Disaster Risk Financing & Insurance
An essential part of effective disaster risk management

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Disaster Risk Financing and Insurance (DRFI) complements other DRM activities

DRFI is a practice that helps countries increase the financial resilience of governments, businesses, households, farmers, and pastoralists against the economic burden of disasters.

How is it done?

Pillar 4: Financial Protection

- **Sovereign Disaster Risk Financing**: Increase the financial response capacity of national and subnational governments, and their access to effective reconstruction and recovery funding.
- **Agricultural Insurance**: Protect agricultural producers from losses arising from damage to their productive asset and livestock.
- **Disaster-linked Social Protection**: Protect the poorest through the application of insurance principles and tools to social safety nets such as cash transfer programs.
- **Property Catastrophe Risk Insurance**: Protect homeowners and SMEs against losses arising from property damage.

Disaster Risk Financing and Insurance Analytics:
Empowering governments to take informed decisions on the financial management of natural disasters.
WB-GFDRR DRFI Program

Supports over 60 countries to enhance their post-disaster financial response capacity and develop stronger domestic catastrophe insurance markets
1. National government has developed standardized terms and conditions from international insurance market best practices in the purchase of catastrophe insurance for its public buildings. Interest from municipalities in adopting these standards.

2. Implementing international best practices in insuring investments totaling US$38 billion in the next generation of road infrastructure PPPs (concessions).
Experience from sovereign DRFI suggests that there could be a range of potential benefits for cities.
A risk pooling mechanism could be explored for cities with:

- **Standard terms and conditions** of insurance policies
- **Transparent rules** of operations and disbursement
- **No cross subsidisation**; contributions are based on each city-specific risk profile
- Leverage **risk pooling** benefits for cost efficient access to **international financial markets**
- Bring together **cities from emerging markets and developed countries**
- Either rely on **parametric triggers for quick liquidity** or **indemnity triggers** to **finance reconstruction** in case of major disaster
Main messages

• Financial protection is one component of integrated risk management for cities
• Experience from sovereign disaster risk financing and insurance can inform similar work at the city/municipality level
• Public financial management of disasters provides practical solutions to concrete development challenges
4. How is it done? Steps toward strategy

- **Who do I want to protect?**
  - Municipal budget
  - Producers / SMEs
  - Vulnerable populations

- **How frequent / large is the financial impact?**
  - Frequent events / moderate impact
  - Rare events / catastrophic impact

- **What is the source of funds?**
  - Savings / Reserves
  - Contingent credits / loans
  - Risk transfer instruments

- **How will funds reach beneficiaries?**
  - Budget execution
  - Coordination mechanisms
  - Targeting

- **How can I implement this?**
  - Institutional framework
  - Operational policies & procedures
  - Monitoring & evaluation
4. From data to decisions….

Analytical tools that help policy makers make use of data and technical models…

- Risk Models: Hazard, Exposure, Vulnerability
- Historical loss data
- Macro economic data
- Simulated loss data
- Historical loss data

Risk Analytics:
- Cost Benefit Analysis
- Scenario Analysis

Informed Financial Decisions

…result in better planning and informed decisions.
4. Financing different risk layers

*Risk-layering* - to match financing mechanisms to the severity and probability of events - incorporates (i) budget reserves, (ii) contingent credit, and (iii) risk transfer.
### Problem: The high and rising economic cost of disaster response and reconstruction can have a hugely disruptive impact on a city’s budget

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<tr>
<th>Question</th>
<th>Action</th>
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<td>How large is the potential financial impact?</td>
<td><strong>Assess financial risk:</strong> Quantify and establish the implicit and explicit contingent liabilities faced by cities from natural disasters</td>
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<td>How can I manage the budget shocks from disasters?</td>
<td><strong>Manage financial risk:</strong> Increase the financial response capacity of cities and their access to effective reconstruction and recovery funding</td>
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<td>How can I reduce the liability of the government?</td>
<td><strong>Reduce financial risk:</strong> Reduce the underlying drivers of financial risk to the government by improving the insurance of public assets</td>
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