



# PCRAFI PROGRAM

## PHASE II

# Furthering Disaster Risk Finance in the Pacific

## Challenge

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. On February 12, 2018, Tropical Cyclone Gita struck Tonga, a Category 4 event that impacted nearly 50% of its population, destroyed 1,200 homes and caused damage estimated at US\$61.7 million.<sup>1</sup>

At the onset of a natural hazard event, governments require rapid-response, disaster risk financing instruments that provide immediate liquidity 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.

## Approach

The **PCRAFI Program – Phase II: Furthering Disaster Risk Finance** in the Pacific – scales-up regional collaboration to increase the financial resilience of Pacific Island Countries (PICs) against natural hazards and their capacity to meet post-disaster funding needs. In 2016, more than US\$40 million in grants was mobilized for PICs through the G7 initiative on climate risk insurance – InsuResilience Global Partnership<sup>2</sup> – to establish the PCRAFI Multi-Donor Trust Fund (MDTF) with generous contributions from Germany, Japan, the United Kingdom and the United States.

The five-year program is implemented in collaboration with regional development agencies and the Disaster Risk Financing and Insurance Program (DRFIP) – a partnership between the Global Facility for Disaster Reduction and Recovery (GFDRR) and the World Bank Group.

Phase II is designed in two programmatic areas:

- » **Track I: Pacific Catastrophe Risk Insurance Company** – Establishment and operations of the Pacific Catastrophe Risk Insurance Company (PCRIC) – a regional catastrophe insurance platform dedicated to the provision of climate and disaster insurance for PICs
- » **Track II: PCRAFI Technical Assistance** – A multi-layered program to strengthen institutional capacity on climate and disaster risk finance at three levels of engagement: national, regional and PCRIC

<sup>1</sup> The cost of damages was calculated by the PCRAFI Insurance Model, estimated at US\$61,748,780.  
<sup>2</sup> <http://www.insurresilience.org/>

## Achievements

**\$6.7m** Cumulative payouts to governments since the inception of sovereign catastrophe risk insurance for PICs in 2013

**\$45m** Total coverage purchased in Season 6 for policies protecting against tropical cyclones and earthquakes/tsunamis

**\$3.5m** Payout received by Tonga, the third and largest payout to date, following Tropical Cyclone Gita in February 2018

**\$24m** Capitalization funds provided to PCRIC from donor partners through the InsuResilience Global Partnership and PCRAFI MDTF

**19%** Increase in PCRIC's insurance capacity to offer governments greater access to rapid-response financing for disaster relief

**6th** Season of catastrophe risk insurance began November 1, 2018 with PCRIC issuing eight policies to its five current members – the Cook Islands, Marshall Islands, Solomon Islands, Tonga and Vanuatu

**4** International reinsurers provide protection for PCRIC's current portfolio – AXA, Hannover Re, Liberty and Mitsui Sumitomo Insurance (MSI)

**2** Feasibility studies for new products are underway for a volcano product and a rainfall product (for both excess rainfall and drought) to expand coverage for additional hazards

*"The insurance payout from PCRIC has substantially improved our financial capacity to respond swiftly to the most pressing needs of those affected by the cyclone."*

*- Honorable Pohiva Tu'ionetoa, Minister of Finance - Tonga*

NB: All monetary figures are noted in USD.

