Session 4.5
WCDR

Disaster Risk Reduction
Partnerships in the Financial Sector

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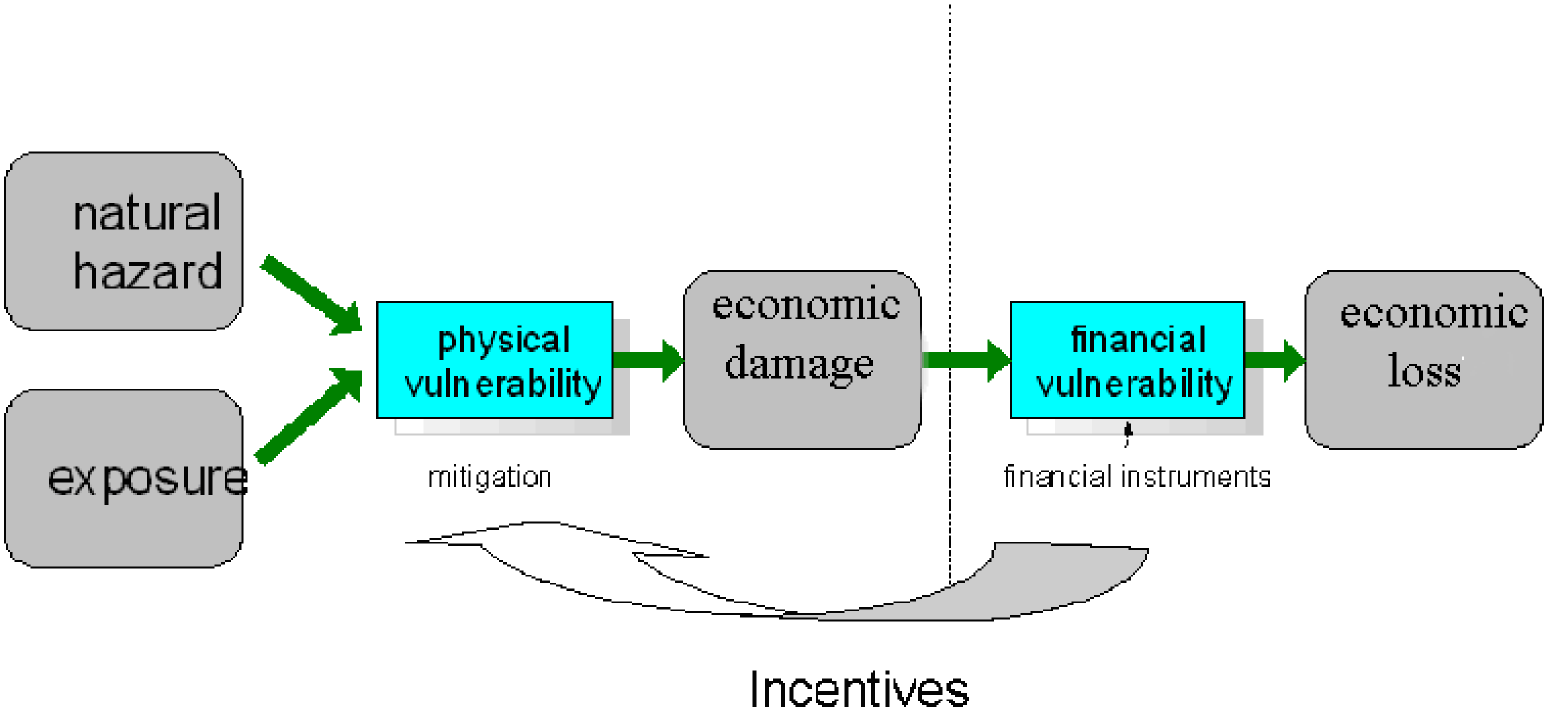
Financial Risk Management



What financial instruments are available for developing countries?

- Private sector
  - Insurance
  - Weather hedges
  - Micro-insurance
- Public sector
  - Contingent credit
  - Catastrophe bonds

But how can these instruments be made affordable?

Public-private partnership: TCIP

World Bank

Private Reinsurance

World Bank

Insurance
- Mandatory
- Risk based

No government compensation

How can financing reduce risks?

