Making risk finance an integral synergizing element of comprehensive risk management: Philippines' experience

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GSIS

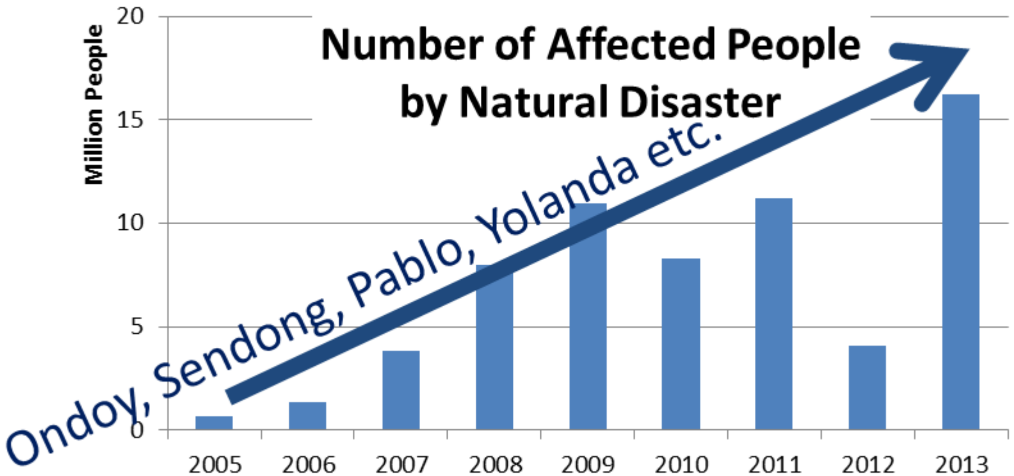
Sompo Risk Management & Health Care

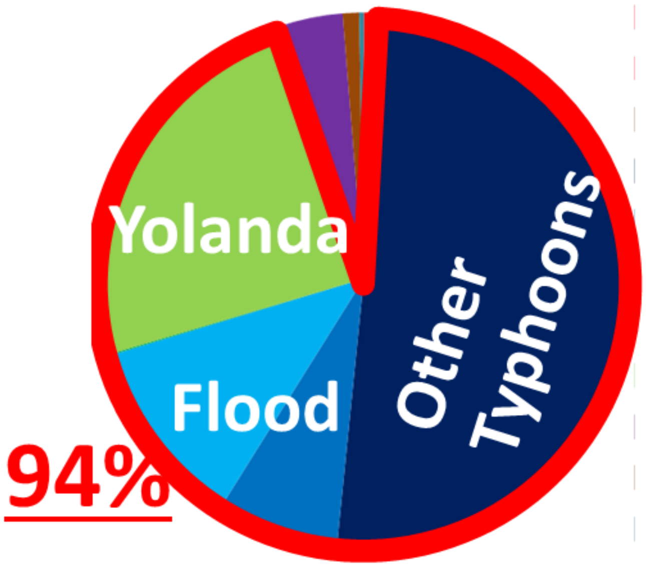
Key messages

- Enhancing the comprehensive risk management (CRM) is the key to address loss & damage associated with climate change impacts.
- As a part of CRM, risk finance such as insurance should be designed in a way that creates synergy with risk control (not to give disincentives to risk control).
- To that end, building incentive mechanisms for risk control into risk finance schemes is important.
- Contingent debt schemes combined with DRR policy support (e.g. WB CAT-DDO and JICA Stand-by Credit) are among such practices but such cases of insurance schemes are scarce in developing countries.
- One case in Philippines

1. Increasing Trend of Natural Disasters in the Philippines

- One of the most disaster-prone economies in the world.
- Increasing frequency and severity of natural disasters for the last 10 years, and most of the disasters are climate-related.
- 94% of affected people are due to climate-related disasters
- Climate change will exacerbate the risk of climate-related disasters

