The Philippines' Disaster Risk Financing and Insurance Strategy

Category: Opinion 28 February 2018
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It is estimated that the country experiences a total of US$ 3.5 billion in damages yearly due to typhoons and earthquakes. Around 20 typhoons make landfall in the Philippines every year. The financial cost of these natural disasters is simply astounding. In addressing the issue of disaster risk financing, insurance for government properties is recognized as one of the critical components. This insurance program for government has been described as the "last line of defense against severe natural disasters." There are, however, other financial protection schemes put in place by which the Philippine government can address such calamitous occurrences. These would include the Development Policy Loan with a Catastrophe-Deferred Drawdown Option (CAT-DDO 2) which provides US$ 500 million of standby financing. There is also the Disaster Risk Reduction and Management Fund under the general appropriation law. All of these falls squarely under a general plan called the National Disaster Risk Reduction and Management (NDRRM) Plan 2011-2028.

Parametric Insurance Policy

In July 28, 2017, the Philippines launched a parametric catastrophe risk insurance program (also called "Parametric Insurance Policy" and "climate insurance") for government properties with the collaboration of the Department of Finance (DOF), the Government Service Insurance System (GSIS), the World Bank, and the U.K. Department for International Development. This program is pioneering and is the first of its kind for the country. Other government agencies also had vital roles in the formulation of the program. These include the Department of Budget and Management, National Economic Development Authority (NEDA), Office of Civil Defense, the Department of the Interior and Local Government, Commission on Audit, and the Bureau of Treasury. The insurance coverage is good for one year starting July 28, 2017.

Under this program, the GSIS, as the insurer, will provide catastrophe risk insurance coverage for the national government, with priority for those agencies involved in disaster risk management, and 25 selected and disaster-prone provinces. While principally a state pension fund, the GSIS is also mandated to insure government properties, assets, and other interests under Republic Act No. 656 (Property Insurance Law).

The premium for the program was allocated under the National Disaster Risk Reduction and Management (DRRM) Fund of the 2017 General Appropriations Act (R.A. No. 10924) in the amount of Php 1 billion (US$ 19.5 million), inclusive of cost for documentary stamp tax. Premiums have two categories, disaster-specific and province-specific. For disaster-specific premiums, Php 500 million of the fund will be allocated 79.2 percent (Php 396.1 million) for typhoons and 20.8 percent (Php 103.9 million) for earthquakes. The other Php 500 million will be province-specific and split equally among the 25 provinces at Php 20 million each.

In turn, the World Bank, through the International Bank for Reconstruction and Development (IBRD), will act as the intermediary to transfer or cede GSIS's risks to selected international reinsurers. In other words, it will transfer the local risks outside the country or to the global reinsurance market. This is the first time that the World Bank will act as an intermediary for a reinsurance contract. The reinsurers were selected through competitive bidding. These reinsurers are: Nephila, Swiss Re, Munich Re (through New Re), AXA, and Hannover Re. The risk modelling, through which the participating provinces were selected, was provided by AIR Worldwide.

The Bureau of Treasury is the designated policyholder, representing the national government and the LGUs. Under a projected scenario, reinsurance payouts will be released to the GSIS within two weeks after a disaster strikes. The insurance payouts will then soon be released to the Bureau of Treasury. Insurance proceeds will be released to the national government agencies and the LGUs within three weeks from the disaster.

The 25 provinces given the typhoon insurance coverage include: Albay, Aurora, Batanes, Cagayan, Camarines Norte, Camarines Sur, Catanduanes, Cebu, Davao del Sur, Davao Oriental, Dinagat Islands, Eastern Samar, Ilocos Norte, Ilocos Sur, Isabela, Laguna, Leyte, Northern Samar, Pampanga, Quezon, Rizal, Sorsogon, Surigao del Norte, Surigao del Sur and Zambales. The provinces were chosen on the basis of their vulnerability to selected hazards such as maximum wind speed, maximum peak ground acceleration, and the average annual loss.

Pay-outs and Coverage

The parametric insurance program has a total coverage of US$ 206 million (or about Php 10.6 billion) for national government assets and assets of selected local government units (provinces). The risks covered are earthquakes and typhoons for national government assets and typhoons only for provinces. Insurance payouts are triggered by the occurrence of parametric indicators. It will also have no restrictions as to use. Partial payouts are also allowed for "medium" disasters. The amount of payouts to provinces, through the Bureau of Treasury, will depend on estimated losses as determined by the catastrophic risk model.

The development objectives of the program are the maintenance of sound fiscal health, to develop sustainable financing mechanisms, and to reduce the impact on the poorest and the most vulnerable. Under R.A. No. 10924, the insurance proceeds are specific for "government facilities". Thus, they will be allocated for the repair and reconstruction of transport infrastructures such as roads, bridges, ports, and airports, as well as for flood control and drainage facilities, hospitals, school buildings, evacuation centers, local government buildings, agricultural infrastructure, as well as utilities, power and water infrastructures.

The World Bank

According to Joaquim Levy, Managing Director and Chief Financial Officer of the World Bank Group, “Financial shocks caused by natural disasters undermine economic growth and poverty reduction. This new insurance program illustrates how the World Bank Group can leverage capital from the market to help governments receive fast cash injections for emergency response and to sustain essential services in times of crisis, empowering local governments to more effectively assist their citizens.”

This program began in 2014 when the GSIS started discussions with the DOF and the World Bank to create a catastrophe risk insurance program. The World Bank had previously extended assistance to other catastrophe insurance programs such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Pacific Catastrophe Risk Insurance Company (PCRIF).

Catastrophe risk insurance is not without critics. The cost of premiums is seen by some as a burden especially for poor countries. As stated by Jonathan Reeves of ActionAid International, “Climate change is increasing the demand for and cost of insurance. Yet poor people and nations - those least responsible for climate change - are paying the vast majority of the premiums.” It argues that needed resources are wastefully being diverted into long-term insurance facilities.

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