

# Financial Protection for Pacific Island Countries

Scaling-up regional collaboration on climate and disaster risk financing and insurance



# Why is financial protection important to reduce poverty and increase shared prosperity?



**Financial losses from natural disasters** continue to rise. Developing countries and their low-income populations experience the greatest impacts.



**The Disaster Risk Financing and Insurance Program (DRFIP)** leads the dialogue on financial resilience as part of the World Bank Group's effort to support vulnerable countries in better managing disasters and climate shocks.

## How we support governments

**Pacific Island Countries (PICs)** are among the most vulnerable countries in the world, threatened by the risk of tropical cyclones, earthquakes and tsunamis that cause fiscal shocks and humanitarian crises. At the onset of a natural hazard event, Pacific Island Countries (PICs) require rapid-response, disaster risk financing instruments that provide immediate cash to cover emergency response and maintain basic public services. However, access to short-term liquidity is often constrained due to the small size of island economies, which in turn restricts their borrowing capacity and access to financial markets. Compounding this effect, PICs generally have limited budget reserves, which often force governments to reallocate public resources away from national development priorities – and can have adverse, long-term economic impacts. Without easy access to debt and robust financial markets, the ability of governments to quickly respond to provide humanitarian relief services is dramatically reduced.

**The PCRAFI Program** is a comprehensive, regional effort to increase financial resilience to climate and disaster risks in the Pacific through the development of a regional catastrophe risk pool and technical assistance. The PCRAFI Program – Phase II builds upon 10 years' experience of the Disaster Risk Financing and Insurance Program (DRFIP) working across the Pacific with regional agencies, governments, donors and the World Bank Group. Beginning in 2007, ministers of finance from PICs and development partners began to explore catastrophe risk insurance as a regional mechanism to enhance the financial resilience of PICs. This catalyzed the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) - Phase I, which laid the technical foundation and acquired the requisite data to model a catastrophe risk insurance pool.

## Six Guiding Principles of the PCRAFI Program



1. **Country Ownership**



2. **Financial Sustainability**



3. **Contingency Planning**



4. **Accountability and Transparency**



5. **Comprehensive Disaster Risk Financing Strategy**



6. **Link with Disaster Risk Management Agenda**

# What we do

The Disaster Risk Financing and Insurance Program (DRFIP) provides technical and financial assistance to 14 PICs and three regional organizations through the PCRAFI Program Multi-Donor Trust Fund, which is implemented in two tracks:

## Track I: PCRAFI Facility

Establishment and operations of the Pacific Catastrophe Risk Insurance Company (PCRIC), a regional catastrophe insurance platform dedicated to the provision of parametric climate and disaster insurance that increases access to rapid-response emergency funds

### Components



#### Establishment and Operations

Technical and legal support is provided to PCRIC and the Pacific Catastrophe Risk Insurance Foundation (PCRIF), two legal entities that comprise the PCRAFI Facility



#### Capitalization of PCRIC

Initial capitalization funds are transferred to PCRIC - a captive insurance company - to accelerate its key functions: retain and manage a portion of the risk portfolio; generate cost reduction; and make rapid insurance payouts to countries in the event a policy is triggered



#### Monitoring and Evaluation

PCRIC and member countries collaborate to develop a uniform process if a policy is triggered for member countries to report on the execution of the payout



#### Development of Disaster Risk Insurance Products

PCRIC is responsible to design new insurance products that cover additional hazards (e.g excess rainfall and drought), and incentivize new countries to join PCRAFI

## Track II: Technical Assistance

A multi-faceted program that focuses on strengthening institutional capacity for financing climate and disaster risks at three levels of engagement: national, regional and PCRAFI Facility

### Components



#### Market-Based Instruments

Supports the operations of the PCRAFI Facility including the review of technical documents to ensure accelerated implementation of catastrophe risk insurance, such as an annual portfolio analysis, and validation of the reinsurance package, and technical assistance for product development



#### Public Financial Management

Activities focus on the development national disaster risk financing strategies to strengthen post-disaster public financial management, including: post-disaster budget execution, mobilization and reporting, and contingency plans