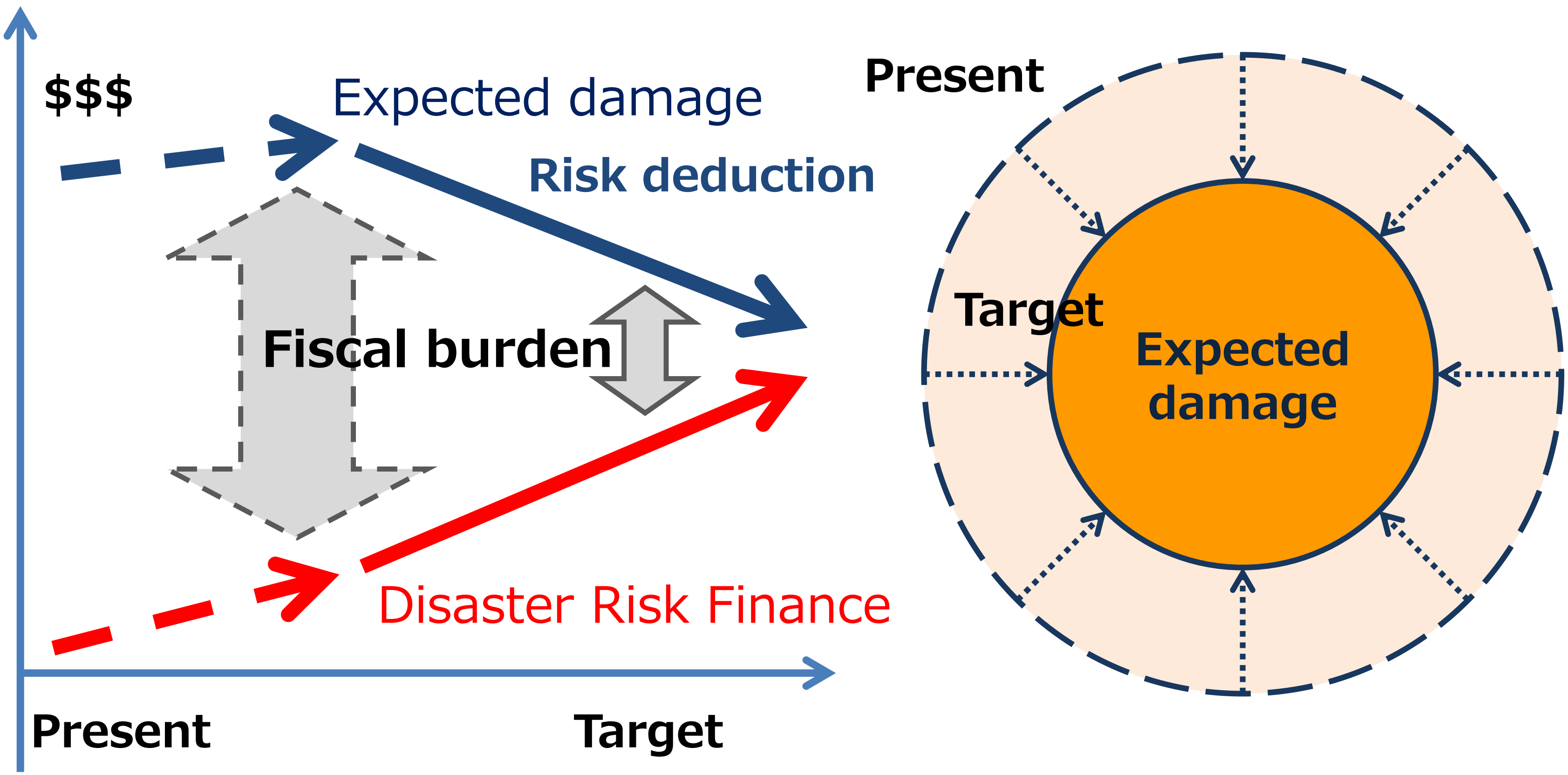




No. of affected people
(2005~2014)

2. Comprehensive Risk Management for Natural Disasters

- The Philippines has been formulating the "Disaster Risk Financing & Insurance Strategy" in order to cope with the fiscal burden by disasters
- Risk reduction is critical to maintain feasibility of the disaster risk financing
- Incentive mechanism for risk reduction linked directly to DRF



Risk reduction for enhancement of Disaster Risk Financing and Insurance

3. Government Service Insurance System (GSIS)

Mandate of GSIS as the insurer of government properties and interests:

A. Republic Act No. 656 – (16 June 1951) – Property Insurance Law
   - Established a Property Insurance Fund in order to indemnify or compensate the Government for any damage to, or loss of, its properties due to fire, earthquake, storm, or other casualty;
   - Every government, except a municipal government below first class, is hereby required to insure its properties against any insurable risk. A municipal government below first class may upon application insure its properties with the Fund.

