

FURTHERING DISASTER RISK FINANCE IN THE PACIFIC

Increasing financial protection for fourteen Pacific Island Countries

AT A GLANCE

Region East Asia and Pacific

Risks Reversal of development gains post-disaster; long term economic and fiscal impacts

Area of Engagement Deepening financial protection

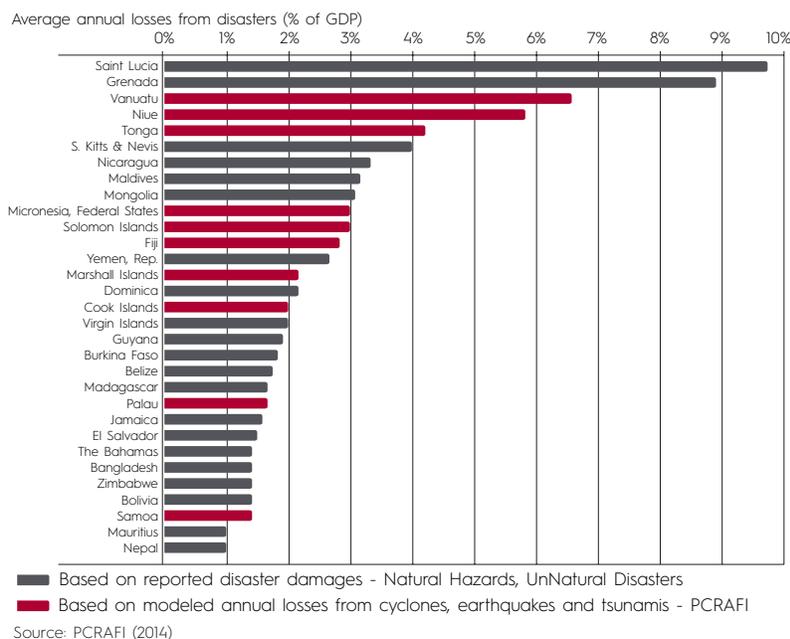
Following a successful pilot program, Pacific Island Countries established a sovereign catastrophe risk insurance company for the region, increasing resilience and access to short-term funds needed to respond to disasters.

HIGH VULNERABILITY, LIMITED BUDGETS

The Pacific Island Countries (PICs) are among the top 30 nations in the world most vulnerable to natural disasters. Subject to tropical cyclones and drought, in addition to volcanic eruptions, earthquakes, and tsunamis, the PICs suffer average disaster damages of more than \$280 million per year. At the onset of a natural hazard impact, governments require rapid-response, disaster risk financing instruments that can provide immediate liquidity to pay for emergency response and to maintain basic public services. However, access to short-term debt is often constrained due to the small size of island economies, which 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 instruments, the capacity of PIC governments to respond quickly to a natural disaster is dramatically reduced.

Pacific Island countries are among the most vulnerable in the world



INCREASING LIQUIDITY WHEN DISASTER STRIKES

To increase the region's financial resilience, the Pacific Catastrophe Risk Insurance Company (PCRIC) was established in 2016 as the first regional catastrophe insurance platform, the result of nearly a decade of regional collaboration and a pilot program through the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) supported by the World Bank-GFDRR Disaster Risk Financing and Insurance Program (DRFIP). PCRIC offers sovereign parametric insurance to cover against climate and seismic hazards, such as tropical cyclones, earthquakes, and tsunamis. Its parametric policies are designed to make a payout within 10 days of a triggered event, serving as a rapid-response financing instrument for governments to gain access to immediate liquidity for disaster-related costs. As a risk pooling

mechanism, PCRIC offers cost savings to participating countries that purchase coverage as a group at a significantly lower cost than if purchased individually.

Over the next four years, 14 countries are supported through the PCRAFI Program, Phase II, with a view to build capacity for disaster risk finance, in addition to strengthening the catastrophe risk insurance platform, PCRIC. Technical assistance is provided at three levels of engagement — national, regional, and PCRIC — in three thematic areas or components:

- ▶ Market-based instruments, which support the creation of new insurance products to expand country participation;
- ▶ Public financial management, to develop national disaster risk financing strategies including post-disaster budget execution, mobilization and reporting, and contingency plans; and
- ▶ Knowledge management and learning activities, which facilitate technical collaboration among member countries and similar regional risk pools

LESSONS LEARNED

High-level support is essential to implement financial protection strategies.

The PCRAFI Program has been discussed and approved by the cabinet in the respective PICs, showing support at the highest level of government. This support has been critical in expanding financial protection to at-risk areas.

Risk pooling can lead to improved dialogue and cooperation on budget protection.

The ex ante nature of an integrated disaster risk financing strategy has required that finance ministries and national disaster management offices commit to discuss how budget procedures can be improved to more quickly mobilize funds and execute disaster response, increasing interagency cooperation.

“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.”

-- Hon. Pohiva Tu'ionetoa, Minister of Finance, Tonga
following \$3.5 million payout triggered by
Tropical Cyclone Gita in February 2018



Expanded insurance
benefits to more than

640,000

citizens in five
Pacific Island Countries

RAPID RESPONSE

Since its inception, the PCRAFI insurance portfolio has made three payouts for an aggregate amount of \$6.7 million within 10 days of the respective disasters. In response to Tropical Cyclone Pam, Vanuatu received a disbursement to support emergency response services, including the mobilization of nurses to provinces impacted by the storm.

IMPROVED DATA ON RISKS

Through the implementation of the PCRAFI Program, the Pacific Risk Information System (PacRIS) - a regional repository of hazard and exposure data - is being updated across the 14 participating countries. PacRIS hosts the necessary data inputs to run the insurance model, including a historical earthquake and tropical cyclone catalog of over 115,000 events, and facilitates the use of risk information in other economic sectors.

FINANCIAL ASSETS PROTECTED

Total catastrophic risk insurance coverage of PICs increased 19% for the 2017-18 cyclone season that began on November 1, 2017. PCRIC was able to secure a coverage limit of \$45 million for five participating countries: Cook Islands, Republic of the Marshall Islands, Samoa, Tonga, and Vanuatu.