Southeast Asia Disaster Risk Insurance Facility

PROTECT THE GREATEST HOME OF ALL:
OUR COUNTRIES

SEADRIF is a regional platform to provide ASEAN countries with financial solutions and technical advice to increase their financial resilience to climate and disaster risks.
Policy, Institutional and Regulatory Requirements

Facilitator: Benedikt Signer

Speakers:
Rob Antich, Australia | Heddy Pritasa, Indonesia | Greg Fowler, New Zealand
Objectives of the factsheets and webinar

- **Why** should governments develop a financial protection strategy for public assets?
- **When** can insurance be a good option for the financial protection of public assets?
- **Who** are the key stakeholders (both external and internal) that play roles in each stage of the insurance development process?
- **What** are the most important step-by-step considerations involved in the development of a strategy for public asset insurance?

**INTENDED OUTCOME:**
Government officials to develop strong understanding of the steps required to design, develop, deliver and operate effective financial protection of public assets, particularly through risk transfer and insurance.
Structure of Webinars

90 minute webinar for each factsheet

Different guest speakers

Poll results will be included in final outputs

Live polls: Please participate

Please share questions via Q&A function
Roles and responsibilities for the government officials within an internal insurance program, the associated stakeholders, including auditing, compliance and governance, supervisory.

- Multi year aspects such as renewals and re-assessment of exposures.
- Review of procurement considerations
- Dealing with claims management
- Incorporating innovations and technologies

- Development of an implementation roadmap for a public asset financial protection program
- How governments can agree objectives and build consensus around priorities
- How to develop internal governance and oversight functions, and ownership at each level of the insurance program
- How risks are allocated across asset owners and operators

Roles and options available to construction of cost-effective insurance, including common insurance structures and case studies, their pros and cons against considerations of budgets, risk appetites, and government priorities.

- Introduction of pooling and mutualization of large scale public assets insurance programs
- Insurance/reinsurance concepts of retention, deductible and exclusion

- The importance and development of Public Assets Registries, and associated Enterprise Asset Management systems.
- How to assess and quantify asset exposure, sources of data, requirements for insurance transactions
- Introductions to the use of catastrophe analytics, burning cost / technical and market rates, tariff structures, risk based pricing methods, and underwriting.
What was the last webinar about?

- Roadmap to develop a public asset financial protection program
- Data and information needs for a public asset financial protection program
- I did not attend the previous webinar(s) – this is my first time
- It was too boring, I don’t remember
Policy, Institutional and Regulatory Requirements

Rob Antich
Former Australian Government official
Consultant, Crisis and Disaster Risk Finance, World Bank
### Public Asset Insurance Program

#### Strategic alignment

<table>
<thead>
<tr>
<th>(1) Policy design</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will the program align with the government’s overall risk management strategies and objectives?</td>
</tr>
<tr>
<td>What does the program cover? What are the priorities?</td>
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</tbody>
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#### Legitimacy

<table>
<thead>
<tr>
<th>(2) Program design</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will the program work?</td>
</tr>
<tr>
<td>Who will it apply to?</td>
</tr>
<tr>
<td>What are the obligations on program participants and the program manager?</td>
</tr>
<tr>
<td>What governance and regulatory mechanisms?</td>
</tr>
<tr>
<td>Where should the program be located?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Legislative process</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will it be set up?</td>
</tr>
<tr>
<td>What institutional frameworks and tools are available to establish and support the program?</td>
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</table>

#### Budget and Financial planning

<table>
<thead>
<tr>
<th>(4) Financial parameters</th>
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</thead>
<tbody>
<tr>
<td>How much will participants have to contribute in premiums? (contribution levels)</td>
</tr>
<tr>
<td>How are surplus contributions accumulated over financial years? (accumulation levels)</td>
</tr>
<tr>
<td>At what levels should accumulated funds be capped, relative to claims and costs? (funding ratios)</td>
</tr>
<tr>
<td>Will the funds be formally separated from government accounts?</td>
</tr>
<tr>
<td>Will the funds be invested and if so, what will be the investment strategy?</td>
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</table>
Public Asset Insurance Program timeline

1) Strategic alignment (1-2 years)
   - Policy design
     - Stakeholder consultation and agreement

2) Legitimacy - design (1-2 years)
   - Program design
     - Participation Governance Location Financial parameters

3) Legitimacy - legislative (1-2 years)
   - Legislative processes
     - Legislation Regulation Ministerial direction Rules By-laws

Public Asset Insurance Program
Core objectives: Fiscal and risk management

- Protect balance sheet
- Improve economic resilience to external shocks
- Strategic alignment with risk management
- Improve financial management of government assets
- Improve understanding of overall government challenges

Complementary objectives

- Economic/social resilience
- Efficient risk and cost allocation
1) Strategic alignment—Policy design

Invest time and effort to engage stakeholders to clarify the key program objectives, principles and scope.

