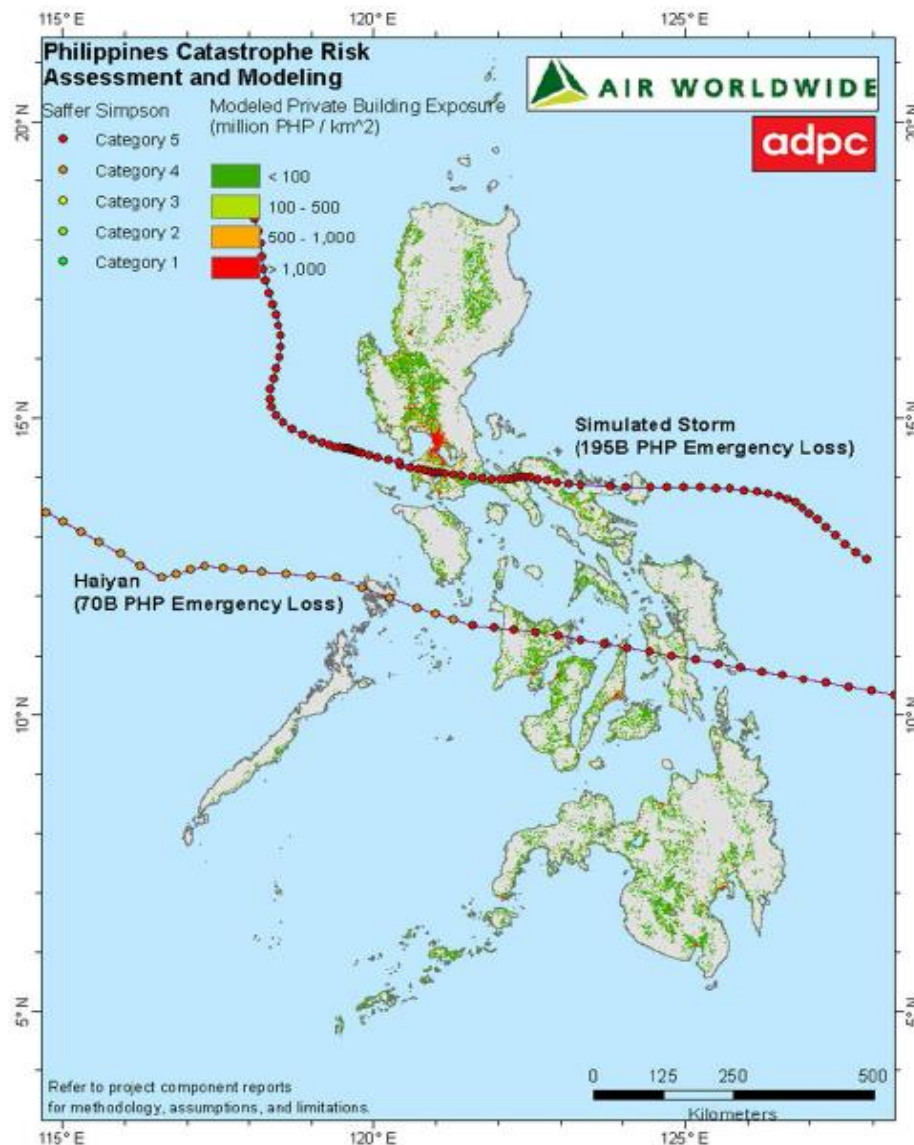


Developing a Disaster Risk Finance and Insurance Strategy for the Philippines



Haiyan-type event: a new normal?



