

Enabling environment for enhanced disaster risk financing

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Effective disaster risk financing instruments need an enabling environment

The establishment a disaster risk financing (DRF) instruments is important. However, these instruments can only be fully effective under certain conditions.

An ADB technical assistance project on “Strengthening the Enabling Environment for Disaster Risk Financing” has therefore been conducted to assessing the existing enabling environment and opportunities for improvement in four countries.

Overview country diagnostics approach

A diagnostics tool was developed to assess the enabling environment for DRF and opportunities for enhancement, focusing in particular on insurance and capital market solutions

A complementary diagnostics tool for the assessment of existing disaster risk financing arrangements, covering both risk retention and transfer, is already available, developed by ADB and the World Bank (2017).

The ADB-World Bank tool was applied as part of the country diagnostics.

The Diagnostic Tool for IRCM Solutions

The diagnostic tool has been developed within the W&W Insurance Development Framework (W&W Dev).

Under this framework, six areas or axes capturing the main aspects required to create an enabling environment for insurance, reinsurance and capital markets to develop are analyzed (IRCM).

The Diagnostic Tool for IRCM Solutions

Government policy regarding the development of disaster risk transfer instruments

Social protection policy, exploring the degree to which social protection complements or crowds out market-based solutions

Unlicensed competition, examining informal and unregulated entities providing IRCM solutions and products

The Diagnostic Tool for IRCM Solutions

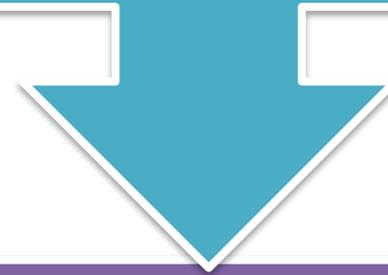
Economic conditions and other support functions (e.g., data availability) that influence decisions regarding the use of IRCM products.

Credibility of IRCM providers, including distribution channels, claims handling, loss adjusters, brokers, financial transaction platforms, legal and judicial system, etc.

Product appeal , including design, affordability, and availability.

The ideal conditions for the development of IRCM solutions are defined

As a starting point in the elaboration of the diagnostic tool, the ideal enabling conditions for the development IRCM solutions are defined.



This step takes into consideration idiosyncratic aspects, political, cultural and religious preferences, as well as international best practice.

**Realistically
achievable
conditions
are then
defined**

Taking into consideration that the ideal environment might never be reached, a realistic enabling environment (REE) for each of the six axes is determined.



This REE is set as the medium-term target.

