

ASEAN Disaster Risk Financing and Insurance Forum

A Joint Initiative of ASEAN, World Bank, GFDRR and UNISDR

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Synthesis of Day 2 (9 November 2011)

SESSION 3: PANEL ON FISCAL RISK MANAGEMENT OF NATURAL DISASTERS IN ASEAN MEMBER STATES

Presentation by Olivier: Natural Disaster in ASEAN Countries: Assessment of Economic & Fiscal Impacts and their Management

Presentation Highlights:

- ASEAN is highly exposed to natural disasters – \$6.4 billion in expected losses – which could be much better used if it was managed better. We also see that progress is being made with regards to the HFA, but challenges remain with integrating it effectively into policy, and on the development and tools of DRR (eg. Modeling); with cross-jurisdictional coordination for response; adopting and implementing ex ante DRF mechanisms. Most countries seem to still react rather than plan early – we should discuss why this is. In the end, when we talk about DRF, it must adopt three key principles of disaster financial management: speed, flexibility, and accountability. Regional cooperation is needed to establish the integrated strategy on DRF.
- ASEAN Countries do not seem to have adequate financing arrangements in place to manage efficiently a major natural disaster event:
 - Available evidence suggests that humanitarian relief needs are largely met, but lower income countries regularly struggle to secure adequate, timely funding for early recovery and, in particular, reconstruction
 - Disbursement of available funding can be relatively slow
 - Funding gaps may be felt particularly acutely at a local level
 - Post disaster response spending is not systematically tracked in any country, hindering efforts to manage available funding effectively, to identify gaps, and to ensure strong accountability (goes back to fiscal risk assessment)
 - BUT some ASEAN countries are working on an integrated disaster risk financing strategy

Highlights from Reactors

- Incentives is key - a section added on the report on how incentives are done would be useful.
- The needs of cities are particularly important in ASEAN, and looking at their particular needs will be important. The different risk layering tools, risk pooling that can happen both at national but also at the city level can also be explored.
- Without DRR measures, efforts in DRF is unsustainable in long term
- Donor assistance may be an option, but it is not guaranteed and usually comes in kind, so does not give you the liquidity needed for a range of responses. So we can see that only responding to disasters (ex-post) is not the best way to go. Must look at ex-ante strategies.
- Government s need access to quick cash and insurance solutions can provide that often within 2 to 4 weeks after the disaster event
- Look at innovative DRF solutions as developed by American Development Bank, which combined and integrated risk reduction components, risk transfer and contingent credit.
- Sovereign solutions can be fast-tracked, in 6-12 months solutions can be defined for a sovereign disaster risk insurance scheme. Fonden is an example for starting early into DRF and improving their schemes over time.

Main Discussion Highlights

- Some countries have budget constraints
- Analysis on the link of DRF and poverty is requested
- Cambodia requested to see a clear model for pooling, need to examine cases or experiences from other countries
- Request for the report to highlight good practices in ex-ante approaches, emphasizing why ex-ante is the best approach
- There is still problem in policy which does not allow the flexibility to allot disaster funds to insurance payments; admin and legal challenges on administering funds. Regulation needs to be changed.
- Capacity building and awareness raising on DRF is still needed among ASEAN member states
- Re premiums that are affordable: clarity and accountability about what you're insuring. If you are insuring for a 5 year event it'll be more expensive than the 20 or 50 year events, so you can discuss these options.

SESSION 4: PANEL ON FISCAL RISK MANAGEMENT OF NATURAL DISASTERS IN ASEAN MEMBER STATES

Presentation by Dr. Pane Stojanovski: Findings of World Bank report, including: Property catastrophe risk insurance markets; agriculture insurance; and disaster microinsurance

Presentation Highlights:

- ASEAN assets and livelihoods are largely uninsured for disasters. Property catastrophe risk insurance markets in ASEAN countries are characterized by low penetration. In general, wealth and insurance penetration correlate such that the lower the gross national income per capita, the lower the non-life insurance penetration.

- The purchase of property catastrophe risk insurance is not mandated by law, but low voluntary demand is bolstered by insurance requirements from lending institutions.
- Agriculture, a major sector in most ASEAN countries, is highly exposed to catastrophe perils, is in very early stages of development in most ASEAN Countries, and has little penetration.
- Governments are now promoting Public-Private Partnerships (PPP)
- Disaster microinsurance is as of yet undeveloped in ASEAN Countries except for the Philippines and Indonesia; Community-based organizations and public-private partnerships play an important role in developing microinsurance in ASEAN Countries