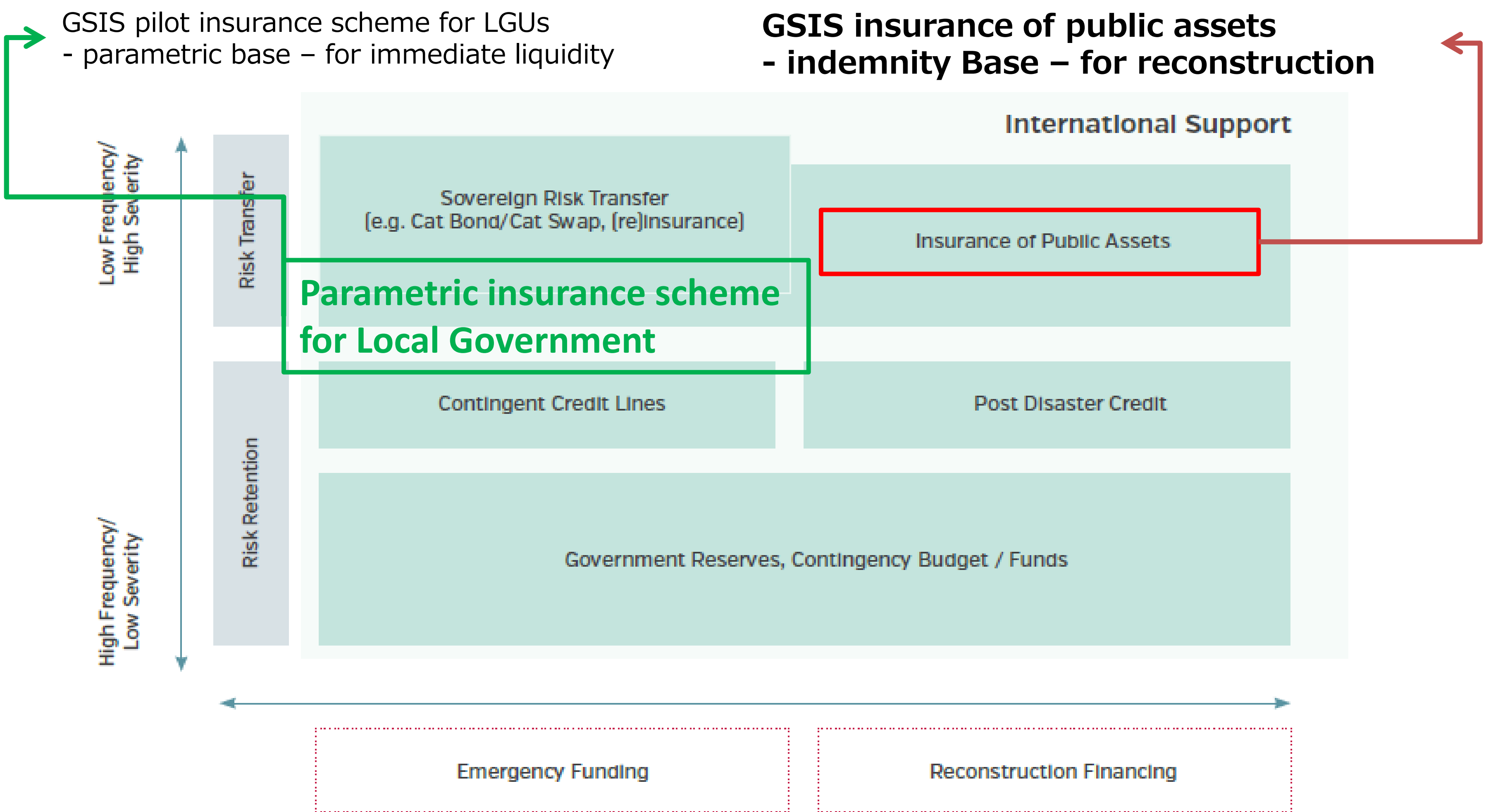
B. Presidential Decree 245 (13 July 1973) – Amending RA 656
   - Powers and authority of GSIS, among others, is to engage in the business and operation of all kinds of insurance and reinsurance.

C. Administrative Order 33 (24 August 1987) – Included those properties in which the government has an insurable interest.

D. Administrative Order 141 (12 August 1994) – Properties insured expanded to include insurance risks of the government in privatized corporations as well as Build-Operate-and-Transfer projects.