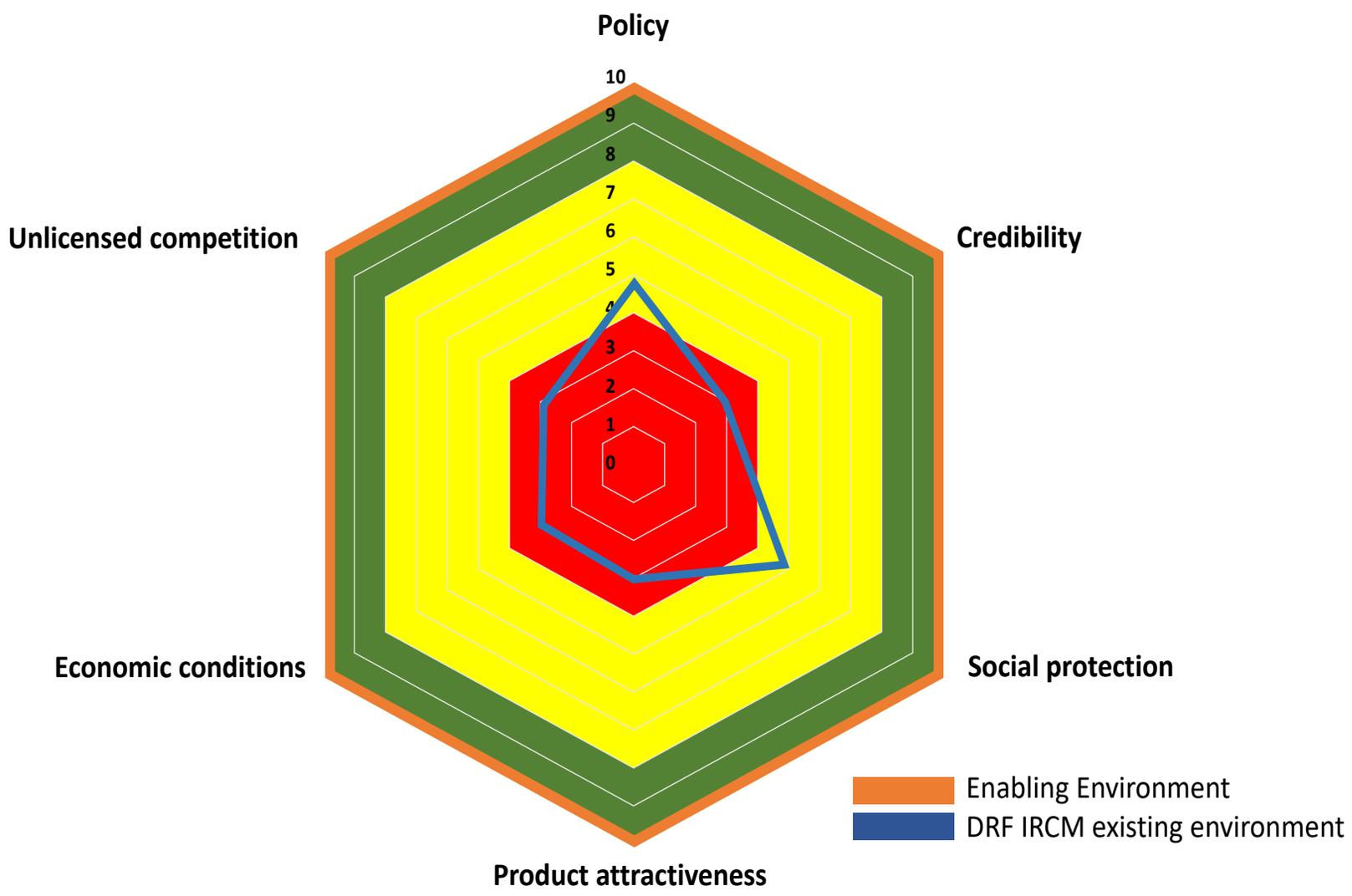
Gaps between the current situation and the REE are identified and a road map developed to address them

The current existing conditions are assessed for each of the six axes.

