

# DISASTER RISK FINANCING AND INSURANCE PROGRAM

Strengthening Financial Resilience to Disasters

## What We Do

DRFIP helps developing countries manage the cost of disaster and climate shocks.

The initiative supports governments to become more effective risk managers, rather than emergency borrowers, protecting their fiscal balance and the welfare of households and businesses.

The initiative supports the development of comprehensive financial protection strategies, develops innovative policies and instruments, and structures insurance programs.

GFDRR supports governments in designing financial protection strategies and instruments to respond to natural disasters. The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as a component of the World Bank's support to countries in better managing disasters and climate shocks. The initiative connects financial expertise with risk management across many sectors, bringing countries comprehensive solutions and helping them to become more effective in managing their own risk.

**\$165 BILLION**

financial losses inflicted each year by natural disasters, far exceeding available development funds.

**360 MILLION+**

people protected through World Bank lines of contingent credit.

**\$2.3 BILLION**

in contingent credit extended to 9 countries.

# APPROACH

## NATIONAL GOVERNMENTS

Incentivizing governments to become proactive managers of disaster risk, ensuring the availability of the necessary financing following a disaster, and building an infrastructure to allow for the immediate distribution of funds.

**The program establishes pre-agreed lines of contingent credit to be accessed in the event of disaster, providing emergency liquidity when funding is at its most scarce (see Philippines p. 7).**

## RESILIENT LIVELIHOODS

Helping governments leverage existing systems to provide financial assistance directly to households during a disaster.

**In 2015, the Kenyan government moved rapidly to provide cash transfers to an additional 200,000 citizens as the early signs of drought were detected.**

## AGRICULTURE

Implementing sustainable public private partnerships to provide insurance to the vital agricultural sector.

**34 million Indian farmers are currently benefitting from improved insurance cover through using new technology such as GPS-enabled mobile phones and video recording to improve the accuracy of claims assessments.**

## HOMEOWNERS AND SMALL BUSINESS

Safeguarding private property through the expansion of insurance markets devoted to catastrophe risk.

**Peru and the Philippines are exploring the options of creating insurance pools to support the catastrophe risk market.**

## ANALYTICS

Providing public officials and governments with the right knowledge and concrete tools needed to make more informed financial decisions.

**The program carried out a cost-benefit analysis to help the government of Mexico fine-tune its disaster risk financing strategy (see right).**

## TRAINING

Leveraging the extensive expertise of the World Bank to provide countries with targeted advice and knowledge to support policy reforms.

**A Fundamentals of Disaster Risk Financing training program has reached over 200 participants in 11 countries in its first year.**

## POLICY AND PARTNERSHIPS

Developing key partnerships to bring scale and global awareness to disaster risk financing

**DRFIP acts as a neutral broker, bringing together stakeholders to invest in technical advice and knowledge that supports the implementation of policy reforms and financial instruments. Industries engaged include risk modeling, insurance, reinsurance, investment banks, and hedge funds.**

**The program also supports high-level policy initiatives such as the Asia-Pacific Economic Cooperation, the Group of Seven, InsuResilience Initiative, the Group of 20, and the Vulnerable 20.**

# A Cost-Benefit Analysis of Resilience

A three-year project, DRF Impact Appraisal Project, produced a benchmark analysis on disaster risk financing, which provides some of the first quantitative evidence of the impact of disaster risk finance.

For example, a case study of Mexico's Fund for Natural Disasters (FONDEN) provides some of the first estimates of the impact of disaster funds on local economic activity. FONDEN finances reconstruction of public assets and is widely seen as an example of successful disaster risk financing. The study has shown that access to funding for the reconstruction of roads, infrastructure, and housing boosts local economic activity by up to 4 percent in the year following the disaster.

<https://www.gfdr.org/sites/default/files/publication/DisasterRisk.pdf>

FONDEN boosts local economic activity between **2 AND 4 PERCENT** in the year following an event.



## DID YOU KNOW?



61% of GDP in damage and loss suffered by Vanuatu from Cyclone Pam in 2015



14% reduction in lifetime earning as a result of malnutrition of children under two



15% increase in poverty rate due to the 2013 Typhoon Yolanda in the worst affected areas of the Philippines



2.5-3.5% – Nepal's increase in poverty rate after the 2015 earthquake



When hurricane Mitch hit Honduras in 1998, poor people lost, on average, three times more than nonpoor citizens

**\$1.46B**

Between 1999 and 2011, Mexico spent, on average, \$1.46 billion per year for the reconstruction of public assets including roads and bridges

# ACTIVE ENGAGEMENT



To date, the program has supported **60 COUNTRIES** - nine of which have received contingent credit of **\$2.3 BILLION.**

## 1,000+ PARTICIPANTS

at over **30 international policy discussions** and knowledge sharing events.

More than

## 15 TRAININGS AND LOCAL WORKSHOPS

organized or supported in 2015.



