FURTHERING DISASTER RISK FINANCE IN THE PACIFIC

Increasing financial protection for fourteen Pacific Island Countries

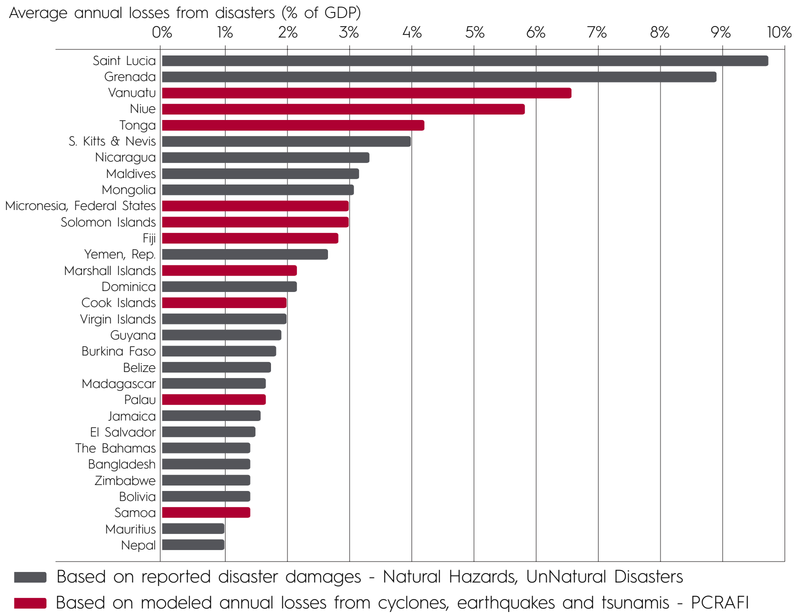
AT A GLANCE

Region East Asia and Pacific

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

Area of Engagement Deepening financial protection

Pacific Island countries are among the most vulnerable in the world



Source: PCRAFI (2014)

Following a successful pilot program, 14 Pacific Island Countries established a sovereign catastrophe risk insurance company for the region, increasing access to the short-term funds needed for response immediately after disasters.

HIGH VULNERABILITY, LIMITED BUDGETS

The Pacific Island Countries (PICs) are among the 30 nations in the world most vulnerable to natural disasters. Subject to tropical cyclones, drought, volcanic eruptions, earthquakes, and tsunamis, the PICs suffer average disaster damages of more than $280 million per year. When disasters strike, governments require rapid-response disaster risk financing instruments that can provide immediate liquidity in order to pay for emergency response and maintain basic public services. However, PICs often cannot easily access short-term debt due to the small size of island economies, which restricts their borrowing capacity and access to financial markets.

Compounding the issue, PICs generally have limited budget reserves. This often forces governments to reallocate public resources away from national development priorities, which 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.

INCREASING LIQUIDITY WHEN DISASTER STRIKES

To increase the region's financial resilience, in 2016, 14 PICs established the Pacific Catastrophe Risk Insurance Company (PCRIC) as the first regional catastrophe insurance platform. PCRIC offers sovereign parametric insurance to cover seismic and climate hazards – including tropical cyclones, earthquakes, and tsunamis – and serves as a rapid-response financing instrument. Its parametric policies are designed to make a payout within 10 days of a triggering event, providing governments with access to immediate liquidity for disaster-related costs. As a risk-pooling mechanism, PCRIC offers cost savings to participating countries, estimated at 50 percent less in premiums than if they had purchased insurance individually.

The result of nearly a decade of regional collaboration, PCRIC grew out of a pilot program – the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) – that was supported by the World Bank/GFDRR Disaster Risk Financing and Insurance Program (DRFIP). Over the next four years, the PCRAFI Program is supporting 14 countries to increase their capacity for disaster risk finance while strengthening the catastrophe risk insurance platform, PCRIC. It provides technical assistance at three levels of engagement — national, regional, and PCRIC — in three areas:

- Market-based instruments. This component supports the creation of new insurance products to expand country participation.
- Public financial management. PCRAFI Phase II will help countries develop national disaster risk financing strategies, which will include post-disaster budget execution, mobilization and reporting, and contingency plans.
- Knowledge management and learning. These activities facilitate technical collaboration between member countries and similar regional risk pools.

LESSONS LEARNED

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

The PCRAFI Program has been discussed and approved by the cabinet in each PIC, garnering 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.

Because an integrated disaster risk financing strategy is developed in advance of a disaster, the process requires finance ministries and national disaster management offices to discuss how budget procedures can be improved to more quickly mobilize funds and execute disaster response. These discussions deepen 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

Contact:
Samantha Cook
scook@worldbank.org

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www.gfdrr.org

RAPID RESPONSE ENABLED

Since its inception, the PCRAFI insurance portfolio has made three payouts for an aggregate amount of $6.7 million, disbursed within 10 days of the respective disasters. After Tropical Cyclone Pam, a PCRAFI payout enabled Vanuatu to provide emergency response, allowing the government to, for instance, mobilize nurses to provinces impacted by the storm.

IMPROVED DATA ON RISKS

As part 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 by 19 percent for the 2017-18 cyclone season. 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.