Disaster Risk Financing and Insurance (DRFI) Program

Strengthening countries' financial resilience to natural disasters

SECO is partnering with the World Bank since 2011 to implement the Disaster Risk Financing and Insurance (DRFI) Program. The Program supports SECO priority countries in improving their financial resilience to natural disasters and their financial response capacity post disaster through policy, budgetary and market-based solutions.

Country/region
Global

Executing agency
World Bank Group

Duration
2017-2021 (Phase II)

Total budget
CHF 28'000'000

SECO contribution
CHF 8'000'000

Disaster Risk Financing & Insurance Program
SUPPORTED BY WORLD BANK GROUP

Rationale

Middle-income countries have been the most adversely affected by natural disasters in economic terms over the last two decades as measured in direct losses as a percentage of GDP. They are particularly impacted because risk management measures such as building codes and land-use zoning cannot keep pace with the rapid growth in infrastructure and economic activities.

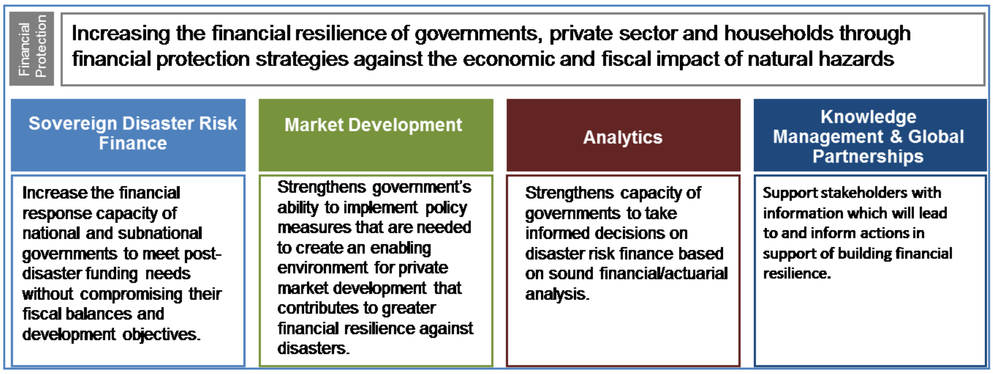
In this context, middle-income countries have a growing interest in sovereign disaster risk financing and insurance to help them be better financially prepared when disasters strike. Most middle-income countries still rely heavily on post-disaster financing through budget reallocation, post disaster borrowing, or tax increases. These funds may take time to mobilize, causing potential delays in disaster response and impacting long term economic development. Sovereign disaster risk financing and insurance can help countries secure adequate funds ex-ante and use those funds efficiently and transparently post disaster.

Objectives and scope

The development objective of the Program is to increase the financial resilience of middle-income countries to natural disasters. This includes the strengthening of domestic catastrophe insurance markets. The final beneficiaries are the countries' citizens, particularly the poorest living in disaster-affected areas.

To achieve effective and cost-efficient financial protection, governments should identify and quantify their exposure to natural disaster risks and manage these risks in a pro-active manner. This can be done through a wide variety of policy measures, which include: promoting domestic disaster risk insurance markets (e.g., property catastrophe risk insurance), developing savings funds, using contingent lines of credit, transferring risks to the market, and investing in reducing the underlying drivers of risk through prevention and risk reduction.

The Program has five components to support disaster risk finance:



The participating countries are Colombia, Indonesia, Morocco, Nepal, Peru, Serbia, Tunisia and Vietnam.

Results so far

- An external evaluation of the Program's first phase (2011-2016) found significant progress in Peru, Colombia, Morocco, Serbia and Vietnam, especially in the areas of cat risk modelling and development of DRFI strategies. Significant capacity at the technical level and a systematic understanding of disaster risk financing across government institutions was built.
- The quality and coverage of insurance of public assets has improved in Colombia and Peru. Two sub-national governments in Colombia published the first sub-national DRFI-strategies worldwide.
- In Morocco, the insurance overage of private assets was improved. Moreover, Morocco decided to protect its public finances with a contingent line of credit, which can be accessed in case of catastrophes. Thanks to this line of credit, Morocco had fast access to liquidity to respond to the Covid-19 crisis.
- The Program helped prepare the issuance of sustainable development bonds that collectively provide US$1.36 billion in earthquake protection to Chile, Colombia, Mexico and Peru. This is the largest sovereign risk insurance transaction ever and the second largest issuance in the history of the catastrophe bond market. It is the first time that Chile, Colombia, and Peru access the capital markets to obtain insurance for natural disasters.

Outlook

The objective of DRFI Phase II, which started in 2017, is to deepen the achievements of Phase I and ensure their sustainability. Particular focus is placed on the implementation of DRFI strategies, including improved insurance coverage of public and private assets and improvements to national budgets to make them more resilient to natural disasters. As of 2020, the Program was well on track to achieve these objectives. A third phase of the Program should therefore ensure a successful exit of the DRFI Program in the current countries and an expansion of the Program to new countries that expressed a need to improve their DRFI practices (e.g., Albania, Georgia, South Africa).

Further information and contact details

Website: www.worldbank.org/en/programs/disaster-risk-financing-and-insurance-program
Email: scook@worldbank.org
DRFI Coordinator at SECO:
Tel.: +41 31 324 07 94
Email: wemu.sekretariat@seco.admin.ch