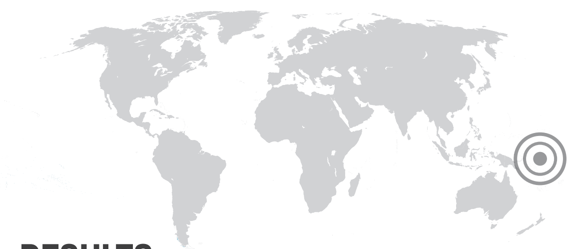
Stories of Impact

A series highlighting achievements in disaster risk management

Strengthening Financial Resilience in the Pacific

REGION: EAST ASIA AND PACIFIC
FOCUS: FINANCIAL PROTECTION
COUNTRY: PACIFIC ISLANDS



RESULTS

- Tonga received more than $1.2 million in early 2014 following Cyclone Ian. It was the first country to benefit from an immediate insurance payment from PCRAFI following a natural disaster.

- Participating PICs have obtained an estimated 50% reduction in premiums under the pilot program's risk pooling mechanism when compared to a country-specific approach. The PCRAFI pilot has demonstrated that the international reinsurance market is not only willing to supply catastrophe risk insurance to the PICs but also to do so at competitive prices.

- Successes and best practices from the PCRAFI pilot have informed discussions for developing a regional disaster risk financing program in the Southwest Indian Ocean.

The Pacific Island region is highly vulnerable to natural disasters and climate-related hazards, costing some countries up to an average of 6.6% of GDP every year. In response to requests from 15 countries, the World Bank and other partners formed the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) in 2007 to help mitigate the fiscal risks associated with natural disasters and climate change.

Under this initiative, the first regional Catastrophe Risk Insurance Pilot (the pilot program) was formed and is significantly helping post-disaster response in the Cook Islands, Marshall Islands, Samoa, Tonga, and Vanuatu. PCRAFI's pilot program is one component of the broader Pacific Disaster Risk Financing and Insurance (DRFI) Program, which is a joint initiative of the World Bank Group, the Secretariat of the Pacific Community, and their partners. It is co-financed by the government of Japan and the African Caribbean Pacific – European Union Natural Disaster Risk Reduction (ACP-EU NDRR) Program, which is managed by the Global Facility for Disaster Reduction and Recovery (GFDRR).

GFDRR
Global Facility for Disaster Reduction and Recovery
WORLD BANK GROUP
ACP-EU Natural Disaster Risk Reduction Program
An initiative of the African, Caribbean and Pacific Group, funded by the European Union and managed by GFDRR

CONTEXT:

The Pacific Island Countries (PICs) are among the top 30 nations in the world most vulnerable to natural disasters. Subject to cyclones and tropical storms, in addition to volcanic eruptions, earthquakes, and tsunamis, the PICs suffer average disaster damages of more than $280 million per year.

When a disaster strikes, governments in these countries often struggle to secure liquidity for swift post-disaster emergency response because they are constrained by their small populations, borrowing capacity, and access to international markets, as well as the size of local economies.

APPROACH:

The pilot program is a risk pooling mechanism that allows participating countries to purchase catastrophe risk insurance coverage as a group at a significantly lower cost than if each country purchased the insurance independently. It was designed

- As the first scheme in the region to use parametric triggers and link specific hazard events, such as wind speed or ground movement, with immediate post-disaster insurance payments;
- As a solution to short-term cash flow problems that small developing economies face following major disasters that disrupt the provision of government services;
- With the World Bank acting as an intermediary between the PICs and a group of reinsurance companies.

NEXT STEPS:

The Pacific DRFI Program is seeking additional funding from donors to enable the participation of additional low-income countries through the provision of premium subsidies and technical assistance.

The World Bank Group is also developing a Pacific Resilience Program which includes a component on disaster risk financing and insurance. This program will further enhance existing disaster risk financing arrangements through the development of a product to complement the pilot program, as well as limited financing support to help pay the insurance premiums of participating PICs.

"The cash received from the catastrophe risk insurance pilot makes an important financial contribution for carrying out the government strategy for mitigating natural disasters. It ensures that response efforts to help the people of Ha'apai recover and return to their normal everyday lives can continue without interruption or delay."

– Hon. Dr. 'Aisake Valu Eke, Minister for Finance and National Planning, Tonga

Photo: A family in Vanuatu, a PCRAFI Beneficiary

LESSONS LEARNED:

There should be ongoing development of new structures to suit the needs of countries and their unique disaster risk financing and insurance requirements. In February 2013, an 8.0 magnitude earthquake and subsequent tsunami hit the Solomon and Santa Cruz Islands. A rapid impact assessment undertaken through PCRAFI confirmed that the level of physical damage caused by the disaster was relatively low, so the islands did not receive a payment transfer. The Solomon Islands decided to depart from participating in the facility last year, which has created an impetus to develop new disaster risk financing and insurance tools to include other levels of risk, such as those from comparatively low levels of physical damage. To help guide this, the Solomon Islands is still involved in the Pacific DRFI program dialogue and is a member of the steering committee which meets annually.

Partnering on programs increase efficiency and effectiveness. This pilot program and the Pacific DRFI Program benefit from PCRAFI's other undertakings, such as its work on catastrophe risk information and disaster rapid impact assessments. These efforts help to refine the models that ultimately benefit applications like the pilot program. In addition, they enhance its credibility and attractiveness to the private sector, which is becoming increasingly critical to ensure resilience in the PICs.

Contact
Olivier Mahul
omahul@worldbank.org

Samantha Cook
scook@worldbank.org

www.gfdrr.org

*ALL MONETARY VALUES IN USD