

## CASE STUDY 2-4

### Implementing Adaptation Measures

# Sustainable Disaster Risk Finance in the Philippines: Restoration Activities after Typhoon Haiyan



Photo: Trocaire

## Outline

### Background

The Philippines had been responding to individual disaster events through immediate actions and recovery aid from the national budget and overseas sources (See Table 2-4-1). However, the impact of Typhoon Haiyan, which struck the country in 2013, was far beyond imagination. The Philippines was plunged into a situation where existing disaster funds were insufficient to recover from the damage. Many companies were forced into bankruptcy, and the prospects of recovery are still uncertain in some affected areas. The rural poor, who depend mainly on agriculture were hit hard by the disaster, and the need for strategies to

reduce the risks of those who are poor and marginalized became more apparent than ever before.

### Objectives

To strengthen the resilience by solving the following issues revealed by the impact of Typhoon Haiyan:

- Scarcity of disaster funds that could be paid immediately to damaged parties
- Insufficiency of finance schemes that can cope with large-scale restoration
- Lack of funds for the most vulnerable communities and parties

**Table 2-4-1 Disaster Risk Finance in the Philippines** <sup>[5][6][9]</sup>

Sector	Target	Scheme	Scheme owner	Donors
National/Local Government	Philippine National Government	Catastrophe Bond	World Bank	World Bank
	Philippine National Government	Post Disaster Stand-by Loan by the Government of Japan	JICA	JICA
	Local Government Units	Risk Insurance Pool for Local Government Units	GSIS	World Bank, ADB
Public Infrastructure	(Metro Manila) School Building Transport Infrastructure	Non-life Insurance	GSIS	JICA
	Bridge	Policy Framework	DPWH	World Bank
	Hospital	Policy Framework	DOH	World Bank
	Power Distributer (EC)	Natural Disaster insurance		World Bank
Private Enterprises/ Household	Power Distributer (EC)	BCM Credit Rating	JICA	JICA
	MSEs	Reinsurance	PIRA	
	MSEs/ Households	Earthquake Insurance	PIRA	World Bank
	Individual (Low income)	Micro-Insurance	DOF	World Bank

**Institutional arrangements**  
 The implementing components of Disaster Risk Finance and Insurance Strategy of the Philippines are separated into three categories including sovereign, local and household level (See Figure 2-4-1).

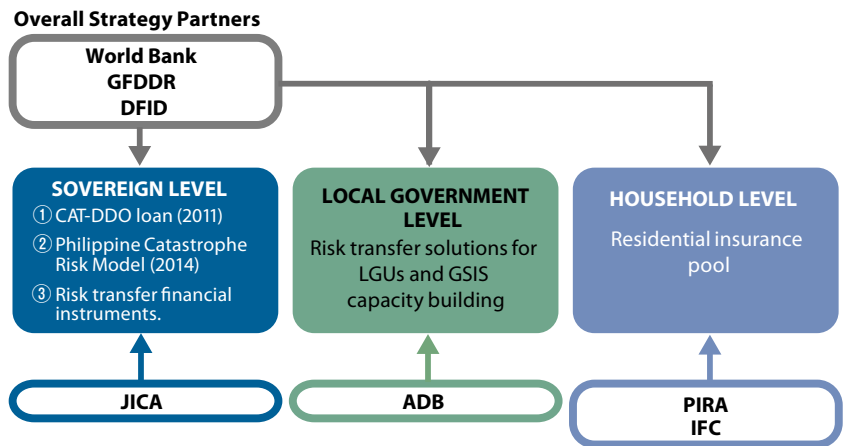


Figure 2-4-1 Disaster Risk Finance and Insurance Strategy of the Philippines<sup>[10]</sup>