Over

**360 MILLION PEOPLE**

are now protected through lines of contingent World Bank credit.



## 21 PRIVATE INSURANCE COMPANIES

have been brought into new or strengthened catastrophe insurance markets around the world.

## Next Steps

Integrate disaster risk financing in at least three new World Bank lending operations each year.

Launch new initiatives on social protection and analytics with DRFI engagements in at least five new countries.

Expand advanced training in disaster risk finance to reach 300 officials.

# HOW WE DO IT

## PERU

Peru has a history of vulnerability to devastating natural hazards: **Between 1970 and 2010, the country experienced more than 100 disasters, killing some 74,000 people - the highest toll in Latin America.**

A staggering 18 million people were displaced in the same period.

Beginning in 2012, the government moved proactively to be better prepared to meet the potential financial shock from this sustained threat with the close support of DRFIP. The initiative prepared a seismic risk profile of the country and developed a cost-benefit analysis, including emergency and reconstruction losses, to provide a complete picture of current financial instruments for

managing natural disaster risk. This was the first time such a comprehensive analysis had been developed. This analysis led to the launch of the country's official national strategy on disaster risk financing.

In addition to helping the government better protect its own budget, the program provided technical support to Peru's regulatory body, helped strengthen public asset coverage, and supported the ministry of finance to launch preparations for a household reinsurance pool.

Driven by a dedicated fiscal risk management unit in the Ministry of Finance, these advancements illustrate the importance of strong political will in implementing reforms in disaster risk financing.

## KENYA

The arid areas of northern Kenya are extremely food-insecure and prone to drought. For decades, these regions have experienced recurrent food crises and have relied on food aid in emergency situations. Drought has crippled development efforts in the region and resulted in significant economic costs.

In 2015, the government of Kenya was able to respond rapidly to the early stages of a drought. To support the government, DRFIP adapted an existing program of cash transfers to poor communities, using technology to scale up distribution.

The cost of the program depends on where, when, how much, and for how long the safety net is scaled up.

The DRFIP team developed a digital tool to help the government of Kenya estimate the costs of the program under varying conditions, providing information on the budgetary cost and resource requirements of different scenarios. In so doing, it helped the government to make more informed decisions.

**As a result, the government was able to provide cash transfers to 165,000 vulnerable households – 90,000 more than previously received assistance – in the country's first-ever, disaster-linked, scalable payout. This provided immediate relief to families threatened by the drought and reduced dependency on emergency food aid.**

## PACIFIC ISLAND COUNTRIES

Insurance — and its provision at an affordable cost — is a key component of risk financing. The case of the Pacific Island Countries (PICs) is a compelling example of how a pioneering approach to the insurance market can bring about real benefits.

Situated in a remote corner of the Pacific, PICs are naturally vulnerable to disasters such as flooding and cyclones, which incur costs of, on average, 6.6% of Gross Domestic Product each year. To address this, the World Bank and other partners created the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) in 2007.

The initiative launched a pilot program creating a pool in which member countries could purchase disaster insurance at a much lower cost than would be possible

individually. The World Bank acted as an intermediary between PICs and reinsurance companies, **delivering a 50% reduction in insurance premiums.**

When disaster strikes member nations, they can access funding at a crucial time. Tonga became the first country in the program to receive a rapid pay out of \$1.2 million in 2014 after Cyclone Ian. **The following year, Vanuato received nearly \$2 million only a week after Tropical Cyclone Pam struck.**

The success of the initiative demonstrated the willingness of the global insurance industry to provide coverage — and do so at a competitive rate — to high-risk nations when they act collectively.

“The scheme gives us a sense of comfort. That we know there are tools available there to access when we have a natural disaster. Whereas before, when this facility was not available, then we had to try to redirect resources from other priorities and use it for responding to the disaster – not only for relief but also reconstruction. So that’s what it means to us. When a hurricane hit, it took us less than a month to get a response from this facility, so its very speedy.”

—Aisake Eke | Finance Minister of Tonga



## PHILIPPINES

The Philippines is a country acutely prone to natural disaster, with some 565 events since 1990. Of these, typhoons account for the greatest amount of devastation. **In 2013, Typhoon Haiyan alone left 6,200 people dead, caused \$12.9 billion of damage, and pushed two million people below the poverty line.**

Recognizing this extreme vulnerability, GFDRR and the World Bank are supporting the government in a sweeping program of financial planning for disaster. **In 2010, the Philippines became the first country in Asia to secure a \$500 million line of credit**, known as a Catastrophe Deferred Drawdown Option, in the event of disaster.

Last year, a second loan of \$500 million was provided. These new financial instruments have provided the country with the foundation to innovate its disaster planning.

In addition, GFDRR and the World Bank are working closely with the government to strengthen the resilience of infrastructure on the ground. For example, the national building code will include disaster risk management for the first time. In addition, all schools at risk in Manila will be appraised for retrofitting.



# **| CONTACT**

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