

CASE STUDY

Insuring the Philippines Against Natural Disasters

OVERVIEW

The Philippines, one of the most disaster prone countries in the world, needed insurance to protect national government assets and help provinces respond more rapidly and effectively to the impact of natural disasters. The World Bank designed a customized parametric catastrophe risk insurance product for the Philippines that aims to provide fast liquidity after a natural disaster at the national level and to a pool of 25 provinces.

Background

The Philippines is among the world's most disaster-prone countries with high exposure to tropical cyclones, earthquakes, and other natural hazards.¹ In recent years, the government of the Philippines has improved its financing capacity to respond to disasters by establishing national and local level funds as well as [contingent credit lines](#). However, higher impact disasters would exceed these resources and leave the country vulnerable during the critical emergency response phase.

Catastrophe risk transactions provide insurance coverage against natural disasters. As an emerging economy, the Philippines faced challenges



*Flooded rice fields - Photo credit Nonie Reyes/
World Bank*

accessing such insurance coverage and decided to partner with the World Bank to design a customized approach.

Financing Objectives

- Gain access to international reinsurance markets to transfer risk
- Create pool for national and local government units (LGUs) to obtain more cost-effective coverage
- Create a customized policy for quick post disaster payouts
- Combine currency hedging with the insurance to provide payouts in Philippine peso (PHP)

¹The UN Office for Disaster Risk Reduction reports that between 1995 and 2015 the Philippines endured a total of 274 natural disasters, such as earthquakes, volcanic eruptions, tropical cyclones and floods, making it the fourth most disaster-prone country in the world and affecting a total of 130 million people

Financial Solution

The Philippines obtained a catastrophe risk parametric insurance policy with annual coverage of US\$206 million for national government assets against earthquakes and severe typhoons, and protection against severe typhoons for 25 provinces.

Parametric insurance is a type of insurance that makes a specified payment upon the occurrence of a triggering event, satisfying pre-agreed characteristics, such as the magnitude of an earthquake or the intensity of a typhoon. Since the payment of claims depends on parametric triggers, and not on actual losses which would take time to assess in the field, claims can be paid much faster. Payments can materialize within weeks compared to several months for traditional insurance. Parametric catastrophe risk insurance can therefore be used to provide prompt financing support to governments facing risks from natural disasters.

How does the financing work?