**Process**

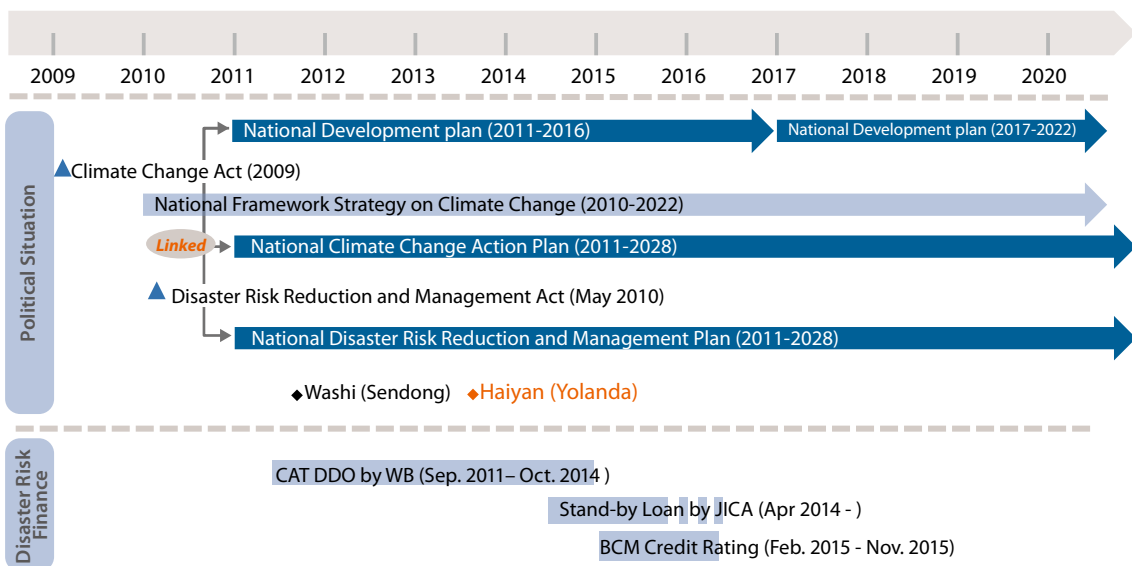


Figure 2-4-2 Timetable of Events and Actions Related to Climate Change and Disaster Risk Finance in the Philippines



Scenery of the town after being hit by Typhoon Haiyan

Photo: Arlynn Aquino EU/ECHO

**Formulation**

In recent years, catastrophic disasters have occurred repeatedly in the Philippines. Following these disasters, the World Bank and other international institutions have expressed an understanding of the need for emergency funding for the Philippines, which led to the proposal of Catastrophe Bond (CAT BOND) and Catastrophe Deferred Drawdown Option (CDDO). JICA also signed a contract for a Disaster Recovery Stand-by Loan with the Philippines in 2014 in response to extensive damage caused by Typhoon Haiyan, which was far beyond expectations.<sup>[2]</sup> This is the first provision of JICA's Stand-by Emergency Credit for Urgent Recovery (SECURE) scheme (See Figure 2-4-2).

Because the scale of typhoon was enormous, the amount of funds set aside for restoration fell far short of the amount necessary for actual recovery. As a result, this disaster raised the awareness of both national and local governments of the need to increase restoration funds, especially for local governments.<sup>[2]</sup>

**Implementation**

**JICA's Post Disaster Stand-by Loan [for National Government]**

JICA's Post Disaster Stand-by Loan, called SECURE, is a mechanism for providing immediate assistance to fund needs that occur at the early recovery stage directly after a disaster occurs.

SECURE provides a JPY 50 billion Japanese ODA loan, which affected people can use for a wide range of disaster recovery activities. After a disaster, the national government can receive funds in short time.<sup>[8]</sup>

**Introducing parametric insurance to complement indemnity insurance [for LGUs]**

As an immediate response against a severe disaster, the Government Service Insurance System (GSIS) is currently planning to implement parametric insurance with the World Bank's support, to complement existing indemnity insurance.

Parametric insurance payouts are not based on individual loss adjustments, but on parameters such as the magnitude of earthquake and category of typhoon.

Under the parametric insurance scheme, LGUs can receive a cash payment within two to three weeks after a severe disaster (See Table 2-4-2).

A long-term solution with a sustainable insurance facility was proposed by the World Bank for a dedicated facility owned/managed by LGUs. Reserves can be accumulated by allowing participating LGUs to finance first losses from joint reserves and excess aggregate losses only from reinsurance growth (See Figure 2-4-3).