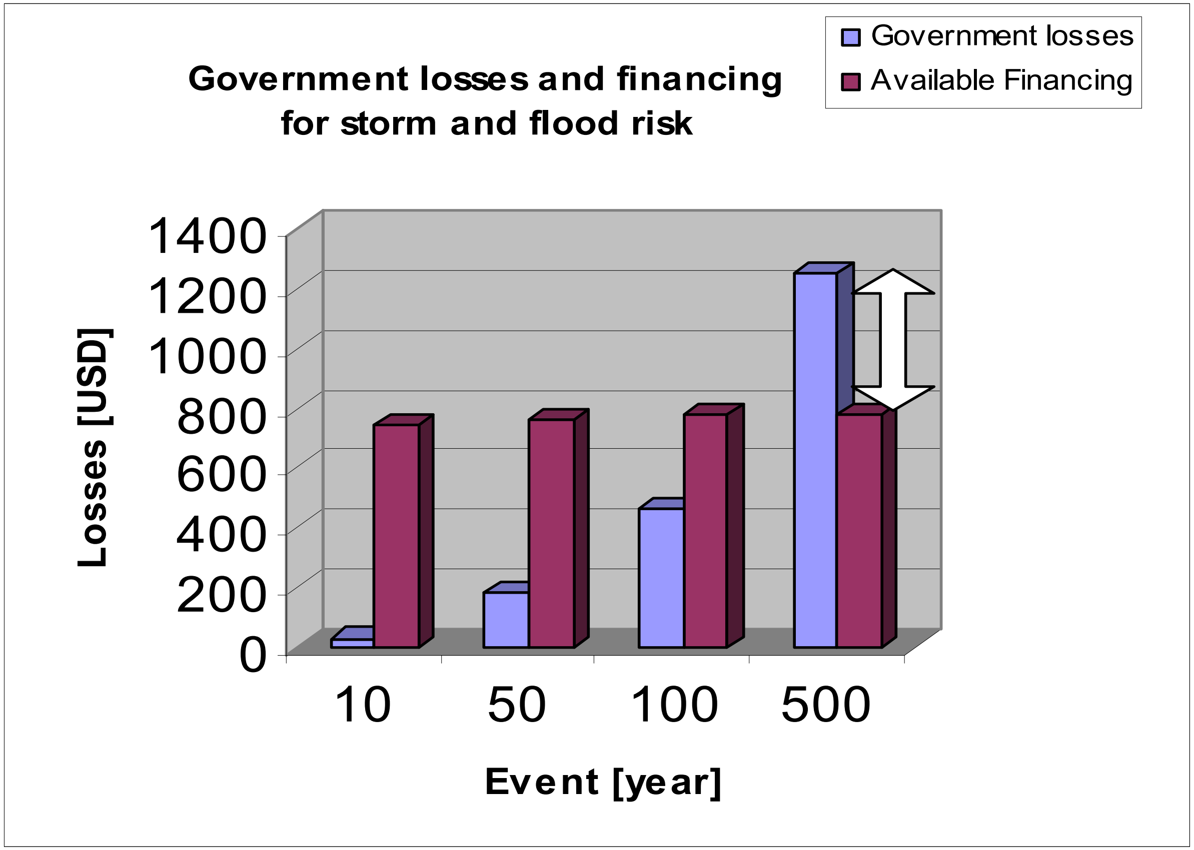
- Micro-insurance: Can give security needed to heed warnings;

- Public-private partnerships appear better than commercial insurance alone
  - TCIP: incentives for retrofitting
  - NFIP: communities required to take measures

Public sector losses: Vulnerable governments can transfer risks. International assistance can be linked directly to physical protection (new form of donor assistance).

Example

Honduras



Why assisted risk transfer and not traditional international donor aid?

- Focuses attention on risks before disaster – development planning;
- Provides secure planning horizon for country – encourages investment;
- Can be explicitly linked to disaster prevention.

Summary

- Mitigation first
- Financial instruments have potential for developing countries, but high associated costs;
- Need solidarity/partnerships in the national/international community to make risk transfer affordable;
- High benefits in terms of risk reduction.

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