- Typhoon Yolanda (Haiyan) in 2013 claimed 6,201 lives, **caused PHP571 billion in damage and loss**. This hampered economic growth by about 0.9 percentage points in 2013, and another 0.3 percentage points in 2014
- Losses equal to those associated with Typhoon Yolanda (Haiyan) are estimated to occur with a 3% annual probability.
- Catastrophe risk modeling shows that much worse storms are possible
- A Yolanda-like storm closer to Metro Manila could cause losses 2.5 times higher
- Government has taken pro-active approach to financial protection in face of disasters

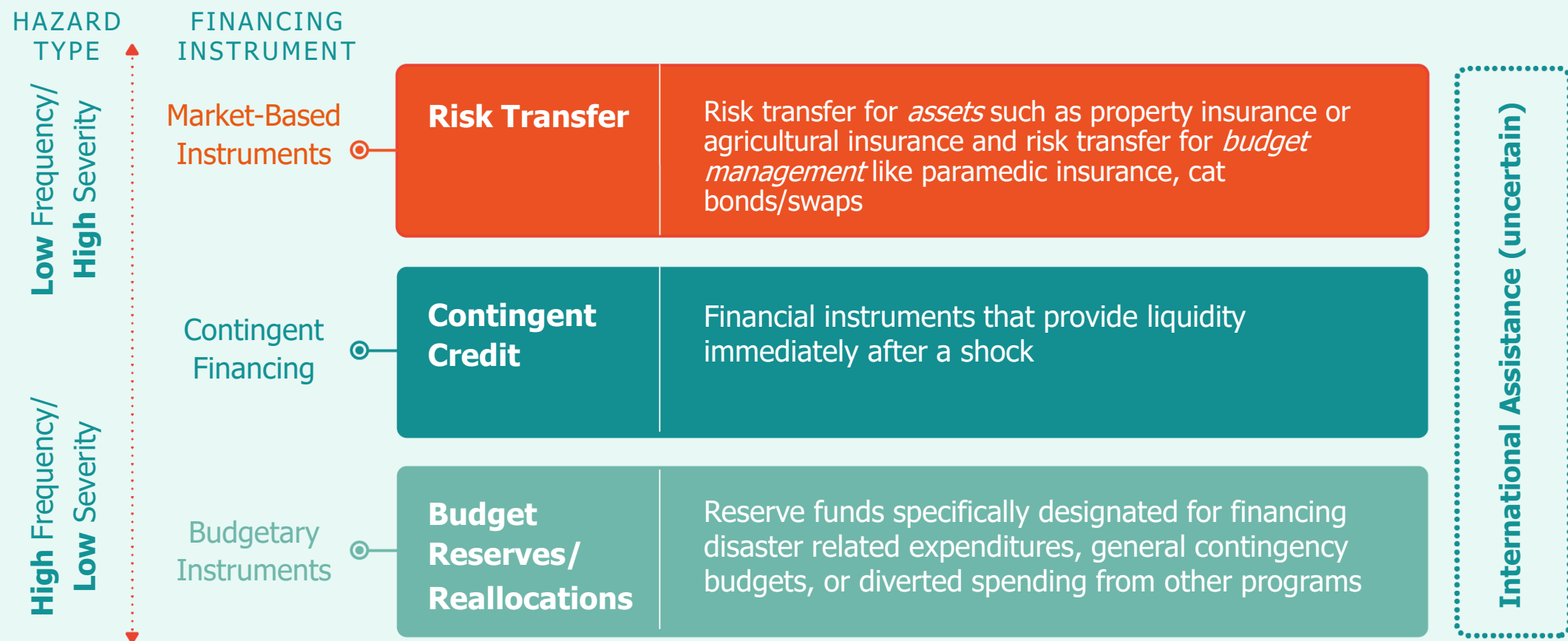
Philippines Catastrophe Risk Model: Assessing Future Potential Financial Losses from Natural Disasters

- Catastrophe risk model can provide long-term *Average Annual Loss for the Philippines*
 - On average, Philippines expected to incur 177 billion PHP per year in losses to public and private sector assets due to typhoons and earthquakes
- Losses can be much higher than annual average losses
 - There is a 10% annual probability that losses can exceed 377.8 billion PHP; 3.3% annual probability losses can exceed 794.8 billion PHP; and 1% annual probability losses can exceed 1.73 trillion PHP