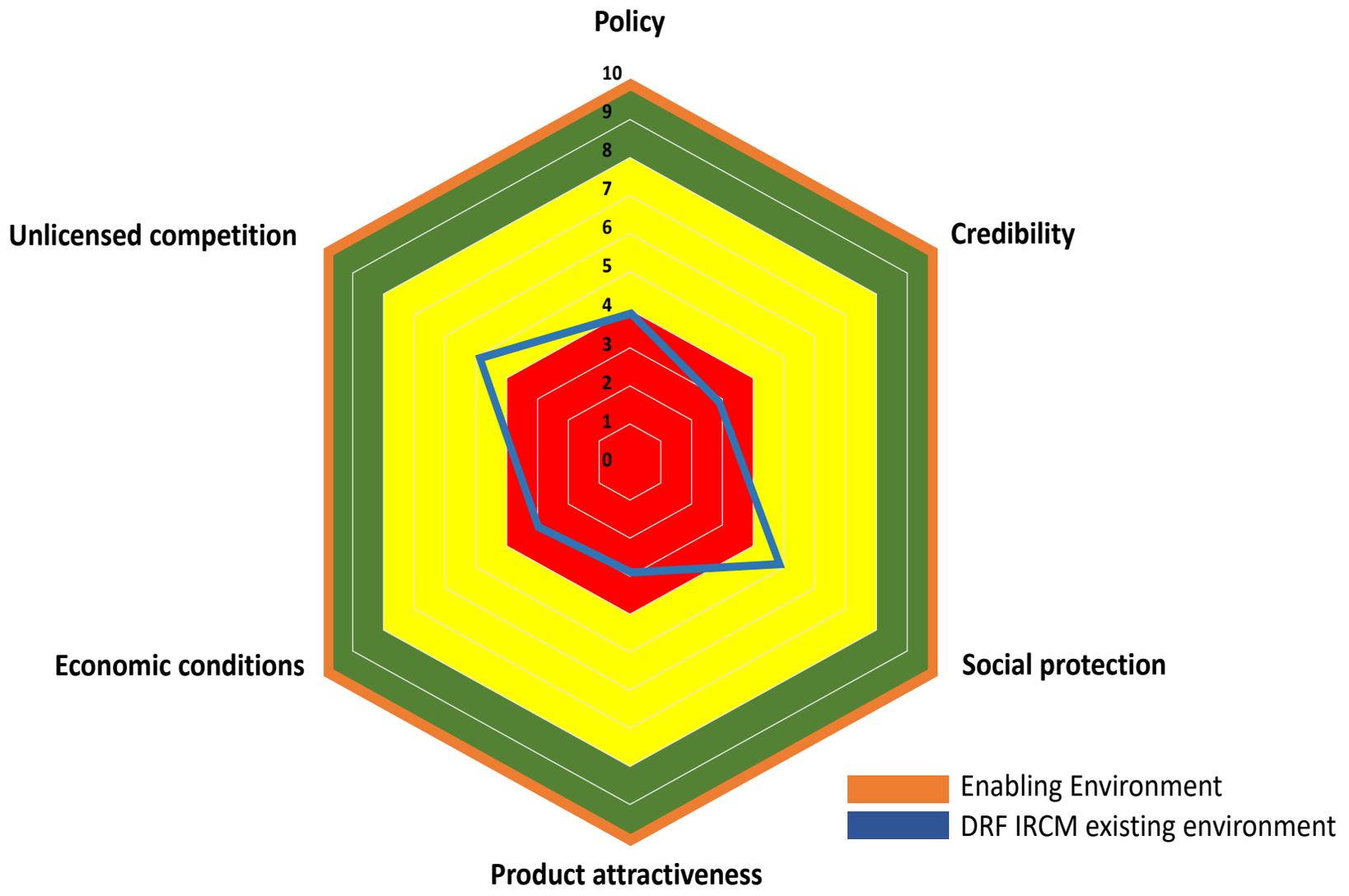
Existing conditions are compared with the REE , leading to the identification of gaps in the different areas that need to be bridged to enabling the development of the IRCM solutions.

A road map is developed to address them.