4. Disaster Risk Finance and Insurance
– Role of the Public Asset Insurance by GSIS -

- GSIS Insurance schemes are incorporated in the Philippines' Disaster Risk Financing Strategy
- Insurance of public assets has a critical role for reconstruction financing of the public facilities damaged by a natural disasters



Source: Financial Protection Against Natural Disaster, GFDRR/World Bank w/modification

5. Insurance of Public Assets – Challenges

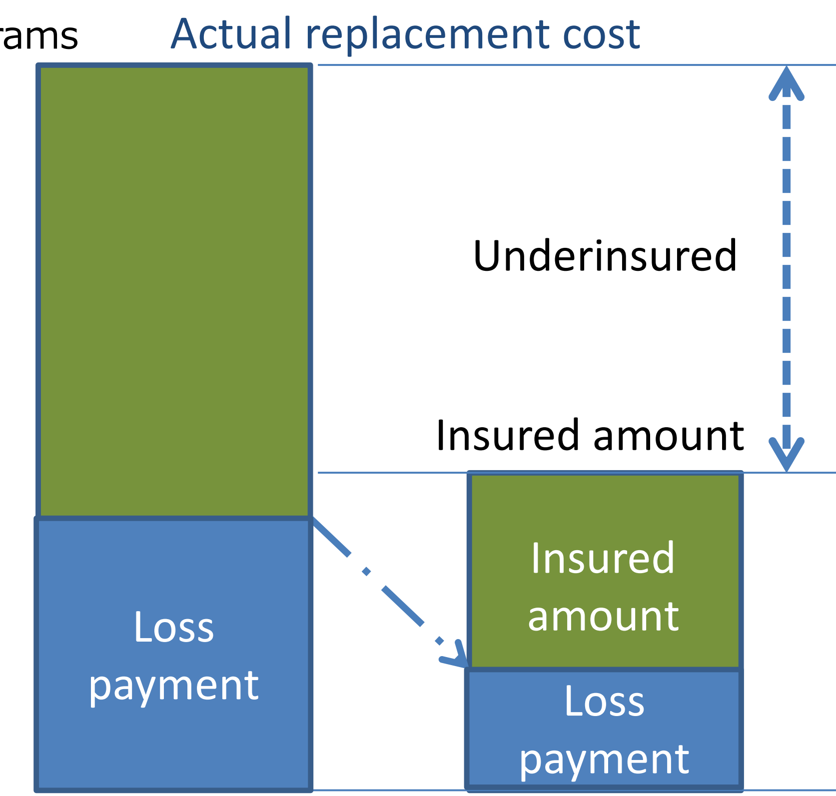
Inadequacy of insurance

- Despite the requirement by the law, there remain some public assets that are not insured and no coverage for natural disasters.
- A number of the public assets are substantially under-insured.

Consequence

- Loss Payment is likely to be inadequate
- Difficulty in maintaining legitimate insurance programs
- Undermine "Disaster Risk Financing Strategy"

