Disaster Risk Financing & Insurance Program

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The WBG has long experience in developing new financing mechanism, including insurance, to manage risks, including climate and disaster shocks and more recently pandemics. Establishing such mechanisms in advance strengthens leverages market risk capital, strengthens government ownership of response, and reduces costs. Early action supported by pre-planned financing, not only saves lives, reduces costs since $1 spent on early action case saves up to $5 in late response financing.

Working closely with the private sector on financial innovation for risk management is one aspect of our overall focus to maximize financing for development through private expertise and capital. For example:

To help countries mobilize the funds needed for responding to shocks, the WBG has created new financial instruments, including the use of insurance, catastrophe bonds, and catastrophe swaps. For example, we supported the Caribbean Islands' establishment of the world's first sovereign risk insurance pool, which has since been replicated in the Pacific, Africa, and under development in South East Asia. Since 2009, the World Bank has issued, hedged, or facilitated over US$2.5 billion in transactions designed to transfer earthquake, wind, pandemic, and drought-related risks on behalf of member countries exposed to those shocks.

Leveraging longstanding principles of good risk management from the private sector, the WBG helps improve the impact of assistance by making sure that funds are available rapidly to the most affected households after disasters. As an example, the WBG strengthens government capacity to use insurance triggers to build safety nets that increase cash assistance to vulnerable people on the occurrence of a shock, which in turn helps ensure that local markets continue to function.

The WBG is a key partner in the establishment of the InsuResilience Global Partnership launched at COP23 in November 2017 to scale up climate and disaster risk finance and insurance solutions. This includes the establishment of a dedicated facility within the Bank to test new insurance based approaches to pre-arranged financing against shocks.

Country specific examples

Southeast Asia Disaster Risk Insurance Facility.

Building on experiences from establishing successful regional risk pools for small island states in the Caribbean and the Pacific, the WBG is supporting Cambodia, Lao PDR, and Myanmar's efforts to establish the first regional risk financing facility in Asia. With investments in the development of new satellite based flood monitoring for insurance applications, the WBG helps countries use technology and financial innovation to provide rapid funds for managing response to floods.

Kenya.

Photo: © Curt Carnemark / World Bank

Since 2014, the WBG has worked with local partners and the International Livestock Research Institute and Financial Sector Deepening Kenya, to provide the government with technical assistance in the design of a crop and livestock insurance program. In October 2015, the government launched the Kenya Livestock Insurance Program (KLIP) to protect pastoralists against climate shocks in two counties. In March 2016, the government launched an area yield index insurance to protect semi-commercial maize farmers in three counties.

The livestock insurance program is designed to insure the vulnerable pastoral households just above the social safety net threshold to avoid households accessing benefits from different programs. As of October 2016, 14,000 pastoral households were insured. In February 2017, the Kenyan government announced that about 12,000 pastoralists were eligible for payouts amounting to K Sh 215 million (US$2.2 million). This represents the largest insurance payout to vulnerable households in Africa to date. The government plans to expand the program to the remaining arid and semi-arid counties and to offer cover to about 65,000 vulnerable pastoralists by 2020.

Kenya's area yield insurance program is designed to manage risks and losses among smallholder farmers, increase investment in agriculture through improved access to credit and higher-yielding technology such as seeds and fertilizers, and support the transition from subsistence to commercial-oriented farming. Approximately 950 farmers purchased AYII coverage, with a government subsidy of 50 percent, for the long rain season in 2016. The crop insurance program aims to cover about 87,000 farmers in 30 counties by 2020.

Philippines

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A Philippines catastrophe risk insurance program transaction was successfully placed in July 2017. It provides US$206 million in parametric coverage against losses from major typhoons and earthquakes to national government assets; and against losses from major typhoons to 25 local governments. The government-owned insurance agency provided the Bureau of Treasury of the Philippines with a catastrophe risk insurance policy, 100% reinsured by the WB Treasury as a reinsurance contract, which is then transferred 100% through cat swaps to international reinsurance companies selected through a competitive bidding process. This provides rapid liquidity to government agencies and to subnational governments so that they can maintain key public services.

Morocco

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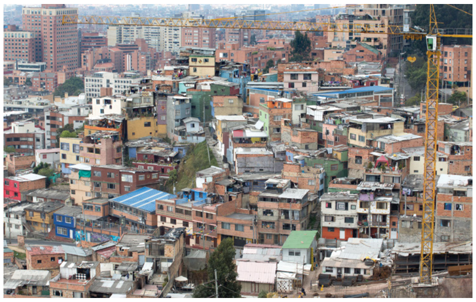
The DRFIP supports the Government of Morocco through technical assistance under the US$200m Program for Results on Integrated Disaster Risk Management and Resilience (led by GSURR). This consists in analytical work and capacity building activities delivered to the Ministry of Finance and ACAPS (National Insurance Regulator) in supporting the implementation of a new law againstnatural catastrophe (mostly flood and drought) . This includes financial risk analysis work, structuring of an insurance/reinsurance program, portfolio exposure management, strategy advice on financial protection, as well as design of a claims management process. The law sets up a dual system which guarantees coverage against natural and man-made catastrophes for insured people, households and businesses, as well as provides basic compensation for uninsured people and households through a Solidarity Fund.

Colombia



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The Government of Colombia partnered with DRFIP to evaluate new financial mechanisms to better manage disaster shocks, including a risk transfer instruments such as a joint Catastrophe bond of the four Pacific Alliance countries. An analysis of public and private insurance supported the government in establishing Framework Agreements for Aggregating Insurance Demand, which includes new insurance guidelines for road infrastructure and agreements with insurance brokers, and an online information system to manage information on public buildings and insurance policies.

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