



PHILIPPINES DISASTER RISK FINANCING

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Step Forward for Building Disaster Resilience in the Philippines:
Emerging Strategies for Disaster Risk Reduction and Financing

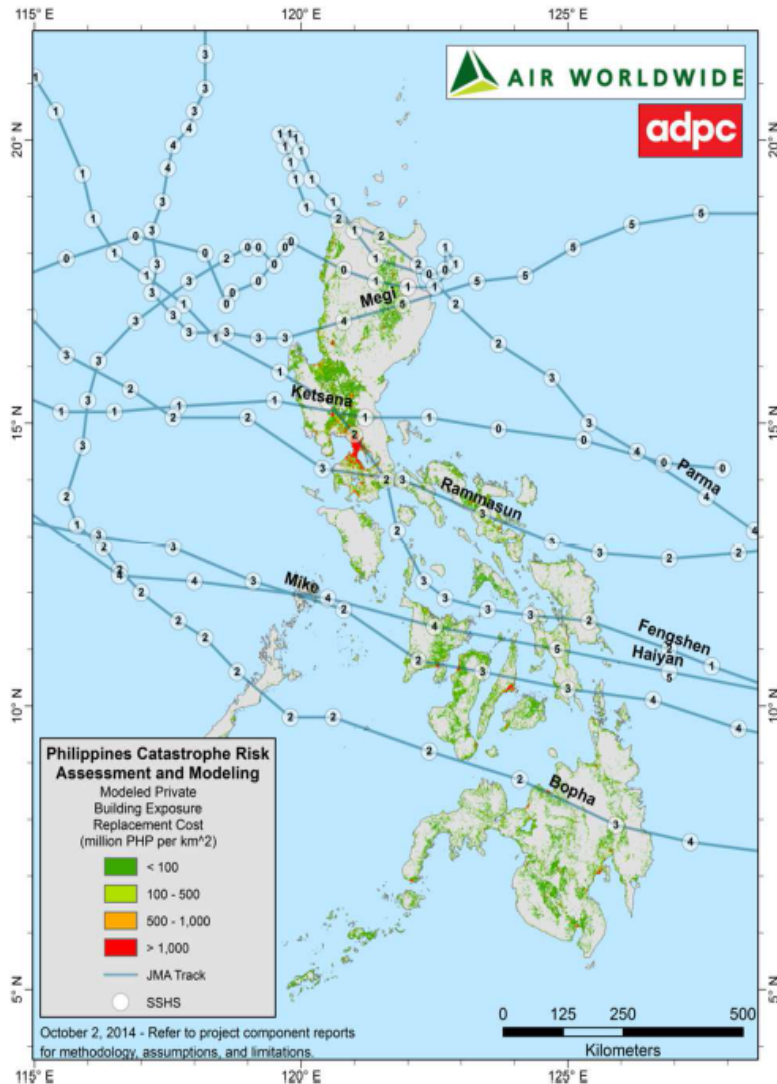
30 November 2015 | Paris, France

Background

Natural Disasters: Philippines Context

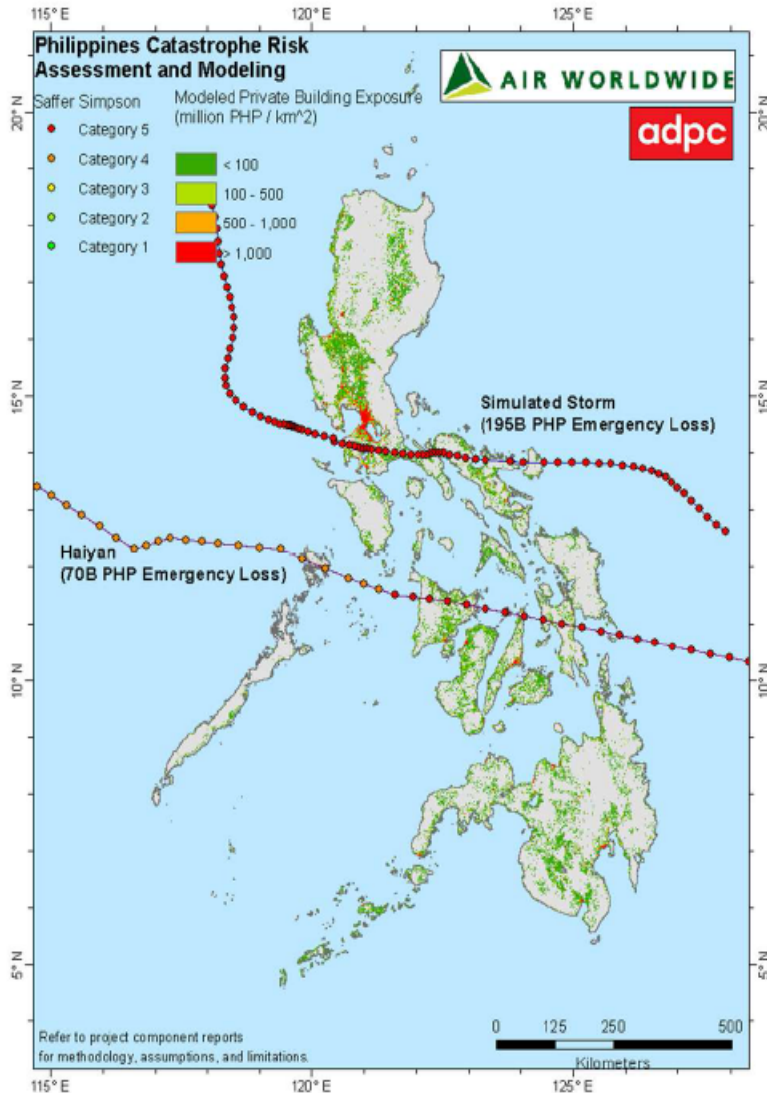
THE “NEW NORMAL”

- Typhoons Ondoy (Ketsana), Pepeng (Parma), Sendong (Washi) and Pablo (Bopha):
 - 3,000+ lives, affected 10 million+ people
 - **economic damage and losses amounting to approximately PHP256 billion (US\$5.77 billion)**
- Typhoon Yolanda (Haiyan) in 2013:
 - 6,201 lives
 - **approximately PHP571 billion (US\$12.87 billion) in damages**
 - ◆ 0.9% of GDP in 2013
 - ◆ 0.3% of GDP in 2014