Under insurance



Inadequate loss payment

Coverage for natural disasters

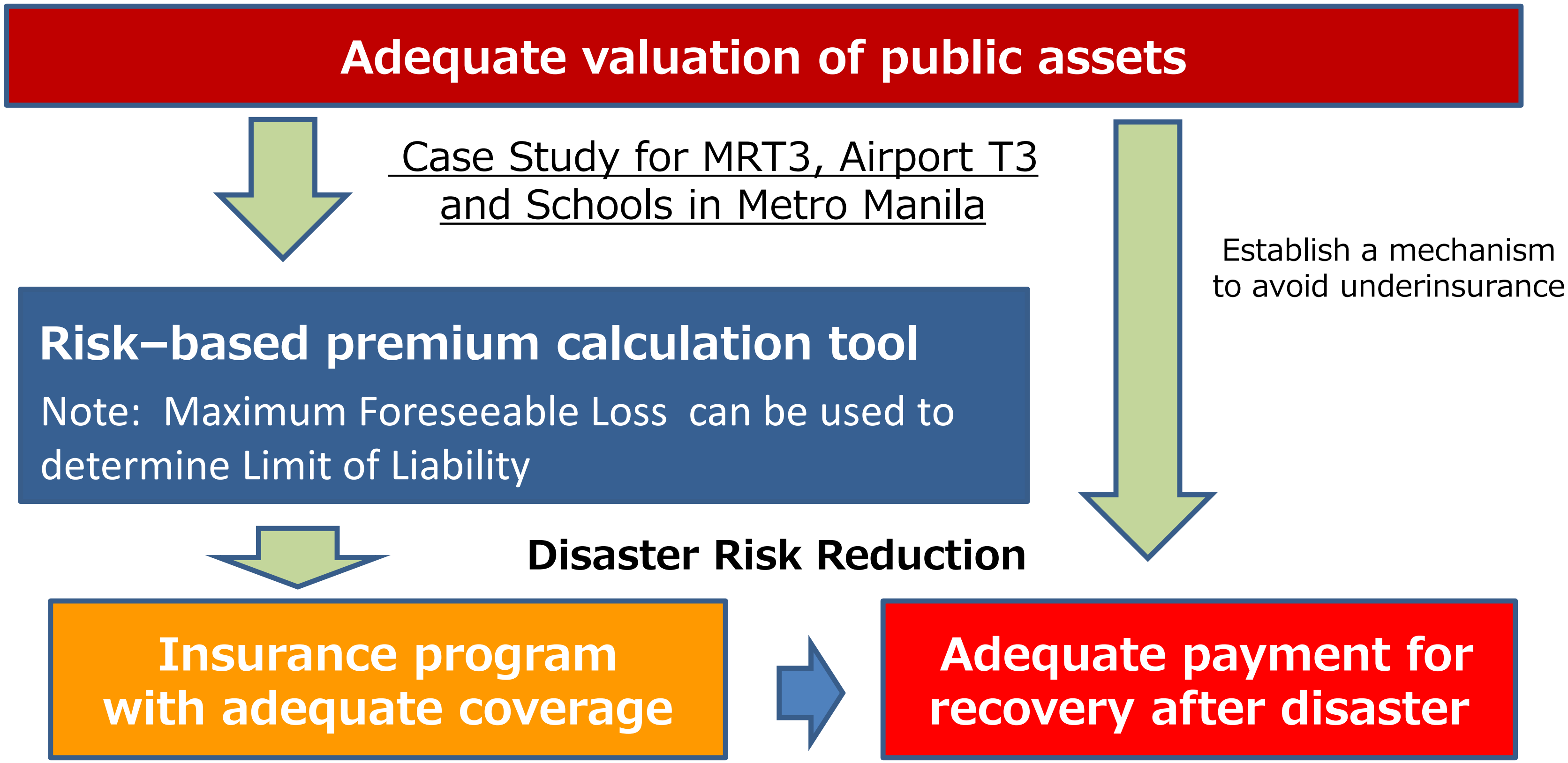
Covered Peril / City	Public Assets - Public School Facility											
	A	B	C	D	E	F	G	H	I	J	K	L
Fire and Lightning	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Flood	N	Y	N	Y	Y	Y	N	N	Y	Y	N	Y
Tyhoon	N	Y	N	Y	Y	Y	N	N	Y	Y	N	Y
Earthquake	N	Y	N	Y	Y	Y	Y	N	Y	Y	N	Y

