Sponsored by the Government of Japan

OECD-ADBI SEMINAR ON DISASTER RISK FINANCING IN ASIA

24 June 2016 Tokyo, Japan

SUMMARY RECORD

The Seminar on Disaster Risk Financing in Asia was organised jointly by the Asian Development Bank Institute (ADBI) and the OECD.

Opening Remarks

The seminar was formally opened by Naoyuki Yoshino (Dean, ADBI), Noriyuki Mita (Deputy Vice Minister for International Affairs, Ministry of Finance, Japan) and Rintaro Tamaki (Deputy Secretary General of the OECD). The speakers opened the seminar by reminding participants of the particular vulnerability of Asian countries to natural disaster risks, given high-levels of urban growth in high-risk areas and the potential implications of climate change for Asian countries, and the implications of this exposure for public finances. DSG Tamaki also highlighted the importance that policymakers have placed in this work and the OECD's contributions on this issue for G20 and APEC Finance Ministers. Mr. Mita outlined the key components of a disaster risk financing strategy, including the need to promote resilient infrastructure, encourage the development of financial markets to provide financial protection and provide an enabling environment for insurance coverage, including by promoting risk awareness.

Session 1: Designing a disaster risk financing strategy

The first session was aimed at sharing the experience of a number of countries and organisations that have developed innovative approaches to addressing some of the elements of an effective disaster risk financing. The OECD moderator introduced the draft Recommendation on Disaster Risk Financing Strategies, including the components of an effective disaster risk financing strategy. AIR Worldwide provided an introduction to catastrophe modelling, the data needs for the development of catastrophe models and the potential uses of such models for managing financial impacts, underwriting insurance coverage and assessing the relative costs and benefits of investments in risk reduction. Mission risques naturels provided an overview of the partnership established between French insurers and the government for sharing data on losses – as a means to support better planning and prevention – through the National Observatory for Natural Hazards (ONRN) and the potential replicability of this approach in other countries. Europa Reinsurance Facility shared its experience in supporting insurance for natural disasters in South East Europe by developing products for distribution by local direct insurers and reinsurance capacity to support the underwriting of disaster risks. The World Bank provided an overview of its experience in supporting countries' efforts to manage the impact of disasters on public finances including advice on how countries could structure their post-disaster financing needs and some financial solutions that could be accessed to meet funding requirements.

The discussion focused on the catalytic role that public institutions, such as the World Bank, could play in enabling private sector disaster coverage (without distorting the market) and the potential pool of investors in capital market risk transfer instruments, including the contribution that such instruments could make to building a diversified portfolio.

Session 2: Country case studies – the development of disaster risk financing strategies

The second session provided an overview of the approaches to disaster risk financing in two countries with very different levels of financial capacity and insurance market development – Japan and Viet Nam. Japan takes a holistic approach to disaster risk financing, considering the potential contributions of investments in prevention, preparedness, response and reconstruction. Japan makes significant investments in prevention and preparedness, which reduces the eventual cost of disasters when they occur, and in creating an enabling environment for insurance coverage of disaster risks (building awareness, modelling exposure, etc.). Viet Nam is significantly exposed to floods and storms, particularly in the context of a changing climate, which has led to important economic losses from past events. A key focus of Viet Nam's approach to managing the financial impacts of disasters is quantifying the value and exposure of public assets to disaster risks and defining a framework for managing those risks.

Two speakers from the reinsurance sector responded to the presentations by providing suggestions on how the insurance sector could contribute to improving the financial management of disaster risks. Allianz Reinsurance outlined some of the challenges to broader insurance coverage in the region, including a lack of data for models (particularly for flood risk), limited risk awareness and regulatory frameworks that limit the transfer of risks to international reinsurance markets. Swiss Re outlined ways in which insurance companies could work with development banks to provide advice and financial products to countries for managing the impact of disasters on public finances, including some potential ways to improve this cooperation (e.g. supporting government analysis of costs and benefits of different approaches to financial management, integrating insurance into infrastructure lending, developing pilot risk transfer schemes at the sub-national level).

The discussion focused on ways in which the insurance sector could re-design products to meet the needs (and financial limitations) of customers in developing countries, some innovative approaches to reducing the cost of insurance and some considerations for insurance companies entering new markets. **Session 3:**

Managing public asset exposure

The third session examined the specific challenge of managing public asset exposure. The cost of reconstructing public assets can account for a significant share of post-disaster public costs while disruptions to the critical services provided through public assets can have important economic implications. The OECD provided some examples of the costs of reconstruction of public assets, the potential economic impact of disruptions to critical infrastructure such as transport systems, water supply and power distribution as well as examples of how countries manage these exposures (including by efforts to minimise disruption). A representative of the Indonesia Ministry of Finance provided an overview of the risks to public finances that result from public asset exposures and the approach to funding reconstruction requirements. The Government is developing a regulatory framework for insuring government property where that property is exposed to disaster risk and/or where disruption would have an important impact on the delivery of public services. Swiss Re outlined some of the options that governments can access for protecting against the financial impacts of disasters and the benefits of financial protection tools in terms of providing a quick and certain source of funding to manage disaster costs. An overview of a number of examples of risk transfer mechanisms for public exposures were provided, including Mexico's MultiCat catastrophe bonds, the Caribbean Catastrophe Risk Insurance Facility and the Pacific Catastrophe Risk

Assessment and Financing Initiative. One participant noted the key contribution that insurance can make to building resilient infrastructure by allowing claims payments for “building back better”.

Session 4: The special case of flood risk

The fourth session examined the specific case of flood risk. Munich Re provided an overview of the trends in flood losses, the drivers of flood risk (including the potential implications of climate change), the different types of flooding and impacts as well as some of the challenges to the availability and take-up of flood insurance. A representative from the UN-World Bank High-Level Panel on Water (and former official at the Japanese College of Land, Infrastructure, Transport and Tourism) provided an overview of Japan’s extensive approach to flood prevention and preparedness as well as some of the challenges in maintaining sufficient levels of investment in risk reduction, such as maintaining awareness of flood risk in the context of high-levels of flood protection. A representative from Chennai City Connect provided an overview of the main drivers and causes of extensive flash flooding in December 2015 in Chennai and suggested potential ways to prevent damage from similar events in the future, including improvements to drainage infrastructure, land-use controls and solid waste management. The discussion focused on the particular challenges of ensuring coordination between different agencies involved in disaster risk management and the weaknesses in government implementation of land-use controls and building standards.

Closing Remarks

The seminar was formally closed by Rintaro Tamaki (Deputy Secretary General of the OECD) and Bokhwan Yu (Deputy Dean, ADBI). DSG Tamaki emphasised the OECD’s plans to complete work on the financial management of earthquake risk and also to develop implementation guidance to support country’s efforts to implement the elements of the OECD’s draft Recommendation on Disaster Risk Financing Strategies.