Background

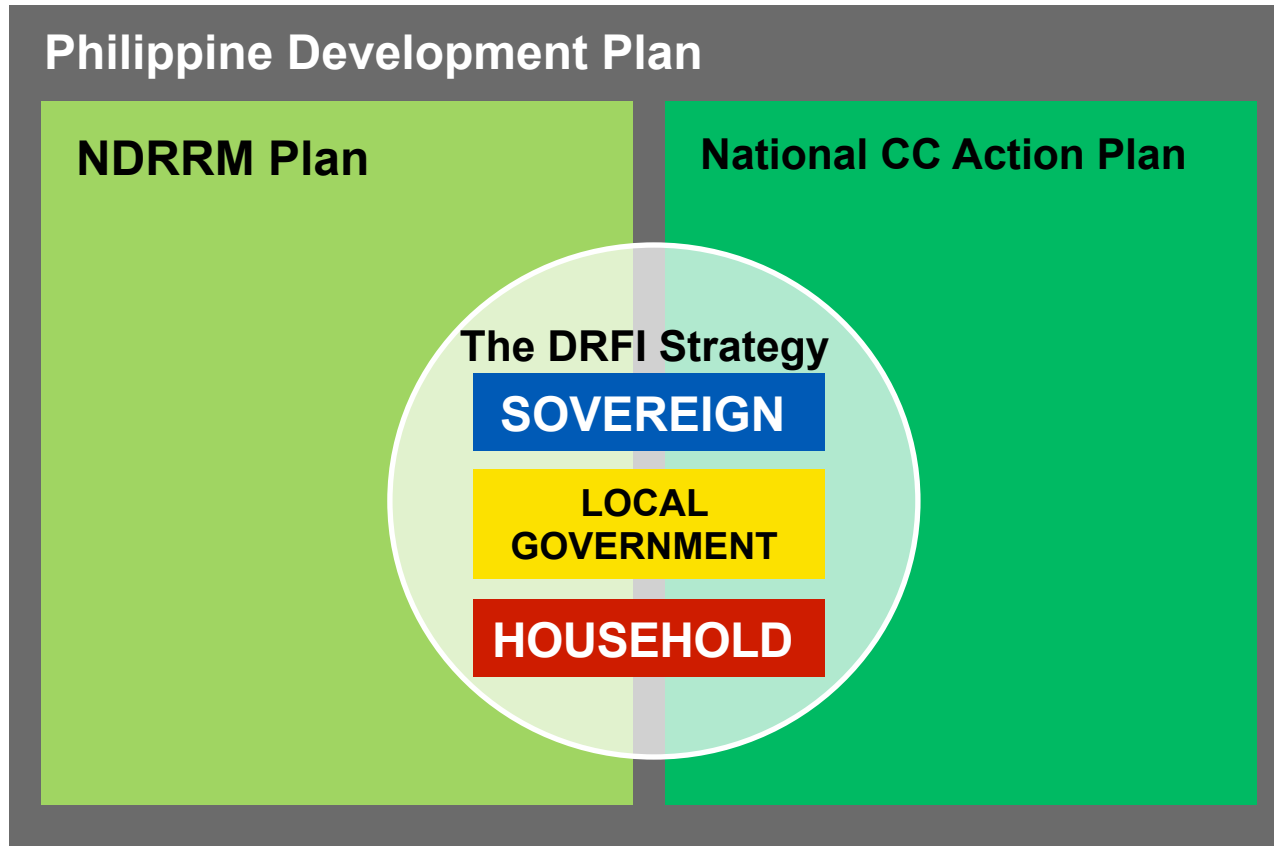
Natural Disasters: Philippines Context



- Risk assessments tools show that much worse storms are possible
- A Yolanda-like storm could cross closer to Metro Manila, and cause 2.5x the estimated losses
- **Protecting the Government's fiscal capacity across all possible disasters requires new instruments and policies**

Overall DRFI Strategy

- Development outcomes:
 - ✓ sustain economic growth; protect gains from natural disaster shocks
 - ✓ reduce impact on the poorest and most vulnerable people
- DRFI on three levels:



A. Sovereign Level



- ① Cat DDO loan (2011); JICA SECURE (2014)
- ② Philippine Catastrophe Risk Model (2014)
- ③ Risk transfer financial instruments

A. Sovereign Level



- ① **Cat DDO loan (2011) & JICA
SECURE (2014)**
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Cat DDO Loan (2011) & c



Disaster Risk Management Development Loan with a Catastrophe Deferred Drawdown Option

- **Objective:** To enhance the capacity of the Government of the Philippines to manage the impact of natural disasters.

- **Three action areas:**
 - ① strengthening institutional capacity
 - ② mainstreaming disaster risk management into development planning
 - ③ management of the government's fiscal exposure to natural hazard impacts

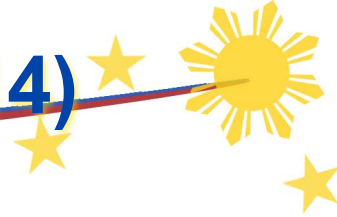
- **Special Feature**
 - ✓ contingent credit line that provides immediate liquidity
 - ✓ funds become available after the declaration of a state of emergency

A. Sovereign Level



- ① Cat DDO loan (2011) & JICA SECURE (2014)
- ② **Philippine Catastrophe Risk Model (2014)**
- ③ Risk transfer financial instruments

Philippine Catastrophe Risk Model (2014)