Y Covered Peril N No Coverage

6. Approaches to Solution

Possible solutions

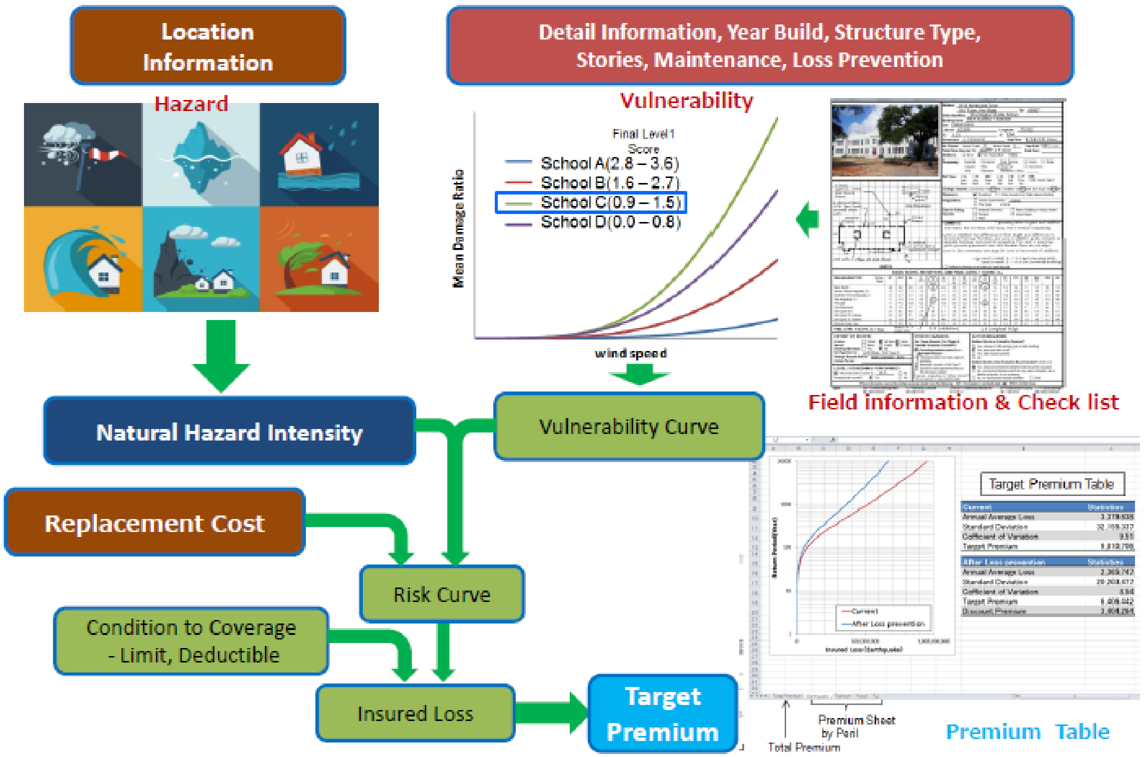
1) Raising awareness of the key role of insurance to protect public assets through sharing risk information with the insured
2) Establishment of a mechanism to avoid underinsurance / enable adequate insurance valuation for replacement
3) Establishment of incentive mechanisms to be included in GSIS insurance program for public assets



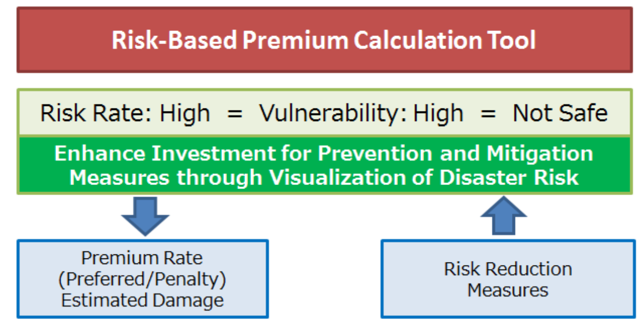
7. Risk-based Insurance Premium Tool

Development of a Risk-based Insurance Premium Tool

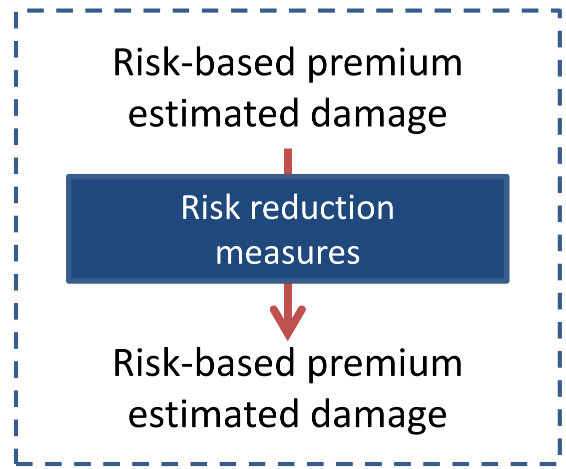
- A risk-based insurance premium tool that has the function of measuring effect of loss prevention measures in terms of the estimated damage and insurance premium.