Disaster Risk Layering

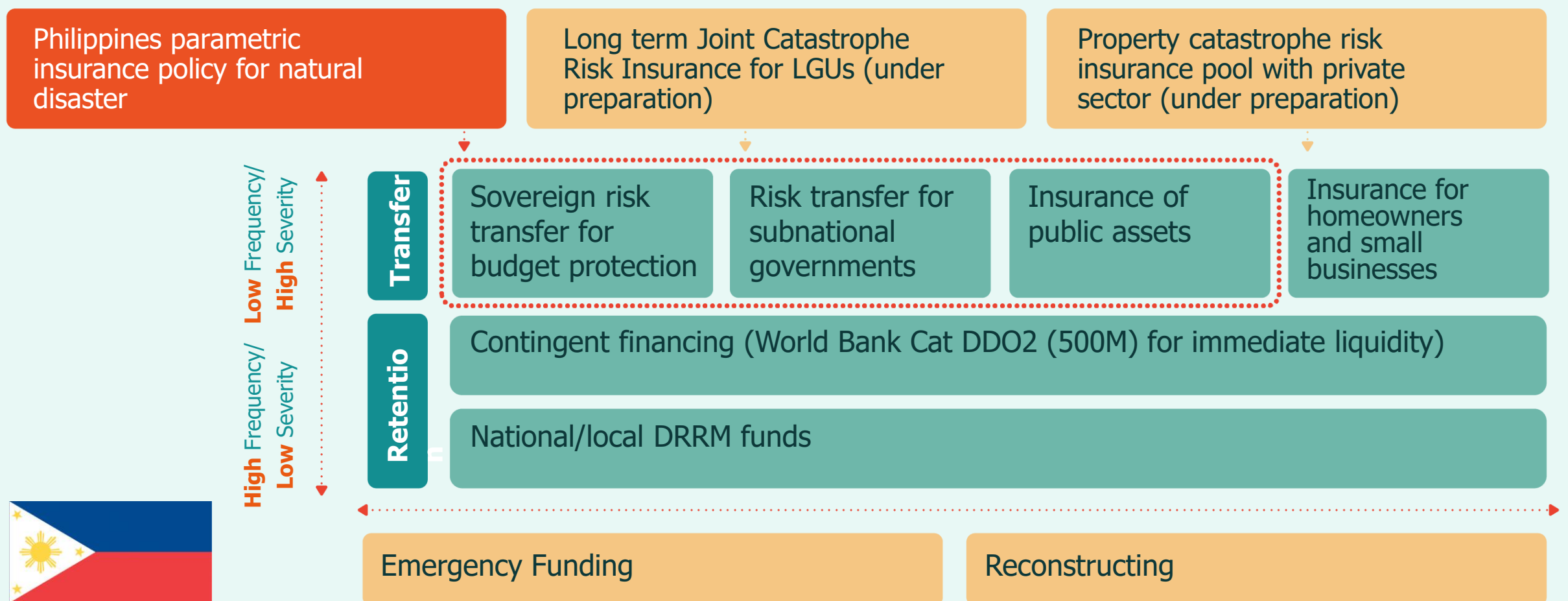
- No single Financial instrument can address all risks



THREE-TIERED RISK LAYERING STRATEGY FOR GOVERNMENT

Disaster Risk Layering

In practice, disaster risk layering in the Philippines



PHILIPPINES DRFI STRATEGY

- ❑ Simulations show that the Philippines face estimated losses of PhP177 billion (US\$3.6bn) or 1.3 percent of GDP in public and private asset losses every year.
- ❑ The Department of Finance of the Philippines has elaborated a national Financial Protection Strategy to enhance the resilience to disaster and climate risks.
- ❑ This strategy identifies priority actions at the national, local and individual levels.
- ❑ This builds on a country-specific catastrophe risk model carried out by the Department of Finance with support by the World Bank and the Global Facility for Disaster Reduction and Recovery over the last three years.