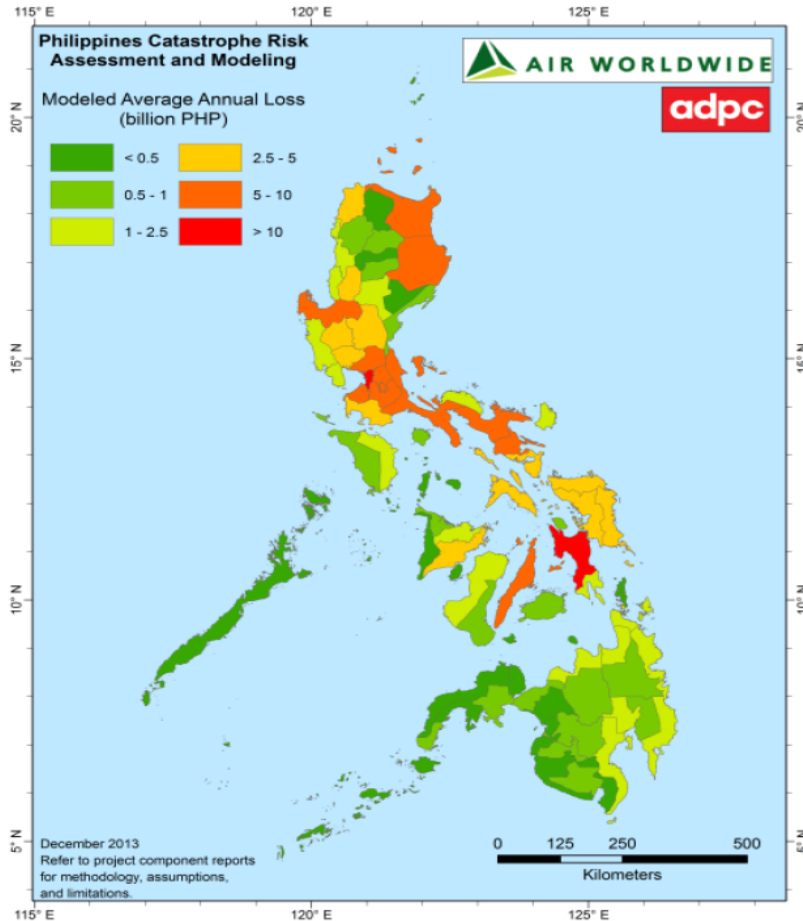


- The **Catastrophe Model for the Philippines** was completed in **May 2014** with the following outputs:
 - ① Historical database for natural disasters
 - ② Geo-referenced catalogue of all national government assets
 - ③ Disaster Risk model which will generate economic loss values for potential disaster events
 - ④ Assistance in developing a risk transfer instrument

- **The model is used in:**
 - ✓ determining the government's contingent liabilities in the face of disasters
 - ✓ providing foundation in designing risk transfer instruments

Philippine Catastrophe Risk Model (2014)

Notable Results



Source: DOF catastrophe risk profile for the Philippines supported by the World Bank-GFDRR

Future disasters losses could overwhelm Government's ability to finance the cost by itself:

- Long-term Average Annual Loss
 - 206 billion PHP (US\$4.6 billion) or 1.8% of GDP in direct losses to public and private assets
 - Additional 42 billion PHP (US\$941 million) in emergency response losses (**3.6% of total government expenditure**)
- **Losses equal to those associated with Typhoon Yolanda (Haiyan) are estimated to occur with a 3% annual probability.**
- In the next 25 years:
 - **40% chance of experiencing a loss of more than PHP840 billion (US\$18.8 billion) or equivalent to 7% of GDP**
 - casualties exceeding **70,000 people in one year**

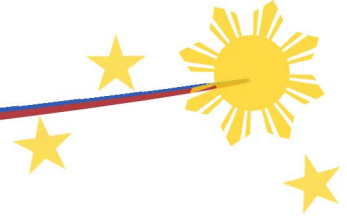
Sovereign Level



- ① Cat DDO loan (2011) & JICA SECURE (2014)
- ② Philippine Catastrophe Risk Model (2014)
- ③ **Risk transfer financial instruments**

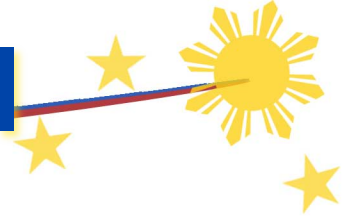
Risk transfer instruments

(under development)



- The Department of Finance together with the World Bank has finished developing the technical details of a parametric insurance policy (i.e. Triggers)
 - Exploring options and structures to properly utilize the insurance feature we have developed

B. Local Government Level



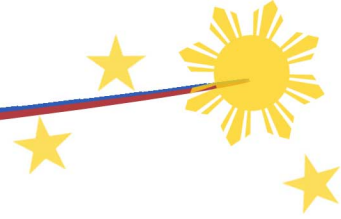
- The government is considering the pilot of an **LGU catastrophe pool** to provide LGUs (city and province level) with immediate liquidity after extreme disaster events.
- GSIS is developing its capacity to be able to provide **parametric insurance policies** in line with this initiative

C. Household Level



- PIRA, together with the Insurance Commission is conceptualizing a potential **residential insurance pool** providing disaster risk coverage.
- The pool is intended to increase resilience of Filipino households against extreme natural calamities.

