

FINANCIAL MANAGEMENT OF LARGE-SCALE CATASTROPHES IN THE PHILIPPINES

Financial management of large scale catastrophes is the concern primarily by the public sector and secondarily by the private sector of society. The public sector is represented by the national as well as local government units whereas the private sector can be represented by various organizations or industries including but not limited to insurance.

I. NATIONAL / LOCAL GOVERNMENT UNITS / NDCC

There is an established coordinating agency called the National Disaster Coordinating Council (NDCC) headed/chaired by the Secretary of National Defense with the heads of 18 departments/agencies as Members.

It is through the NDCC member-agencies that disaster preparedness, prevention, mitigation and response carry out its corresponding tasks and responsibilities under the NDCC system.

The members of the Council are the following:

- Secretary, DND Chairman
- Presidential Executive Secretary Member
- Secretary, DILG Member
- Secretary, DBM Member
- Secretary, DPWH Member
- Secretary, DOJ Member
- Secretary, DOTC Member
- Secretary, DOH Member
- Secretary, DSWD Member
- Secretary, DA Member
- Secretary, DepEd Member
- Secretary, DOF Member
- Secretary, DOLE Member
- Secretary, DTI Member
- Secretary, DENR Member
- Chief of Staff, AFP Member
- Secretary-General, PNRC Member
- Director, PIA Member
- Administrator, OCD Member & Executive Officer

▶ **NDCC Functions**

At the national level, the NDCC serves as the President's adviser on disaster preparedness programs, disaster operations and rehabilitation efforts undertaken by the government and the private sector. It acts as the top coordinator of all disaster management and the highest allocator of resources in the country to support the efforts of the lower DCC level. In the Discharge of its functions, the NDCC utilizes the facilities and services of the Office of Civil Defense as its operating arm.

▶ **Tasks of NDCC Chairman and Member-Agencies**

The Chairman and members of the Council have the following tasks, namely:

- a) Chairman – Convenes the Council as often as necessary and calls on all other departments/bureaus/agencies, other instrumentalities of the government and the private sector for assistance when the need arises.
- b) Administrator, Office of the Civil Defense – Coordinates the activities, functions of the various agencies and instrumentalities of the government, private institutions and civic organizations to implement the policies and programs of the NDCC; disseminates materials relative to disaster prevention, control and mitigation; advises the Chairman on matters concerning disaster management.
- c) Secretary of Interior and Local Government – Oversees the organization of DCCs, the establishment of Disaster Operations Center of all local governments, and the training of DCC members in coordination with OCD, DSWD, PNRC, and other appropriate agencies.
- d) Secretary of Social Welfare and Development – Extends relief assistance and social services to the victims as necessary.
- e) Secretary of Health – Provides health services during emergencies as necessary, and organizes reaction teams in hospitals, clinics and sanitary and other health institutions.
- f) Director-General, NEDA – Responsible for the determination and analysis of the effects of disasters and calamities on the socio-economic plans and programs of the country, and development of damage assessment scheme.
- g) Secretary of Labor and Employment – Provides emergency employment opportunities to disaster victims, implements the industrial civil defense programs and measures, and organizes and trains Disaster Control Groups in all factories and industrial complexes.
- h) Secretary of Education, Culture and Sports – Provides assistance in the public education and campaign regarding disaster preparedness, prevention and mitigation, makes available school buildings as evacuation centers, and organizes and trains disaster control groups and reaction teams in all schools and institutions of learning.
- i) Secretary of Trade and Industry – Maintains normal level of prices of commodities during emergencies, and organizes Disaster Control Groups and Reaction Teams in large buildings used for commercial and recreational purposes, maintains normal level of prices of commodities during emergencies.
- j) Secretary of Agriculture – Undertakes surveys in disaster areas to determine the extent of damage of agricultural crops, livestock and fisheries and renders technical assistance to disaster victims whose crops or livestock have been destroyed.
- k) Secretary of Budget and Management – Releases funds required by the departments for disaster operations.

- l) Secretary of Environment and Natural Resources – Responsible for reforestation and control of areas which tends to cause flooding, landslides, mudflow and ground subsidence, provide seeds, seedlings and saplings and technical assistance regarding mines, forests and lands, formulates rules and regulations of the control of water and land pollution.
- m) Secretary of Finance – Issues rules and regulations with the relevant agencies concerned for the funding by local government of the requirements for organizing, equipping, and training of their disaster coordinating councils and reaction teams.
- n) Secretary of Public Works and Highways – Restores destroyed public structures such as flood control, waterworks, roads, bridges, and other vertical and horizontal facilities/ structures and provides heavy and light equipment for relief, rescue and recovery operations.
- o) Secretary of Tourism – Organizes and trains disaster control groups and reaction teams in hotels, pension house, restaurants and other tourist-oriented facilities
- p) Secretary of Transportation and Communications – Restores destroyed communication and transportation facilities such as railroads and vertical structures, and organizes emergency transport services from the national down to the barangay level; and restores destroyed communication and transportation facilities such as railroads and vertical structures.
- q) Director, Philippine Information Agency – Provides public information service through dissemination of disaster mitigation measures.
- r) Secretary-General, Philippine National Red Cross – Conducts disaster leadership training courses, assists in the training of DCCs at all levels; and assists in providing emergency relief assistance to disaster victims.
- s) Chief of Staff, Armed Forces of the Philippines – Responsible for the provision of security in disaster area and provision of assistance in the reconstruction of roads, bridges and other structures and transportation facilities for rapid movement of relief supplies and personnel and for the evacuation of disaster victims.