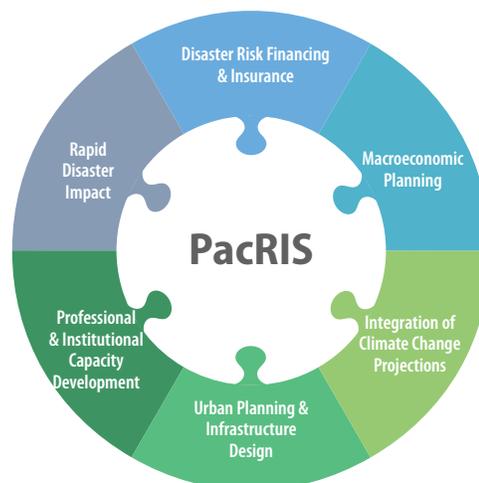


#### Knowledge Management and Learning

Knowledge exchange activities convene PICs and similar regional risk pools to facilitate technical collaboration and the implementation of trainings and higher education opportunities for disaster risk finance

## PacRIS - Pacific Risk Information System

Through implementation of the five-year program, the regional geospatial data management platform – PacRIS – is being updated with current risk information from the 14 participating countries. PacRIS hosts the necessary data inputs to run the insurance model that underpins the PCRAFI Insurance Program. The Pacific Community (SPC) leads the effort to update the database and develop capacity building to facilitate the use of risk information in other economic sectors shown here.



# Impact

To date, the PCRAFI Insurance Program has made three payouts totaling US\$6.7m, each within 10 days of the event, providing rapid-response finance to support governments' ability to quickly respond when a disaster strikes. The first two payouts were made during the pilot phase, and the last one by PCRIC.

## Tonga

Tropical Cyclone Ian swept across Tonga on January 11, 2014, damaging 66% of homes and losses up to 40% in affected islands. Tonga was the first PIC to receive a payout under the PCRAFI Insurance Program, totaling US\$1.3 million. The PCRAFI payout was made within ten days of the event, and was among the first injections of cash, equal to half of Tonga's national budget reserves and was used to the government to assist in disaster response activities, including the distribution of relief goods to Ha'apai.

On February 12, 2018, Tropical Cyclone Gita passed over Tonga, causing significant damages and affecting 80% of Tonga's population. This triggered an insurance payout of US\$3.5m, which was made within ten days of the event. Similar to the first payout, the second payout was also used by the government to assist with disaster response activities.



Corrugated iron litters the streets of Lifuka Island, Tonga Photo: CC-by/Scott McLennan / DFAT

## Vanuatu

On March 13, 2015 Tropical Cyclone Pam struck Vanuatu, triggering its parametric insurance policy for cyclone hazards. PCRAFI made a rapid disbursement of US\$1.9 million to the government within 7 days of the event, which provided a rapid cash injection to minimize the fiscal shock from the event. The PCRAFI payout, intended to help support emergency response services, enabled Vanuatu to respond quickly to affected populations, including the mobilization of nurses to provinces impacted by the storm.



Devastation after Cyclone Pam. Photo: CC-by/Graham Crumb

## Achievements

- **Attracted new donors to the region** who have provided over US\$40 million to support the PCRAFI Program with generous contributions from Canada, Germany, Japan, the United Kingdom and the United States.
- **Catastrophe risk insurance policies** were issued by the Pacific Catastrophe Risk Insurance Company on November 1st, 2019 for season 8, which runs until October 31, 2020.
- **New products under development** – a feasibility study for a rainfall insurance product is underway, laying down the foundation for a new product to address heavy rainfall and drought. In addition, preliminary work has commenced to develop a tropical cyclone insurance product for households in Fiji.

## Partnerships

The **PCRAFI Program Multi-Donor Trust Fund (MDTF)** was established in 2016 with generous contributions from Canada, Germany, Japan, the United Kingdom, and the United States through the *InsuResilience - the G7 Initiative on Climate Risk Insurance*<sup>1</sup>.

The **World Bank Group's Disaster Risk Financing and Insurance Program** is within the World Bank's Finance, Competitiveness and Innovation Global Practice. As a leading provider of analytical & advisory services on disaster risk finance, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.



1 <http://newsroom.unfccc.int/lpaa/resilience/g7-climate-risk-insurance-initiative-stepping-up-protection-for-the-most-vulnerable>

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