlicensed competition

- Strict criteria governing unlicensed competition


May 2017
Assessing Financial Protection against Disasters:
A Guidance Note on Conducting a Disaster Risk Finance Diagnostic
Disaster Risk Financing & Insurance Program
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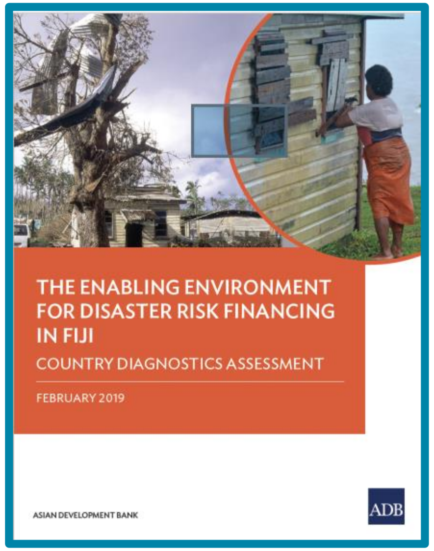
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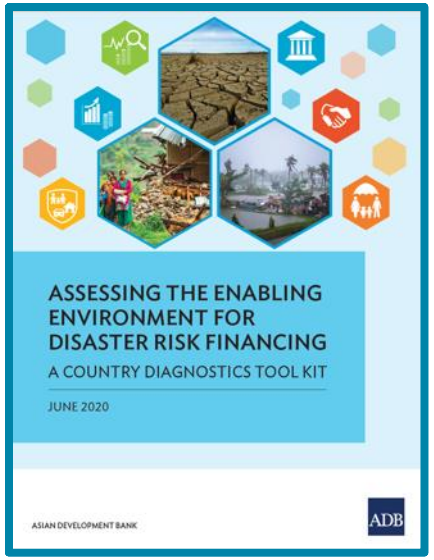
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# Thank you