Highlights from Reactors

- Issue of penetration - private sector operating purely on market mechanism, problem of price declining already posed a problem in Indonesia that companies already started to decline covering property because of price decline. Price decline is a problem. Element of compulsion is needed.
- Risk Measurement problem – we rely on CAT model. We can only do reactive risk measurements, but not proactive which is needed.
- ASEAN – availability and quality of data is a problem which could delay CAT modeling. CAT modeling is importance which has to be based on standardized data so the regulators and govt has to agree to standardize data collection.
- CAT modeling is a new science and involves 3 main actors: private vendors, reinsurers, reinsurance vendors. It makes sense that the Cat models will be made for larger counties where we may be more likely to find business – such as Indonesia. So there is fragmentation in modeling which the governments can get involved in; developers, cat modelers, brokers and governments can work together to improve the coverage
- Unity in mindset and political will to support DRF is required
- Agricultural insurance success has been recorded because of government subsidy. Industry practitioners and govt can help make AI more attractive

Main Discussion Highlights

- Agricultural Insurance is one of the measures adopted for food security.
- Agricultural Insurance for farmers is sometimes the same as Microinsurance. CAT insurance can be bundled together with these and must be designed from inception from all aspects – aspect of sustainability, aspect of proper risk computation, aspect of reducing operational costs. Example, Pilippines was able to formulate a weather index product – low premium low face amount policy. The farmer has the option to take up to 3 units so in time of loss he has more payout. They also designed an insurance policy combining livelihood (against loans taken for livelihood), accidental death, fire insurance – these are for low income group.
- The attraction of Public-Private partnerships - public sector don't have the capital which can be provided by the private sector, who in turn are able to enter new markets due to public sector involvement.
- How to increase the risk perception of the market? Need to consider to increase the perception of risk to increase the demand of insurance on an individual or community basis.

Presentation by Olivier Mahul:

Options for consideration from World Bank ASEAN DRFI Report

Summary of Options for Consideration

This is just a framework guide to help ASEAN Member States start their DRF strategy. We should see regional cooperation as a means and basis to strengthen each other's national strategy.

1. Develop risk information and modeling systems to assess the economic and fiscal impact of natural disasters
2. Develop disaster risk financing and insurance strategies at the national and sub-national levels
3. Establish national and sub-national disaster funds
4. Promote private catastrophe risk insurance markets
5. Strengthen regional cooperation on disaster risk financing and insurance

Main Discussion Highlights

- All countries generally agreed on the recommendations, and would like to go back to home country governments to propose the options to see what can be done; or revisit policies or laws to include DRF. There seems to be a consensus among these recommendations but it needs contextualization based on country's needs.
- There is no "one size fits all" strategy for the region
- Indonesia emphasized the development of DRM first at national and subnational level before engaging in DRF
- Regular meetings in ASEAN must be conducted to see whether regional cooperation in DRF can continue and must be done within the ASEAN decision making mechanism or process (such as ACDM)
- Lao PDR needs more detailed risk assessment at the national level
- Prioritize Agriculture Insurance
- Consider looking at regional risks or transboundary risks
- Some of the options are already being done at national level by some countries although in early stages
- Cost benefit has to be considered on a country by country basis and DRF needs to be included in the fiscal management framework.
- There seems to be a consensus among these recommendations but it needs contextualization based on country's needs

SESSION 5: Microfinance

Presentation by Eric Duflos: Microfinance

Presentation Highlights

- Definitions of microfinance, challenges and opportunities
- Microfinance = cost effective financial services to the poor
- Financial inclusion is a state in which all working age adults, including those currently excluded or underserved by the financial system have effective access to the following financial services provided by formal institutions: credit, savings, payments and transfers, and insurance. Financial inclusion goes beyond microfinance and includes SME financing.
- Innovative systems such as branchless banking (non traditional transactions)
- Governments play a significant roles in financial inclusion in the region both at the policy and retail levels (e.g. Vietnam, Lao PDR, Thailand, Malaysia, Indonesia)
- How can MFIs help clients ability to withstand and recover from disasters?
 - Savings is the most useful financial service to prepare for disasters – providing savings services is therefore key (but requires regulation and supervision)
 - Remittances can also play a key role in preparing clients – especially if tide with savings accounts – and once crisis happens (e.g. Haiti)
 - Housing improvement loans can also help clients be better prepared

Discussion Highlights

- For developing country, MF is important, MF is more critical. In the Cambodia experience MFIs are working largely with development. The poor are really the ones who need the most support and services, and we see that MFIs are the institutions that do this.
- MF could be a good financial mechanism to help poor people get back on their feet after a disaster. And I think this should be encouraged, and it's good to hear that there has been encouraging success cases in other ASEAN countries.
- However, it was also commented that microfinance organizations may not be a good response to natural disasters. Particularly for the poor – they are vulnerable ad we need to support them rather than giving them loans to pay back.
- In other region there are a lot of developments going in MF
- With support of APG we might be able to link INGOs experienced in MF to help link MF to DRR
- For MFI – when disaster strikes, MFI is also affected, MFI also need to survive, be sustainable and maintain the service so MFI should be able to stake stock the risk profile where they operate to make plans so that they can protect their servies and clients. Taking stock by learning from DRR, contingency planning from MFI is very important