



World Bank Group

**FINANCIAL SOLUTIONS**

for Catastrophe Risk Management

# Catastrophe risk financing is an important element of the strategic framework for disaster risk management advocated by the World Bank Group

A comprehensive disaster risk management strategy, involving risk assessment, institutional capacity building, investments in risk mitigation, emergency preparedness, and catastrophe risk financing, can be very effective in mitigating the impacts of natural disasters.

The World Bank Group has two complementary catastrophe risk financing product lines:

## **Sovereign risk financing for direct budget support**

**Contingent Financing.** Development Policy Loan (DPL) with Catastrophe Deferred Drawdown Option (CAT DDO) to provide immediate liquidity up to USD500 million or 0.25% of GDP (whichever is less) to IBRD-member countries in the event of a natural disaster.

**Sovereign Catastrophe Insurance Pools.** Advisory services to help countries establish regional vehicles to pool risks and access international catastrophe reinsurance markets on competitive terms. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), for example, offers parametric insurance against major hurricanes and earthquakes in 16 Caribbean countries. A similar initiative for the Pacific Island countries is in preparation.

**Catastrophe Bonds.** Cat bonds to transfer risk to investors by allowing the issuer to not repay the bond principal if a major natural disaster occurs. The World Bank Group has developed a platform for a multi-country, multi-peril cat bond that transfers diversified risk to private investors.

**Weather Derivatives.** Intermediation services to help protect countries against the risk of adverse weather events. The first such initiative, designed to help Malawi protect itself against the risk of severe drought, is an option on a rainfall index linking rainfall with national maize production.

## **Advisory services to strengthen domestic property catastrophe insurance markets**

**Catastrophe Insurance Pools.** Advisory services to help countries establish national catastrophe insurance pools such as the Turkish Catastrophe Insurance Pool, which offers efficiently priced earthquake insurance to more than 2.5 million homeowners. A similar pool is planned in Romania. The World Bank Group is also supporting the creation of a regional catastrophe reinsurance pool for South-East European countries.

**Index-Based Agricultural Insurance.** Index-based insurance programs to protect private sector participants such as farmers and rural financial institutions against extreme weather. The National Agricultural Insurance Scheme (covering more than 20 million farmers) and the Weather-Based Crop Insurance Scheme (covering more than 600,000 farmers) in India protect against poor harvests caused by drought or frost. Similar initiatives are ongoing in Malawi, Thailand, and Central America.

**Agricultural Insurance Pool.** Advisory services to help countries establish agricultural insurance pools such as the index-based livestock insurance program in Mongolia (covering more than 600,000 animals and involving four private insurance companies).

**Specialized Index-Based Insurance Facility.** Advisory services supported the creation of the Global Index Insurance Facility, a multi-donor trust fund that promotes index-based insurance in developing countries.

## Added Value to Clients

- ▣ **Expertise in catastrophe risk management**  
 Extensive experience in partnering with countries to establish efficient and innovative solutions both at the macro (country) and micro (household, farmer) levels
- ▣ **Customized financial solutions**  
 Customized transactions catering to each country's specific needs, type of hazard, macroeconomic environment, and desired level of risk protection
- ▣ **Access to financial markets**  
 Access to international reinsurance and capital markets and capacity building for future transactions between the country and the financial markets
- ▣ **Extensive country knowledge and convening power**  
 Global reach and country knowledge to identify opportunities for countries to pool risks together

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### World Bank Group Financial Products & Advisory Services

Contingent Financing	<ul style="list-style-type: none"> <li>• CAT DDO—a committed credit line for catastrophe risk</li> <li>• Contingent emergency response component in standard investment projects</li> </ul>
Sovereign Catastrophe Insurance Pools	<ul style="list-style-type: none"> <li>• Caribbean Catastrophe Risk Insurance Facility (CCRIF)</li> </ul>
Insurance-Linked Securities	<ul style="list-style-type: none"> <li>• Catastrophe bonds</li> <li>• Weather hedges (IBRD and IDA)</li> </ul>
Catastrophe Insurance Pools	<ul style="list-style-type: none"> <li>• Turkish Catastrophe Insurance Pool</li> <li>• Romania Catastrophe Insurance Pool</li> <li>• South-East Europe Catastrophe Risk Insurance Facility</li> </ul>
Index-Based Agricultural Insurance	<ul style="list-style-type: none"> <li>• Area-yield crop insurance program</li> <li>• Weather-based crop insurance schemes</li> </ul>
Agricultural Insurance Pools	<ul style="list-style-type: none"> <li>• Index-Based livestock insurance pool</li> </ul>
Specialized Index-Based Insurance Facility	<ul style="list-style-type: none"> <li>• Global Index Insurance Facility</li> </ul>

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