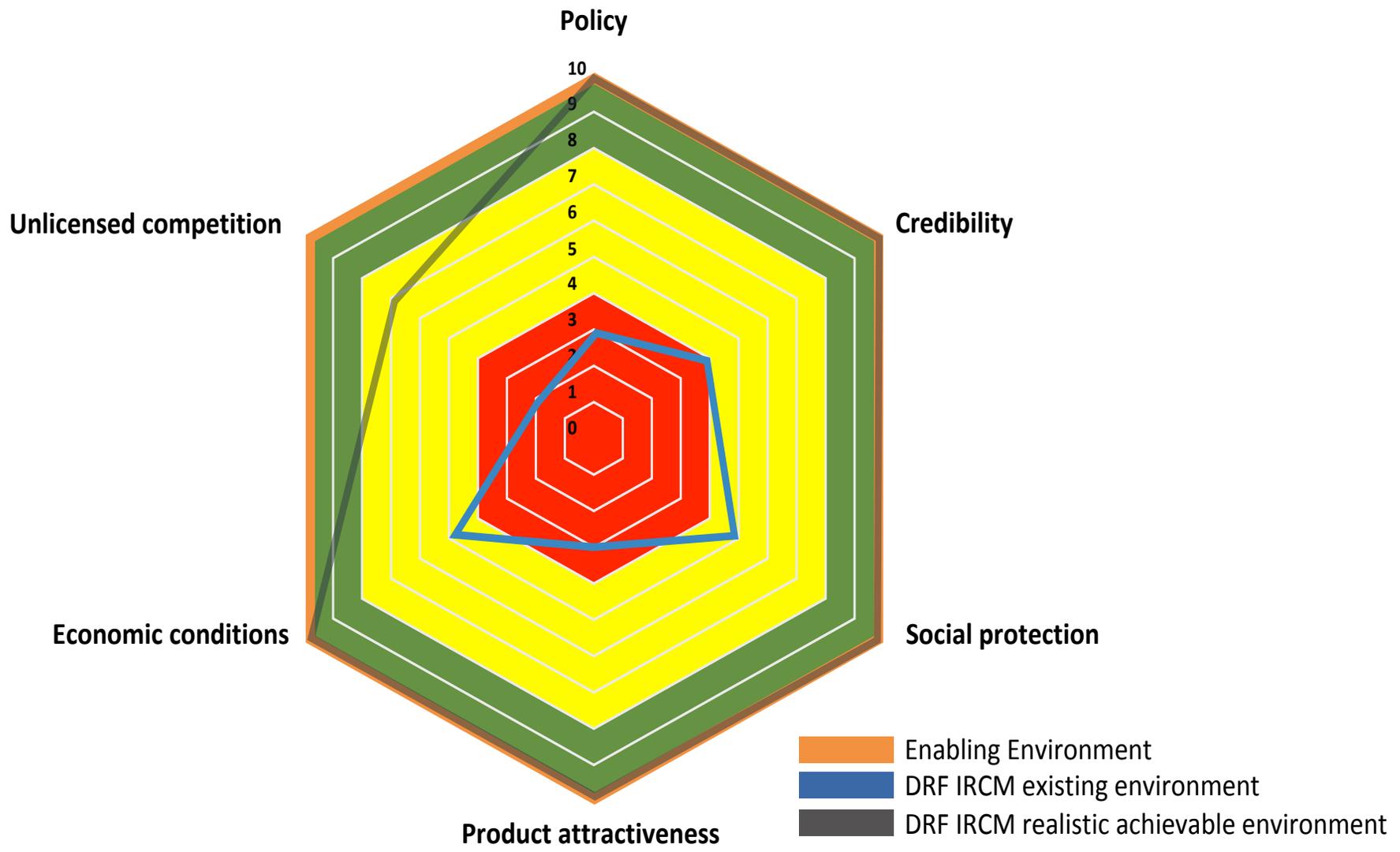
Current state of the enabling environment for disaster risk financing in Sri Lanka