► Calamity Fund

Joint Memorandum Circular 2003-2 of the Departments of a) Budget and Management and b) the Interior and Local Government was issued on July 24, 2003 on the use of Calamity Fund. Quoted hereunder is the full text of said Circular, to wit:

Pursuant to the provisions of RA 8185, otherwise known as “An Act Amending Section 324 (d) of RA 7160, otherwise known as the Local Government Code of 1991.” Its implementing Rules and Regulations, and Executive Order No. 201 dated 26 April 2003, it is hereby clarified that the 5% local calamity fund of every local government unit (LGU) shall utilized only for the relief, reconstruction, rehabilitation and other works and services, in connection with the calamity which occurred during the budget year. Under the aforesaid Act, calamity has been defined as a state of extreme distress or great misfortune caused by adverse event or natural force, causing widespread loss or extensive damage to livestock lives, crops and properties. Accordingly, any adverse event, such as but not limited to acts of terrorism and spread of Severe Acute Respiratory Syndrome (SARS) or other endemics, that could fall within the ambit of the definition of calamity defined by law, can be a legal basis for LGUs concerned to declare their own state of calamity.

The calamity fund may also be utilized for undertaking disaster preparedness activities and measures provided that the Sanggunian concerned shall be declare an imminent danger of calamity. In extreme cases and under extraordinary circumstances, such as but not limited to acts of terrorism and outbreak of dangerous and highly communicable diseases, such as SARS, the calamity fund may also be utilized for disaster preparedness without need of Sanggunian declaration of calamity provided that there is a Presidential proclamation of the existence of an adverse event that would warrant the declaration of the entire country to be under the state of national calamity, which needs to be prevented and suppressed.

II. INSURANCE INDUSTRY

▶ Loss Reserve and Premium rates

The insurance Commission mandated the insurance industry through the letter dated Oct. 15, 1996 addressed to the then President of the Insurance and Surety Association of the Philippines to set up catastrophe loss reserve for “allied perils” (AP) risks accepted by the insurance company based on net retained premiums as reported in the Annual Statement. XXX the reserves shall be invested in acceptable securities enumerated under Section 200 of the Insurance Code XX.” In year 2005, said catastrophe loss reserve account of the private insurance industry amounts to P276,726,660.00. On April 25, 2000, Circular Letter No. 5-2000 was issued requiring a minimum rate of 0.100% on earthquake (EQ), insurance for all structures. On December 26, 2002, the Insurance Commission approved the request of the industry setting the minimum rates of 0.15% for EQ and 0.05% for typhoon (TYP) and Flood (FLD). To date the minimum rates for EQ is back at 0.100% while TYP/FLD remains at 0.05%

▶ Role of the Philippine Government in Developing a National Catastrophe Insurance Scheme

Catastrophe means a great disaster or misfortune which resulted to severe damaged to properties and loss of lives. From technical point of view of insurance it is seen much better as an amount of money be paid to a large or enormous loss due to an occurrence of an event to which a very large number of insureds are subject at the same time.

Catastrophe can be classified into two (2) man-made disasters and natural catastrophe.

Man-made disasters are catastrophic events associated with human activities such as big fires or conflagrations, disasters in aviation, shipping, railroads and even terrorism.

Generally speaking, insurance coverages for industries were since been available and I'm sure they were already covered/secured by respective insurance policies. There

might be some technical problems when claim occurs but still have been resolved eventually.

Terrorism on the otherhand, was one of the policy exemptions in every lines of business but since the “Sept. 11 attack” in USA, many assureds have bought back the coverage.

Natural catastrophe means a disaster caused by natural forces such as floods, typhoons, earthquakes, and other forces of nature. However, the scale of losses depends not only on the magnitude and severity of the natural perils concerned but also on man-made factors such as building design and construction or the efficiency of disaster control in the afflicted location. The time, location and damage it will cause remains unpredictable despite of the major technical and scientific inventions which were developed through the years.

Almost every year our country was visited by the natural forces although they do not always resulted to a catastrophic event or even loss is nil as far as insurance is concerned.

Floods play a significant role in natural catastrophic statistics in our country, not only for its frequency, the damages it has caused to properties but also for the lives lost during the event. Although most floods could be attributed to typhoons which were not usually destructive but resulted to big floods.

After a catastrophic event, and insurance company exposed to the affected zone is very much concerned with the wideness of the coverage and usually even the company suffered financially.

It is in regard that Catastrophe Loss Reserve (CLR) was introduced to the non-life insurance industry in 1996. It is a special reserve fund taken from the retained premium of EQ and AP lines. As of December 31, 2002, the accumulated CLR for the non-life industry amounted to about P150 million. Developing and introducing comprehensive catastrophe insurance cover is a challenge. The only way of factoring in the interest and options open to all those concerned is by creating a carefully balanced private-public partnership. The insurance industry can make its own contribution and at reasonably priced premium towards marshalling the financial burden presented by these events. However, this is possible only as long as the conditions for insurability are in place. It falls within the remit of the government to create such conditions that allow the industry to offer comprehensive insurance protection. This includes the exclusion of risk zones in town planning, the introduction of construction regulations that reduce the risk to which properties are exposed in endangered areas, the erection of flood barriers and detention areas, if necessary.

The government may also play an important role in enforcing compulsory insurance coverages of catastrophic exposures like the city ordinances passed by the cities of Makati, Quezon City, Manila and others wherein the Comprehensive General Liability Insurance (CGL) for business establishments were compulsory enforced.

It is sad to note however, that victims of some of these catastrophic events were those that cannot afford to buy insurance and some are those who are willing to buy an insurance cover but were denied because of their insurability.

