The Local Disaster Resilience Insurance Fund provides local governments with immediate financial resources to support response and early recovery

PHILIPPINES LOCAL DISASTER RESILIENCE INSURANCE FUND

In the Philippines, continuous exposure to frequent disaster losses poses major constraints to achieving the country's socio-economic development goals. Some years are worse, for example in 2013, Typhon Yolanda (Haiyan) caused estimated PhP571 billion (US$12.5 billion) in damage and loss.

Catastrophe models show that the Philippines faces estimated disaster losses of PhP141 billion (US$3 billion) or 1.2 percent of GDP in direct losses to public and private assets every year. This model also estimates that the government experiences PhP26 billion (US$557 million) or 1.7% of total government expenditure in emergency response costs every year.

The World Bank Group (WBG) is supporting the preparation and implementation of the Government of the Philippines' (GOP) Local Disaster Resilience Insurance Fund, as part of its broader support of the GOP's Financial Protection strategy. The WBG is providing a comprehensive set of financial and advisory services on Disaster Risk Finance (DRF). This project draws on the Philippines catastrophe risk model developed for the GOP by AIR Worldwide, with the support of the WBG and Global Facility for Disaster Reduction and Recovery (GFDRR). This project is financed by a grant from the UK Department for Development (DFID) and GFDRR and implemented by the WBG's Disaster Risk Financing and Insurance Program (DRFIP).

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DRFI AT THE LOCAL LEVEL

The Government of the Philippines (GOP) manages the financial impacts of disasters through a comprehensive Disaster Risk Financing and Insurance (DRFI) strategy. The DRFI Strategy focuses on actions at the national, local, and individual level to comprehensively strengthen the financial resilience of the country.

Local Government Units (LGUs) are typically first responders after a disaster and bear a significant share of the public cost of disaster recovery and reconstruction. Rapid access to cash is critical to support immediate disaster response. Despite support from the national government, LGUs need to secure sources of immediate liquidity to support emergency response and maintain essential government services until additional resources become available.

LGU POST-DISASTER FUNDING GAP

Assuming LGUs are liable for 10 percent of post-disaster emergency response costs, the aggregate amount of province-specific LDRRMF would be insufficient to cover 1 in 10 year disaster events (i.e. an event with a 10% probability of occurrence).

Provinces would face a funding gap for events happening on average once every 10 years and this only gets worse in extreme years. These numbers hide significant differences across provinces, with some facing much larger funding gaps for more frequent events.

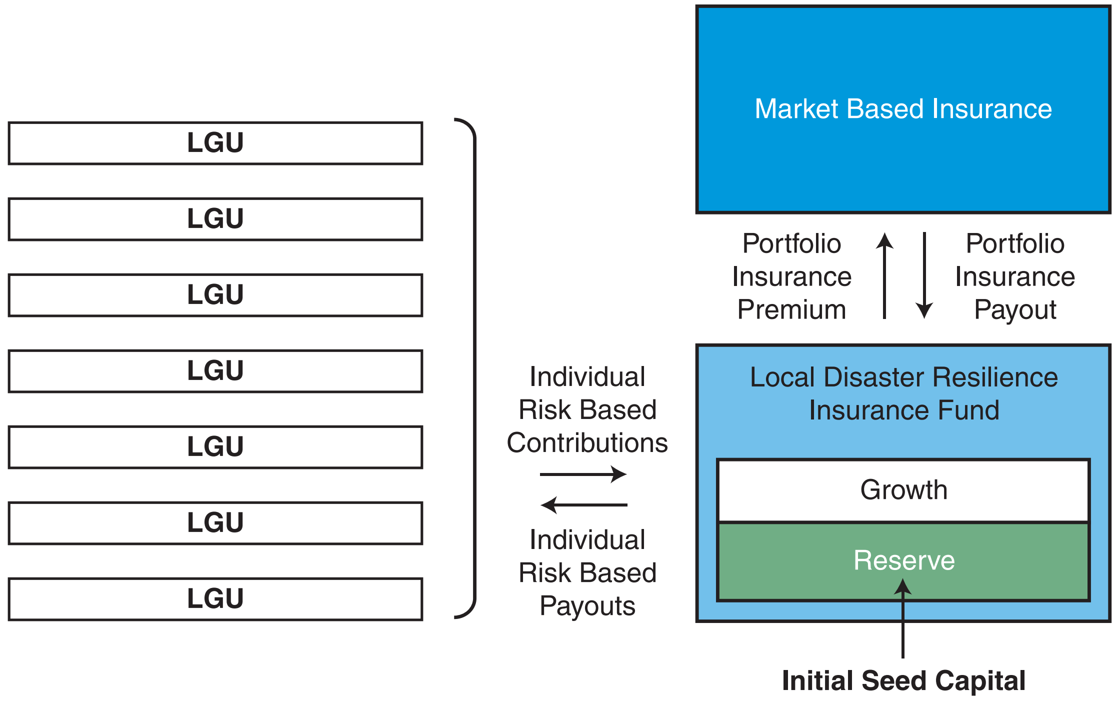
LOCAL DISASTER RESILIENCE INSURANCE FUND