**BCM credit rating system [for electric cooperatives (ECs)]**

The Philippine Government requested JICA to give technical support to improve the domestic electricity distribution network, considering introduction of incentive mechanism to the private sector. One key solution is the business continuity management (BCM) credit rating system, which will provide a signal to the insurance as well as credit market on the resilience and preparedness of ECs' facilities against natural disasters. This is why the BCM credit rating system acts as an incentive for private companies to invest in making their facilities more efficient and resilient.

Table 2-4-2 Comparison of Indemnity and Parametric Insurance<sup>[2]</sup>

	Indemnity insurance	Parametric insurance
<b>Trigger for payout</b>	Actual loss incurred	Natural hazard event exceeding a defined threshold (e.g windspeed or earthquake magnitude )
<b>Risk of payout not covering losses</b>	No risk as payout is based on loss	Risk that the index used is not well-correlated with the actual losses sustained (basis risk)
<b>Speed of payout</b>	Can be very slow	Usually within 2 weeks
<b>Use of payout</b>	Intended to cover only the loss sustained	No restrictions on use
<b>Loss adjustment and claims process</b>	Loss adjustment process can be lengthy and complicated	No loss adjustment process
<b>Pricing flexibility</b>	Few policy options	Very flexible structure – premium can be determined by policyholder

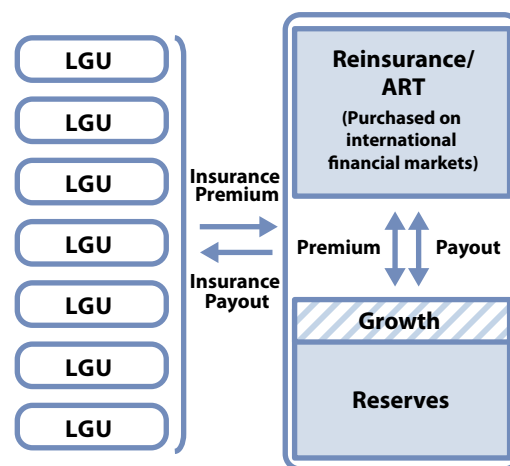


Figure 2-4-3 The Long-Term Concept of LGU Catastrophe Risk Insurance Facility<sup>[2]</sup>



## Lessons Learned and Policy Recommendations

### Availability of funding for immediate response

A funding pool available for immediate response is vital, because countries need to begin the recovery process as soon as possible after being struck by a severe natural disaster. CAT DDO provided by World Bank is a mechanism for providing immediate assistance to meet the funding needs at the early recovery stage directly after a disaster. Using the model of the World Bank, JICA provided Post Disaster Stand-by Loan, called SECURE. Accordingly, the country can initiate responses for recovery in a short time.

The challenge is to establish a sustainable support system that does not use up the entire stock of money on a single disaster. The Government of the Philippines is trying to introduce some re-insurance schemes and combine with the stand-by loan to maintain the financial stock for post-disaster recovery.<sup>[4]</sup>

### Parametric insurance scheme for local government units

The parametric insurance scheme is considered to be a key solution, because it allows prompt insurance payouts. Besides, it can be operated with a relatively small amount of human resources compared to existing indemnity-based insurance.

Some local government units (LGUs) are keen to use this scheme, and pilot studies are currently being conducted in 10 provinces. In the Philippines, LGUs are much more vulnerable to natural disasters due to a lack of financial capacity than the national government. Most LGUs have already understood that the existing disaster risk management fund is insufficient for a severe disaster similar to Typhoon Haiyan.

### Regulation and incentives for the private sector

Regulation is one of the key options to promote private-sector participation in insurance schemes. The Philippine Insurers and Reinsurers Association (PIRA) is currently proposing a compulsory catastrophe insurance law with low insurance rates for large-scale natural disasters.<sup>[5]</sup> Many corporate bankruptcies occurred after Typhoon Haiyan because insurance was not mandatory in the Philippines.

Effective incentives to encourage private companies to increase investments in disaster preparation are necessary. Some enterprises have already implemented Business Continuity Plan (BCP). The BCM credit rating system, for instance, will support such enterprises by providing economic incentives to be better prepared to recover immediately after a disaster.

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