PHILIPPINES DRFI STRATEGY

DEVELOPMENT OBJECTIVES

- ✓ maintain sound fiscal health
- ✓ develop sustainable financing mechanisms
- ✓ reduce the impact on the poorest and most vulnerable; shield the near-poor

STRATEGIC PRIORITIES

National Level: Improve the financing of post-disaster emergency response, recovery, and reconstruction needs

Local Level: Provide local governments with funds for post disaster recovery and reconstruction efforts

Individual Level: Empower poor and vulnerable households and owners of small and medium-sized enterprises to quickly restore their livelihoods after a disaster

RATIONALE AND LEGAL CONTEXT

- **NEW NORMAL:** Protecting the Government's fiscal capacity across all possible disasters requires new instruments and policies
- Outcome 5 of National Disaster Risk Reduction and Management Plan 2011-2028
- Consistent with the ASEAN Agreement on Disaster Management and Emergency Response, and the ASEAN DRFI Roadmap
- Can feed into the DRFI initiative under APEC Cebu Action Plan
- Commitment under Second Disaster Risk Management Development Policy Loan with a Catastrophe-Deferred Drawdown Option

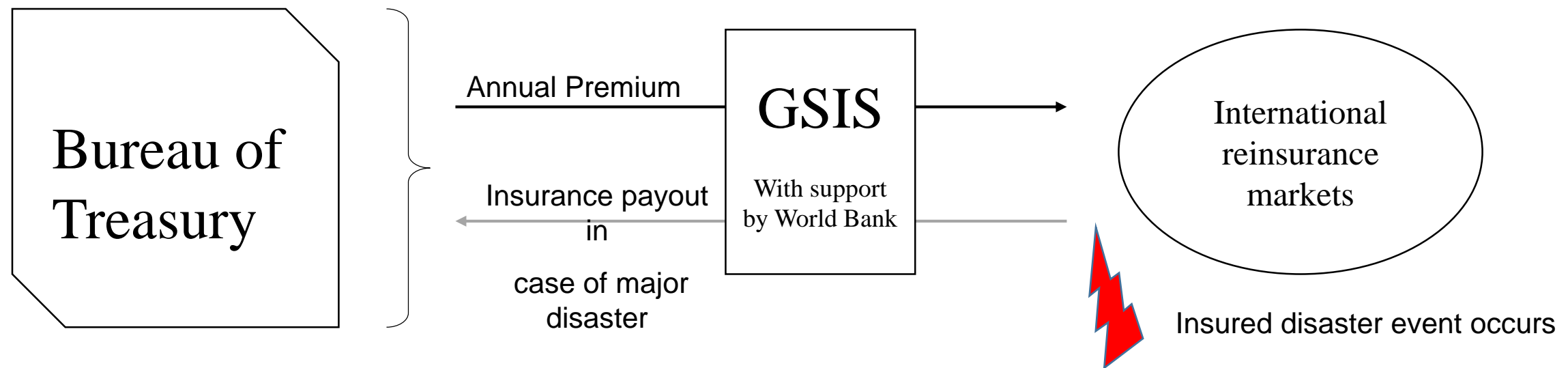
Key Milestones in Developing the DRFI Strategy

- CAT-DDO1 in 2011 – Formulation of DRFI Strategy
 - Development of Catastrophe Risk Model for DOF
 - Stocktake Report on DRFI
 - Development of Philippines DRFI Strategy
- CAT-DDO2 in 2015 – Implementation of DRFI Strategy
 - Pilot transaction in parametric insurance/risk pooling at national and provincial levels
 - Improving insurance of government assets
 - Developing DRFI mechanisms for private sector and low-income families
 - Improving risk information



Parametric Insurance Pilot

- **Bureau of Treasury secured a parametric insurance policy** on behalf of select agencies and provinces with GSIS
- Risk aggregated into one single, diversified portfolio and 100% transferred by GSIS to **international reinsurers** with support of **World Bank**.
- Perils covered are typhoon and earthquake



Next Steps in Strengthening DRFI Management

- Continued implementation of DRFI Strategy to improve management of contingent liabilities due to natural disasters
 - Establish catastrophe risk financing facilities for national and local levels of government
 - Establish private sector catastrophe insurance pool
 - Strengthen DRFI management for other sectors at the individual level
 - Institutionalize emergency cash transfer mechanism during disasters
 - Strengthen DRFI mechanisms for farmers
 - Further develop microfinance/micro-insurance programs
- Strengthen DRFI management in the law
- Periodic review and update of the DRFI Strategy



Thank you!

Disaster Risk Financing
& Insurance Program



GFDRR