C. Household Level

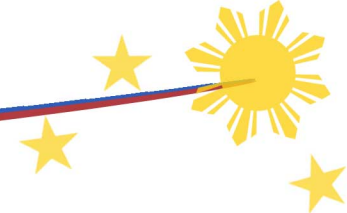


Potential Regulatory channels to support the initiative

- HDMF Loans
 - HDMF may be directed to require catastrophe insurance from the public as a condition for obtaining loans.
- Occupancy/Business permits
 - Section 458(a)(3)(ii) of the LGU Code expressly authorizes the *sangguniang panlungsod* [municipal council] to fix the conditions for issuance of business permits.
 - Can include catastrophe insurance coverage as a condition
- Required security for the approval of bank loans
 - Section 106 of the Central Bank Act

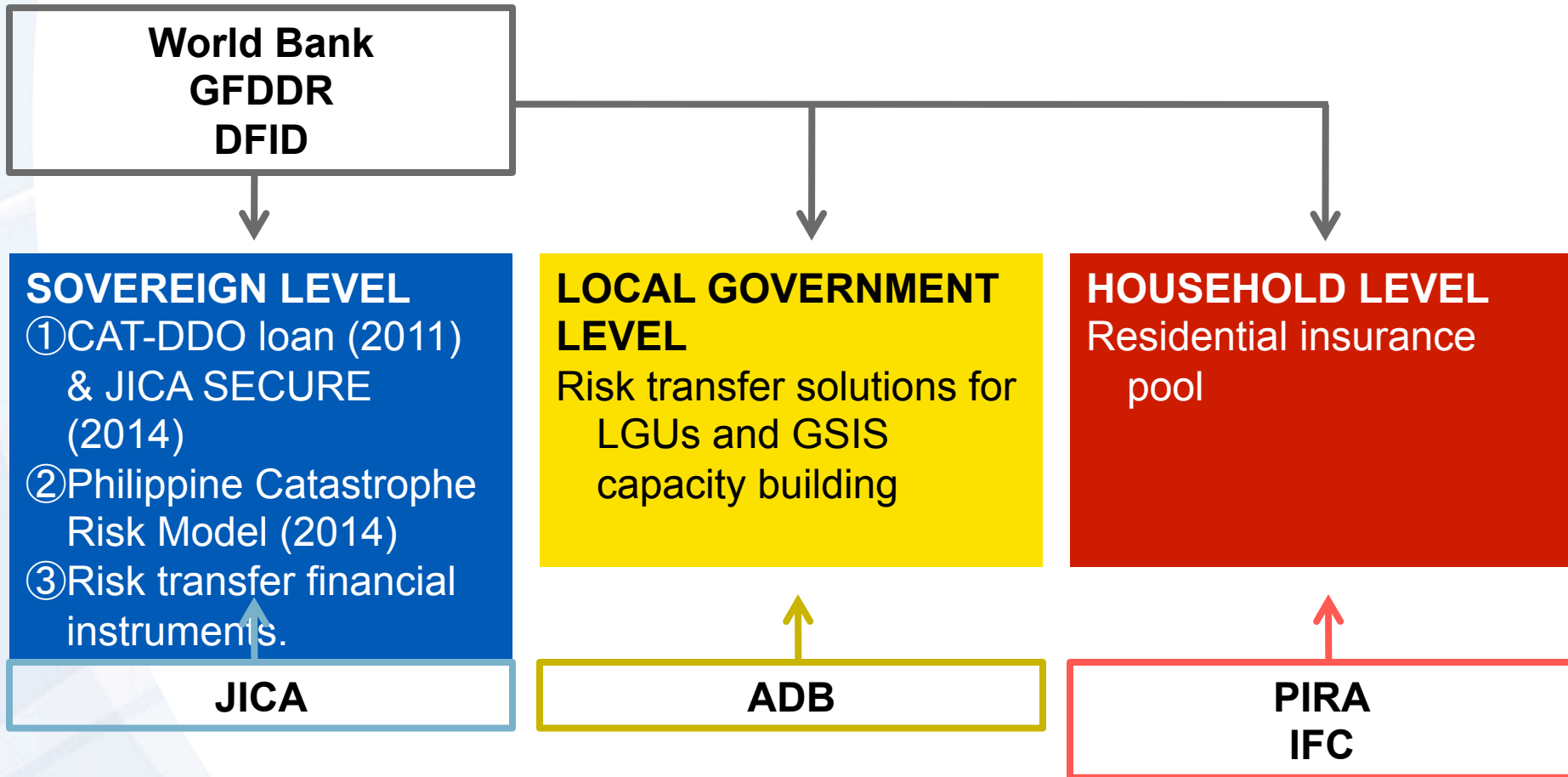
Required Security Against Bank Loans. — In order to promote liquidity and solvency of the banking system, the **Monetary Board may issue such regulations** as it may deem necessary with respect to the maximum permissible maturities of the loans and investments which the banks may make, **and the kind and amount of security to be required against the various types of credit operations of the banks.**

