DISASTER RISK FINANCING
- Resilience and Rebuilding
JAD Siriwardena
Natural Disasters are becoming frequent and intense

- Both Frequency and Intensity of natural disasters have increased significantly.
- Major floods accompanied by landslides and high wind in Sri Lanka in three consecutive years (May 2016, May 2017, November 2017 and May 2018)
- Many lives are lost for which no monetary compensation is adequate!
- Financial costs to property and livelihoods need financial relief.
- If insured, Insurance Companies will settle claims and recover from reinsurers where applicable.
- If uninsured, majority of victims have no recourse other than to seek compensation from Govt.
No proper mechanism to look after the uninsured

- Prior to 1\textsuperscript{st} April 2016, Govt had to pay compensation directly from the Consolidated Fund of the Treasury.
- Unplanned expenditure places severe burden on Govt budget.
- Hence, a solution was needed to manage this issue.
The Solution

- National Natural Disaster Insurance Scheme (NNDIS) launched on 1st April 2016.
- Covers every single house and business premises of small industries with an annual turnover < Rs. 10 Million.
- 3 covers
  - Personal Accident Cover of Rs.100,000/- for every life lost and Rs. 1 million for fisherman
  - Damages to property up to Rs. 2.5 Million per location
  - Emergency Relief Expenses to take care of the displaced
- Total Sum Insured of Rs. 10 bn (Increased up to Rs. 15 bn in 2017)
- GOSL bought the policy (Insured)
- NITF issued the policy (Insurer)
Reinsurance at Initial Stage

- Reinsurance purchased through a competitive tender process
- Tender won by Crescent Global.
- Placed with excellent panel led by Allianz SE and including Munich Re and Lloyds in 2016
- Deductible of Rs. 500 Mn
- NITF accepted a 20% co-reinsurance share
- Any loss to NITF from potential claim Rs. 500 Mn + 20% of the balance
Torrential rain commencing 16th May 2016 led to severe flooding in Colombo, Gampaha and many other districts.

- Also caused a major landslide in Aranayake and many other minor landslides
- Over 100 lives lost
- Insurance Industry hit with claims exceeding Rs. 15 bn of which NITF had to bear 30% of Reinsurance Recoveries
- Initial claims on NNDIS were for emergency relief (Cost Rs. 131 mn)
- Advances of Rs. 10,000/- paid to 64,552 houses (Cost Rs. 600 mn)
Scheme tested (Contd...)

- Total claims processed up to now (in addition to advances)

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Value LKR Mn</th>
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<tbody>
<tr>
<td><strong>Houses</strong></td>
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<tr>
<td>Buildings</td>
<td>24,233</td>
<td>1,805</td>
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<td>Contents</td>
<td>39,168</td>
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<tr>
<td><strong>Small Business</strong></td>
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<tr>
<td>Buildings</td>
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<td>5,981</td>
<td>209</td>
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<td><strong>Total</strong></td>
<td>69,829</td>
<td>2,654</td>
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Total claim payments Rs. 3.55 bn
Reinsurance Recovery Rs. 2.45 bn
Net Cost to NITF Rs. 1.1 bn
Even after meeting above claims, NITF recorded a profit of Rs. 2.8 bn with a Capital Adequacy Ratio (CAR) of 385%.
It has also been rated at AA – (Ika) by Fitch Rating.
And yet again ....... in May 2017

- Torrential rain of even greater intensity than 2016 causes severe flooding in Galle, Matara, Kalutara and Ratnapura districts and landslides in many areas
- Over 200 lives lost
- Around 90,000 houses and 4,500 SMEs damaged
- Emergency Relief Payments Rs. 125 mn
- Advances Rs. 785 Mn
- Total Claim payments Rs. 1.7 bn
High wind in November 2017

- High wind with rain causes severe damage in Galle, Matara, Kalutara, Badulla and Ratnapura districts in many areas
- Around 20 lives lost
- Around 45,000 houses and 1,200 SMEs damaged
- Emergency Relief Payments Rs. 125 mn
- Total Claim payments including Advances Rs. 600 Mn
Looking back ..........

Positives (+)
- Much faster response from Govt
- Vulnerable groups are protected
- More generous compensation payments
- People will begin to appreciate the value of insurance
- Better financial control
- Good response from global reinsurers
- No strain on national budget
- Highly acclaimed by World Bank, ADB, WFP, etc
Looking back .......

Negatives (-)
- Inadequate premium allocation (Rs. 300 Mn in 2016, Rs. 500 mn in 2017) not sufficient to even pay reinsurance cost
- Time consuming claims settlement process needs improvement
- Lengthy government procurement process resulting in delay in renewing reinsurance cover
- Not equitable – Parties benefitting are not paying for it. People get used to receiving free cover.
- No actuarial input in determining premium, designing policy, optimizing reinsurance coverage, etc
Thank You.
<table>
<thead>
<tr>
<th>Disaster Event</th>
<th>No. of Districts</th>
<th>Lives</th>
<th>Houses</th>
<th>SMEs</th>
<th>Total Damage</th>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td>LKR Mn</td>
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<tr>
<td>2016 May Flood / Landslide</td>
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<td>200</td>
<td>64,500</td>
<td>6,500</td>
<td>3,550</td>
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<td>2017 May Flood / Landslide</td>
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<td>275</td>
<td>90,000</td>
<td>4,500</td>
<td>1,700</td>
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<td>2017 November High Wind</td>
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<td>20</td>
<td>4,500</td>
<td>1,200</td>
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<tr>
<td>2018 May Flood / Landslide</td>
<td>23</td>
<td>26</td>
<td>10,850</td>
<td>773</td>
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<th>Disaster Event</th>
<th>No. of Districts</th>
<th>Farmers</th>
<th>Acres</th>
<th>Total Damage</th>
<th>Paid By NITF</th>
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<td></td>
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<td></td>
<td></td>
<td>LKR Mn</td>
<td>LKR Mn</td>
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<td>2016/17</td>
<td>15</td>
<td>1 mn</td>
<td>160,000</td>
<td>6,000</td>
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<td>2017/18 (Upto Now)</td>
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<td>135,000</td>
<td>125,000</td>
<td>900</td>
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<table>
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<tr>
<th>Crop Covered</th>
<th>Premium Coverage</th>
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<tbody>
<tr>
<td>Paddy</td>
<td>40,000 per Acre</td>
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<tr>
<td>Maize</td>
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<tr>
<td>Soy</td>
<td>1,350</td>
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<tr>
<td>Big Onions</td>
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</tr>
<tr>
<td>Potatoes</td>
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<td>Chilli</td>
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