

Are the Pacific Islands Insurable?

Challenges and Opportunities for Disaster Risk Finance



Vijaya Ramachandran
Center for Global Development

September 4 2019

Disaster risk in the Pacific

Country	Likelihood of natural disaster per year (%)	Likelihood of severe natural disaster (%)	Damage (%GDP, median)	Damage (%GDP, maximum)	Population affected (median)	Population affected (maximum)
Fiji	70.3	8.3	1.3	10.1	0.8	39.7
Kiribati	10.8	2.7			0.8	100.0
Marshall Is	16.2	5.4			1.1	38.3
Micronesia	24.3	5.4	1.8	3.5	5.7	97.8
Palau	2.7	0.0				
PNG	81.1	8.1	0.1	1.3	0.4	32.7
Samoa	27.0	18.9	21.0	161.8	1.6	6.7
Solomon Is	51.4	13.5	8.0	14.0	1.1	53.8
Timor-Leste	21.6	2.7	0.1	0.1	0.1	10.1
Tonga	29.7	8.1	4.9	28.2	3.4	100.0
Tuvalu	16.2	2.7			42.0	42.6
Vanuatu	56.8	29.7	18.0	131.2	5.3	87.0
PICs	34.0		1.7	161.8	1.3	100.0

Are the Pacific Islands insurable? Five questions

Can they pay?

Losses are high, premiums will also be high

Is the model good enough?

Parametric triggers, basis risk

Do they trust?

Government and citizen expectations

Has risk been reduced?

Resilience, building codes, inspection quality

Will reinsurers support?

Reinsurance market

World Bank/PCRIC Scheme

Country	Event	Premium (US\$)	Average annual loss(US\$)	Attachment point (US\$ m)	Coverage limit (US\$ m)
Marshall Islands	Tropical Cyclone	\$560,000	\$414,815	\$0.78	\$10.20
Samoa	Cyclone	\$369,600	\$273,778	\$2.64	\$9.73
	Earthquake/ tsunami	\$190,400	\$141,037	\$1.1	\$5.98
Tonga	Tropical Cyclone	\$280,000	\$207,407	\$4.8	\$3.53
	Earthquake/ tsunami	\$280,000	\$207,407	\$0.72	\$3.85
Cook Islands	Tropical Cyclone	\$100,000	\$74,074	\$1.6	\$3.03
TOTAL		\$1,780,000	\$1,318,519		\$36.32

Pacific Island Schemes

There are at least a dozen schemes....

Pacific Catastrophe Risk Financing and Insurance Initiative

Fiji Early Pension Withdrawal Scheme

Fiji Effective Household Protection

Pacific Resilience Facility

Pacific Financial Inclusion Program

Pacific Islands Climate Change Insurance Facility (PICCIF)

Pacific Resilience Programme (PREP)

Pacific Disaster Resilience Programme (PDRP)

Drua Incubator

Pacific Resilience Partnership (PRP)

International Red Crossetc

Scope for microinsurance and
community-based insurance

How can insurance work in the PICs?

Subsidies to premiums Donor pool

Parametric triggers Use wisely, sometimes don't use

Investments in resilient infrastructure Link to premiums

Bundling of insurance products Bundle with fire insurance, for example

Layering of instruments Need ecosystem and careful regulation

Conclusion

PICs are prone to natural disasters that cause significant damage

Large losses mean high premiums: donors must be realistic about costs and who pays

Disaster risk insurance in the Pacific should not be characterized as market-based financing

A well-designed insurance scheme can link premiums to investments in resilience

Insurance can help but is probably not a substitute for aid

A regional body such as the Pacific Islands Forum must keep track, to avoid debt distress, duplication