Structure of Risk-based Insurance Premium Tools



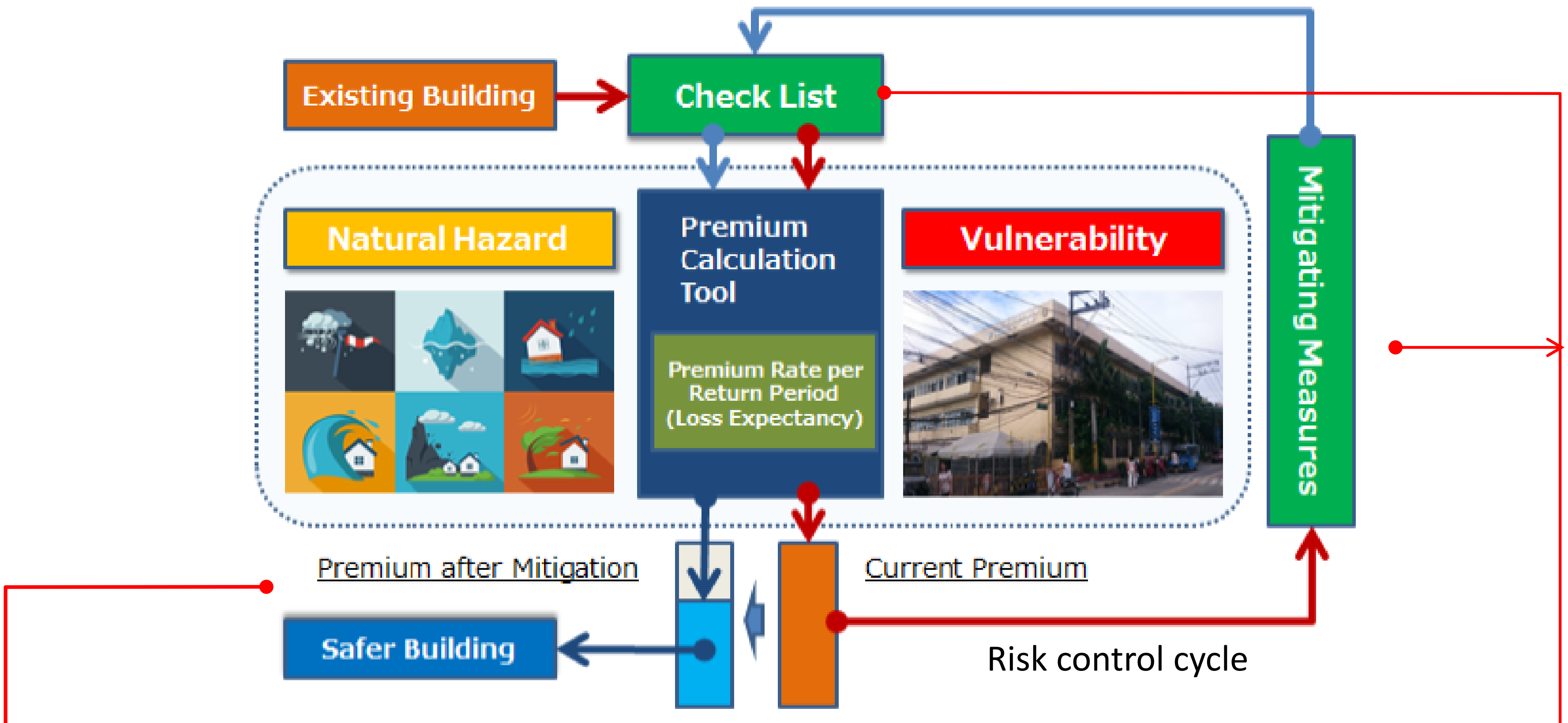
GSIS Insurance Program



- Target perils include Typhoon, Flood, Storm Surge, Earthquake, Liquefaction and Tsunami
- Making use of various hazards and vulnerability data possessed by the Government agencies

8 Incentive Mechanism for Risk Reduction built into the Insurance of Public Assets

- Possible to establish risk reduction incentive mechanism of insurance premium saving
- But effects of some risk reduction measures (albeit significant) cannot be captured or make little difference in the insurance premium calculation
- Need additional risk reduction incentives built into GSIS Insurance Program



Primary incentive
Insurance premium savings

Additional incentives
safer school certificate by GSIS

9. Conclusion

Implications from the Philippines' case for enhancing CRM by crafting risk finance programs to incentivize risk reduction

a. Sharing information on natural disaster risks and ability of insurance to mitigate them between the insured and insurers is critical for enhancing adequate use of insurance.

b. For that purpose, a risk-based insurance premium tool is useful, which enables them to measure effectiveness of risk reduction measures on the estimated damage and premium.

c. Some risk reduction measures may not lead to insurance premium saving despite being critical for human safety and indirect economic/social benefits.

d. Such critical measures with less impact on the insurance premium saving should be addressed with additional incentive mechanisms as well as information sharing/awareness raising.

e. Insurance companies are in a good position to promote such risk reduction measures, with their abundant database and expertise in risk assessment and reduction as well as their commercial incentives to reduce estimated damage of their clients.