

Working Group on Regional Disaster Risk Financing Solutions

Lima – February 13, 2016

- The 2015 APEC Ministerial Statement and the Cebu Action Plan highlight the development of innovative and regional disaster risk financing and insurance mechanisms to increase financial resilience as part of broader disaster and fiscal risk management frameworks. In particular, APEC Finance Ministers tasked *“the World Bank Group to conduct a study and prepare a report on options for regional disaster risk financing mechanisms, including risk pooling, among interested APEC economies, and work with relevant international organizations to develop the financial aspects of comprehensive disaster risk management frameworks, where appropriate.”* (**Ministerial Statement** of the APEC Finance Ministers’ Meeting which was held in September 2015 in Mactan, Cebu, Philippines).
- A dedicated working group on Regional Disaster Risk Financing (DRF) Solutions was established to respond to the ministerial request. The Working Group convened for its first meeting on February 13, 2016. The meeting was attended by representatives from Peru (Chair), Philippines (co-chair), Canada, Japan, ABAC, OECD, and the World Bank. Indonesia, New Zealand, Mexico, and USA were unable to attend in person but expressed interest in joining the WG going forward.

The members of the Working Group noted:

- The significant impact of natural disaster risks on the contingent liability of governments of APEC economies, both explicit (e.g., public assets and infrastructure) and implicit (e.g., low income housing);
- The need to conduct further assessment of contingent liabilities related to natural disasters to increase the financial resilience of APEC economies;
- That most APEC economies do not have comprehensive database of their assets at risk required to inform catastrophe risk assessments;
- That improved catastrophe risk information and assessment is a pre-condition for devising national disaster risk financing solutions and regional disaster risk financing mechanisms (as mandated by CAP)
- That contingent liability faced by APEC economies can be reduced by promoting domestic catastrophe risk insurance market, which requires appropriate supervision, including effective insurance data collection and management.

The members of the Working Group agreed to:

- **Develop a work plan** with specific activities in the short term towards the implementation of the 2015 APEC Ministerial Mandate on DRF in the medium term.
- **Focus on improving data on public assets and its related losses, and insurance data as a fundamental input toward effective national and regional DRF solutions**, drawing on the experience of member economies shared during the APEC workshop on ‘Improving Catastrophe Risk Data’ held on 13 February 2016, best practice in private industry and the experience of economies that have already made progress in this regard. The work should contain guidance on the process for establishing such databases.
- **Develop a standard methodology for public asset exposure databases**, with the primary objective to improve financial and fiscal risk assessment and management of APEC economies

against natural disasters. An accurate assessment of public assets and their vulnerability allows governments to become more informed risk managers and enhance their DRF strategies and financial mechanisms. Common data standards will ultimately support countries to work towards potential regional disaster risk financing solutions.

- **Develop a standard methodology for insurance exposure and incurred claims databases**, with the objective to improve cat risk insurance supervision (such as ratemaking, reserving, capital requirement and reinsurance). This will support APEC economies to deepen domestic catastrophe risk insurance markets and contribute to the reduction of the implicit liability of the government due to natural disasters.
- **Leverage the expertise of private industry through ABAC and the Asia Pacific Financial Forum, including insurers, reinsurers, risk modelers, as well as the expertise of international organizations such as the Organization of Economic Co-operation and Development (OECD), Asian Development Bank (ADB), and the International Association of Insurance Supervisors (IAIS). The WG emphasized the need to be mindful of existing comparable initiatives and the first step should be a review of existing methodologies and experiences, including in-country experiences.**

Next Steps

- The World Bank agreed to serve as a technical resource and facilitator of the WG. **The WG tasked the World Bank to prepare Terms of Reference for the development of the methodology, which will be approved by members of the WG and then shared with ABAC-APFF for consultations among its members.**
- The WG tasked the World Bank to facilitate the development of the database methodology. The World Bank will submit the draft and final documents to the WG for review and recommendation for consideration to the APEC economies.
- The WG suggests to **report back to APEC deputies at their next meeting in October 2016.**

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