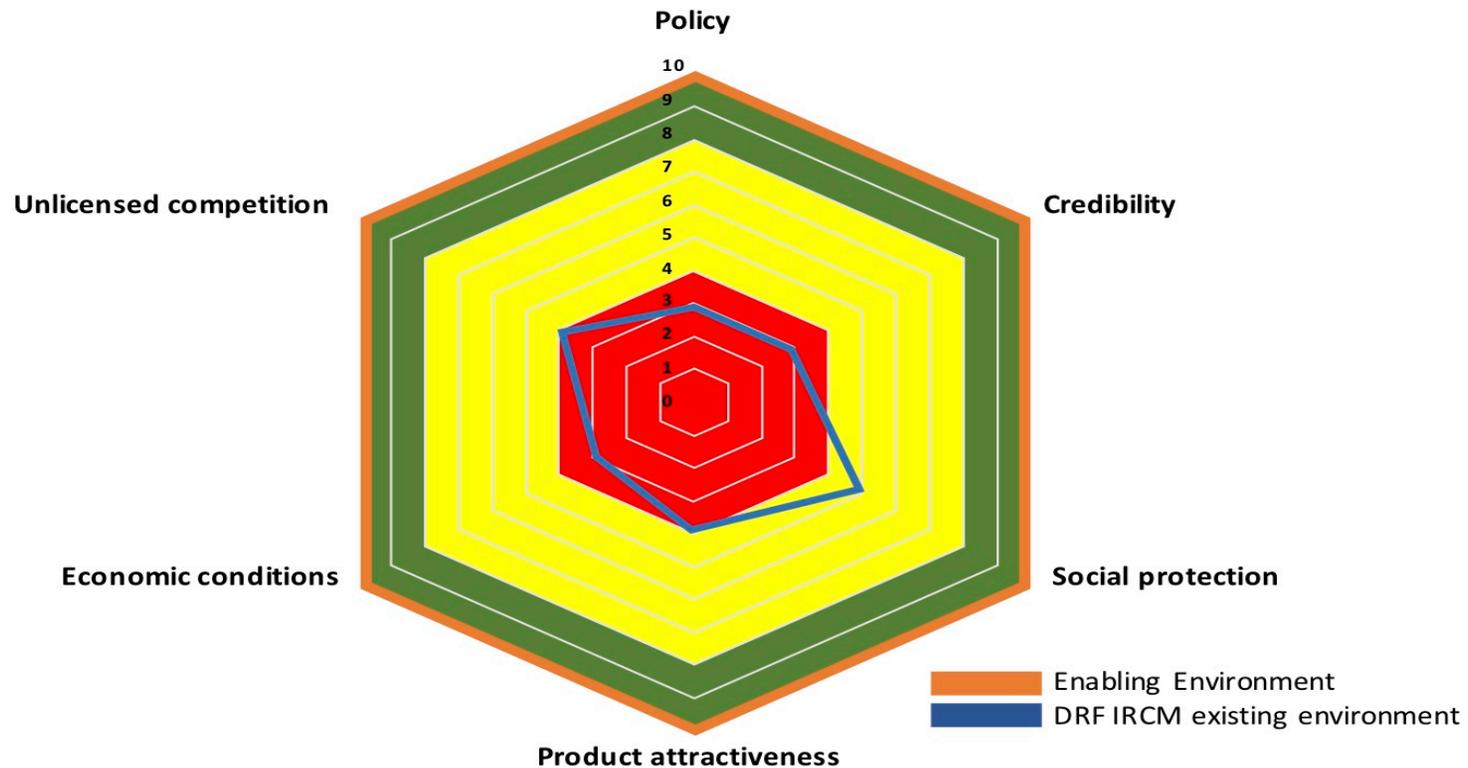
Current state of the enabling environment for disaster risk financing in Pakistan



Current state of the enabling environment for disaster risk financing in Fiji



Current state of the enabling environment for disaster risk financing in Nepal



Opportunities
for enhancing
the enabling
environment:
**Government
policy**

Develop a comprehensive disaster risk model and mapping with sufficient granularity detail to support the development of an effective DRF strategy. (All countries)

Consider introducing an agricultural insurance pool or improve the current the functioning of the current main provider. (All countries)

The Government should consider a mandatory disaster insurance for residential property. (All countries excl. SL)

Opportunities
for enhancing
the enabling
environment:

**Social
Protection**

Create public private partnerships led by the public-sector insurers. (All countries)

Develop further sustainable and smartly regulated microinsurance. (All countries)

Opportunities
for enhancing
the enabling
environment:
**Unlicensed
competition**

Develop a proportionate regulation for insurance providers that are not insurers and supervise them. (All countries)

Improve access to the offshore insurance market for risk transfer cover that the local market cannot provide. (All countries)

Opportunities
for enhancing
the enabling
environment:

**Economic
Conditions**

With the improvement of the economy and raising the purchase power of the population, insurance will become more important for protection. . (All countries)

Develop customized insurance awareness programs for disaster insurance. (All countries)

Develop infrastructure (Weather data). (All countries)

Utilize technology to reduce implementation costs. (All countries)

Opportunities
for enhancing
the enabling
environment:
Credibility

Increase availability of insurance professionals (actuaries, auditors, reinsurance underwriters) . (All countries)

The credibility of the insurance sector could be enhanced by carrying out a successful assessment against the IAIS principles. (All countries excl. Fiji)

Mandatory domestic reinsurance cessions require resilient providers to avoid systemic risk (All countries excl. Fiji)

Opportunities
for enhancing
the enabling
environment:
Product Appeal

Expand the retail insurance products for disaster protection. (All countries)

Develop environmental liability insurance. (All countries)

Explore opportunities to take advantage of insurance linked securities, including catastrophe bonds. (All countries)

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MANY THANKS
for your attention

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