To improve access to quick liquidity for emergency response and early recovery, the Department of Finance (DOF) and the Department of the Interior and Local Government (DILG) are working with LGUs in the development of the **Local Disaster Resilience Insurance Fund (the Fund).** This is a key priority under the DOF's Financial Protection strategy and is one of the first initiatives of its kind in the world.

The Fund will be owned and managed by the LGUs and provide quick payouts based on clear rules that allow LGUs to receive immediate and predictable financing, usually within 2–3 weeks following major disasters. It would:

- Build up joint reserves over time to finance losses from medium events;
- Access market-based insurance that provides a rapid payout if an event with pre-agreed characteristics occurs (parametric insurance) to leverage additional resources in case of major disasters; use capital and reserves to allow for retention of first losses and hence lower the premiums paid by LGUs
- The terms of the payout and distribution of funds will be managed by a government agency.

The Fund would complement local disaster risk reduction and management funds (LDRRMF) to provide LGUs with access to additional funding in case of more severe disasters. These payouts are not meant to finance all disaster losses but rather the immediate response needs to save lives and ensure continuity of public services.



PILOT IMPLEMENTATION

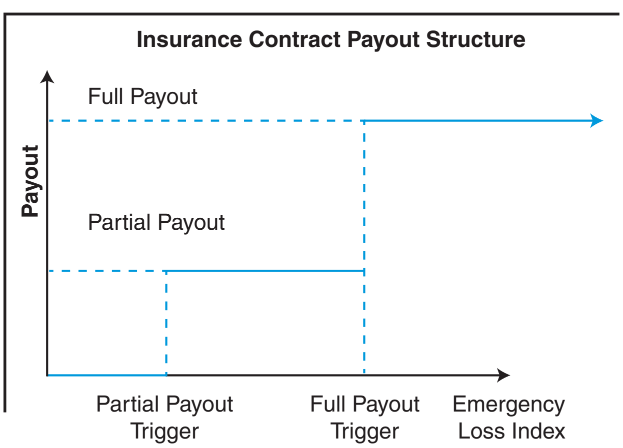
DOF and DILG are working with a group of provinces towards a pilot of the joint catastrophe risk insurance to start in early 2016. Provinces for the pilot have been selected based on their risk profile and interest in exploring new financial mechanisms. As part of the pilot, they will benefit from:

- **Increased financial protection** against typhoon and earthquake risk
- **Lower premiums** as a result of risk-pooling and therefore benefiting from a diversified insurance portfolio
- **Increased access to the international reinsurance** market through a policy with the Government Service Insurance System (GSIS)
- **Cost savings** as risk-based premiums will avoid cross-subsidization

Insurance Payout and Structure

The pilot parametric insurance contract has a two-step payout structure as follows:

- Medium disaster events trigger a partial payout;
- Severe disaster events trigger a full payout;
- Medium and severe disasters are defined, for each LGU, by the emergency loss index calculated by the catastrophe risk model.



Risk Pooling Benefits

By working together LGUs significantly reduce their cost of financial protection.

Initial actuarial analysis indicates that LGUs could achieve at least a 25% cost saving compared to the option where each LGU finance their disaster response independently.