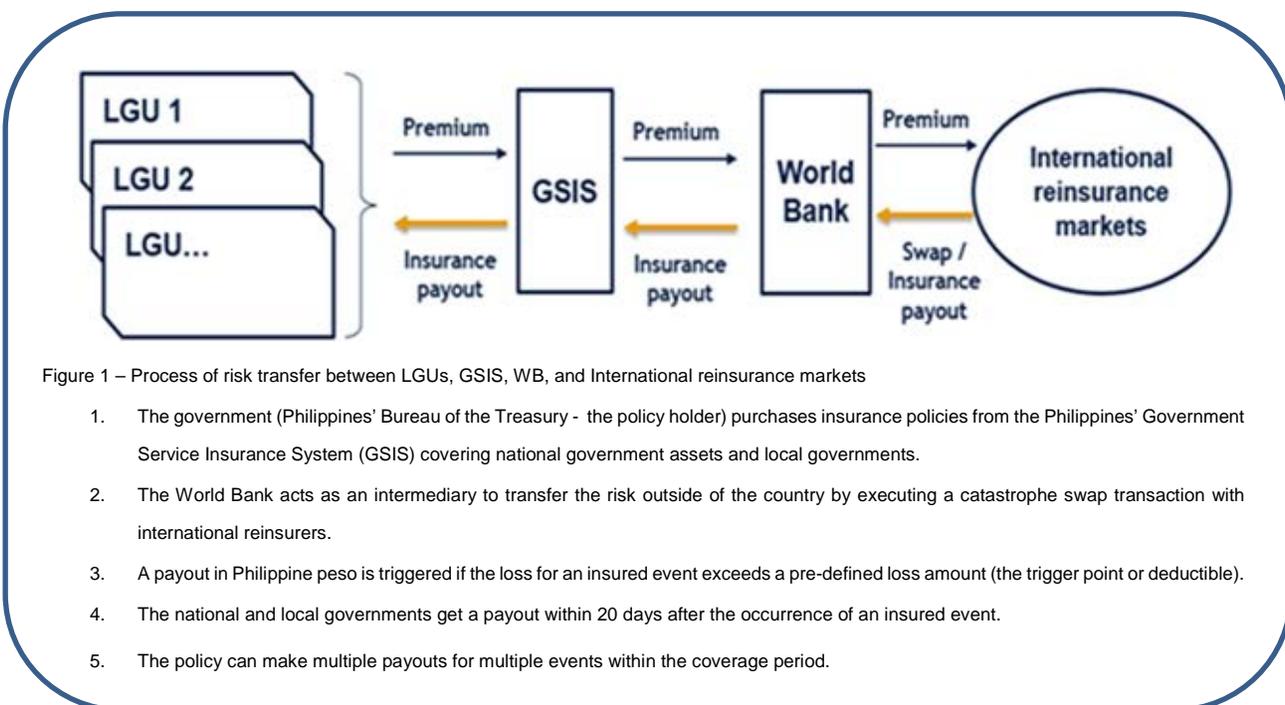


Figure 1 – Process of risk transfer between LGUs, GSIS, WB, and International reinsurance markets

1. The government (Philippines' Bureau of the Treasury - the policy holder) purchases insurance policies from the Philippines' Government Service Insurance System (GSIS) covering national government assets and local governments.
2. The World Bank acts as an intermediary to transfer the risk outside of the country by executing a catastrophe swap transaction with international reinsurers.
3. A payout in Philippine peso is triggered if the loss for an insured event exceeds a pre-defined loss amount (the trigger point or deductible).
4. The national and local governments get a payout within 20 days after the occurrence of an insured event.
5. The policy can make multiple payouts for multiple events within the coverage period.

Outcome

This transaction is the first of its kind in the Philippines, and marks the first time that the World Bank has entered into a reinsurance agreement with a governmental agency. Also, it is the first time a catastrophe risk transaction has been executed in local currency. The transaction aims to provide rapid liquidity to the government after a natural disaster to better support emergency response and maintain essential services until additional resources become available.

World Bank's role

The World Bank offers client countries comprehensive financing solutions to address the potentially high cost of disasters and climate shocks. In the Philippines, the World Bank focused on knowledge transfer and technical capacity building while working in close partnership with the government to develop, design, and execute this catastrophe risk insurance transaction. The country achieved the favorable terms and conditions for the transaction by leveraging the World Bank's position in the capital markets and placement capacity.

The World Bank has intermediated pooled catastrophe risk insurance transactions for 16 Caribbean countries and six Pacific island countries. Mexico, Uruguay, Chile, Colombia, Peru have also accessed catastrophe risk transfer solutions intermediated by the World Bank.

The World Bank's multilateral legal status allows it to act as an intermediary to simplify the issuance of catastrophe risk transactions. Additionally, the World Bank is able to:

- Accommodate different legal and regulatory environments
- Standardize documentation to reduce intermediation, legal and modeling costs, as well as placement fees
- Guide the outreach and investor discussions resulting in more competitive pricing
- Build the capacity of the client to undertake future transactions on their own.

Expanding access to parametric catastrophe risk insurance is one of the many ways the World Bank Group helps member countries build resilience against economic and natural disaster risks. IBRD's AAA credit rating, market presence and convening power allow the World Bank Treasury Financial Products team to develop innovative products that help clients maximize financing and mitigate risk.

Examples of catastrophe risk coverage around the world

[Mexico](#) issued a multi-peril cat bond using the World Bank's MultiCat Program, which helps sovereign and sub-sovereign entities pool multiple perils in multiple regions and reduce insurance costs. When Hurricane Patricia, the second-most intense tropical cyclone on record worldwide, hit the country, they had a US\$50 million payout. Also, the World Bank issued a [\\$360 million catastrophe bond](#) to protect Mexico against earthquakes and named storms. The country benefitted from a US\$150 million payout when an earthquake of 8.2 magnitude ravaged southern Mexico on Sept. 7, 2017.

In [Uruguay](#), the World Bank executed a US\$450 million weather and oil price insurance transaction for Uruguay's state-owned electricity company UTE. The transaction insured the energy company for 18 months against drought and high oil prices.

The World Bank provided technical assistance to the [Pacific Island](#) countries to help develop the disaster risk insurance policies and acted as an intermediary to place the country-specific catastrophe risk policies on the international reinsurance market as a single, well diversified portfolio. The Cyclone Ian (2014) in Tonga resulted in a payout of US\$1.27 million and the Cyclone Pam (2015) in Vanuatu led to a US\$1.9 million payout.

In the [Caribbean](#), the World Bank provided cat swap coverage from 2007- 2014 and in 2014 issued a three-year catastrophe bond linked to hurricane and earthquake risk in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) member countries. Throughout the life of the coverage, 10 member governments received 21 payouts, totaling approximately US\$68 million.

The World Bank issued a US\$1.4 billion catastrophe bond to provide earthquake cover to [Peru, Mexico, Chile, and Colombia, Mexico and Peru](#) on February 7, 2018.