Summary



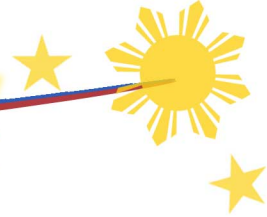
DRFI STRATEGY OF THE PHILIPPINES

Overall Strategy Partners



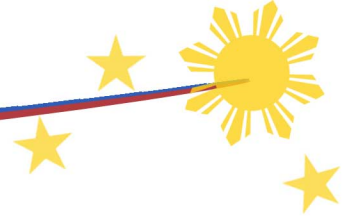
Partners

Disaster Risk Finance Strategy



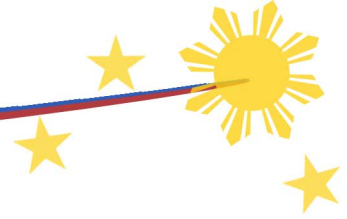
Sovereign Level	National Calamity Fund /Quick Response Funds	Sovereign Risk Transfer	Public Assets Insurance
Local Gov't Level	Local Calamity Funds	LGU Catastrophe Insurance Facility	Public Assets Insurance
Household Level	Microinsurance	Residential Catastrophe Insurance Pool	Enhanced Safety nets

Sovereign Risk Transfer



- Emerging Structure (WB)
 - Program Loan with Catastrophe Protection
 - Catastrophe Protection triggered by Haiyan-level events
 - Protection will have multi-tiered modelled loss triggers.
- Updates
 - DOF working together with WB to address structuring issues, legal or otherwise.

Sovereign Risk Transfer



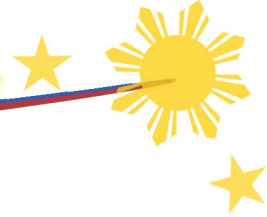
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Residential Catastrophe Insurance Pool



- Modelled after the Turkish Catastrophe Insurance Pool (TCIP)
 - Envisioned to cover both earthquake and typhoon risks
 - Substantial support from insurers and reinsurers players in the Philippines.
- Status: DOF studying potential regulatory mechanisms to encourage demand for disaster risk insurance.

Disaster Risk Finance Strategy



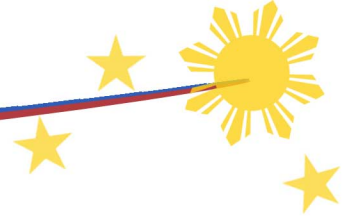
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Local Government Insurance Catastrophe Pool



- Several provincial LGUs have expressed interest in availing parametric insurance
 - Will provide quick liquidity during extreme disasters
 - World Bank has suggested a structure for LGUs' consideration
 - Estimated premiums: PHP10 – 20 Million per annum (about USD201k-USD425k)
- People's Survival Fund
 - Potential source of NG premium subsidies to LGU
 - Local climate financing source for LGUs/ communities

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