Key stakeholders:

- **across government** - priority stakeholders include key financial government agencies (Ministry of Finance/Treasury) and departments or agencies responsible for infrastructure and social service delivery

- **subnational governments** - especially in relation to any proposed/potential changes in disaster risk and cost allocation settings, and

- **the financial/insurance industry and community groups** - to account for wider technical and on-the-ground support mechanisms.

Following the consultation process, Governments need to:

- **decide** on the key drivers, objectives and principles of the program

- **understand the choices and trade-offs** that are being made – what the priorities are, what the program is expected to do and what it will not do

- **communicate** its decision to stakeholders to set and limit expectations about the program and its objectives, and

- consider how the program will be **implemented**.
Which policy objective do you consider is the most important in relation to developing a public asset insurance program?

- Improving economic resilience to external shocks
- Improving the government’s balance sheet
- Improving the financial management of significant government assets
- Improving social resilience and reducing poverty
- More efficient allocation of expenditure for disaster relief and recovery
2) Legitimacy—Program Design

- Program participation
  - Mandatory vs. voluntary
  - Phased on-boarding
  - Program obligations
  - Risk management
  - Data sharing

- Governance
  - Parliamentary
  - Governmental
  - External audit
  - Internal

- Organizational set-up
Program participation – voluntary vs. mandatory

Voluntary
- Increased autonomy
- Customised approach
- Competition
  - Fewer economies of scale
  - Adverse selection risk
  - Less predictable forecasting
  - Fewer incentives

Mandatory
- Economies of scale
- Less adverse selection risk
- More accurate forecasting
- Increased transparency
- Increased information
  - One size fits all
  - Loss of agency control

-- Encouraged to participate
  - OPTIONAL

-- Expected to participate
  (i.e. must explore the option)
  - CONDITIONALLY OPTIONAL

-- Required to participate
  (i.e. must apply for an exemption)
  - MANDATORY

Central government agencies

Crown Entities

Government Corporations
Program obligations

- Comply with laws, policies and instructions incl. risk management
- Represent agencies to market and ensure ongoing and effective risk transfer
- Good faith
- SLAs and KPIs
- Duty of care to take all reasonable steps
- Full and timely information disclosure

Participants

Program manager

Comply with laws, policies and instructions incl. risk management
- Represent agencies to market and ensure ongoing and effective risk transfer
- Good faith
- SLAs and KPIs
- Duty of care to take all reasonable steps
- Full and timely information disclosure

Participants

Program manager
# Governance of a Public Assets Financial Protection Program

## Internal governance
- Audit Committee oversight
- Internal review
- Stakeholder advisory committees
  - Consider purpose of committee, powers, meeting frequency, reporting and resources required

## External audits
- External audits by private sector

## Government review
- Ministerial oversight – meetings/reports
- Periodic independent review of the program’s objectives, roles, functions and performance to test whether the program remains fit for its purpose.

## Parliamentary scrutiny
- Parliamentary scrutiny of program performance
  - Annual reports tabled in Parliament
  - Regular attendance before Parliamentary committees
  - Auditor-General review of financial reports and occasional audits

### Regular points in a financial year

### Typically once every financial year

### Typically every 3 – 5 years
3) Legitimacy
—Legislative process

Acts of Parliament
Executive orders
Policy design
Objectives
Powers
Reporting and review

Transparent
Stakeholder engagement
Less flexible
Time consuming

Regulations, ministerial
directions, rules, by-laws
Operational matters and ‘fine tuning’
Not as transparent
Less stakeholder engagement
Flexible
Timely
Policy, Institutional and Regulatory Requirements

Greg Fowler
Former New Zealand Government official
Consultant, Crisis and Disaster Risk Finance, World Bank
### Contribution levels
How much does each entity have to contribute in premiums?

### Accumulation levels
How are any surpluses in contributions accumulated over financial years?

### Funding ratios
At what levels should accumulated funds be capped, relative to claims and operating costs?

### Ringfencing of funds
Will the funds be formally separated from government accounts?

### Investment of funds
Will the funds be invested and if so, what is the investment strategy?
Target Operating Range
(set at an upper and lower limit depending on government and program strategy)

The lower end range of a funding ratio below 100% (for example 90%) recognizes the program can operate in deficit before a government capital injection is required.

A Low to mid upper Funding Ratio range (for example 115%). The fund can accumulate a profit surplus of up to a 15% should claims/expenses be less than expected.

A Low to mid upper Funding Ratio range (for example 115%).

Any accumulated deficit below the allowable lower funding ratio range may trigger a capital injection from government (potentially as per terms built into legislation).

100% Funding Ratio (Break-even point)

Any accumulated surplus above the allowable upper funding ratio range can be returned to government, invested into risk management improvement initiatives, or returned to agency operational budgets.
Illustrative funding ratio

**Lower target operating range**
100%

**Deficit**

**Operating revenue**

**Surplus**

**Retention surplus (3-5 year strategy)**

**Upper target operating range**
130%

**Ceded surplus options:**
- Returned to consolidated account
- Allocated to risk management activities
- Dividends to participating agencies

**Ring Fencing and Investment Options**

(a) No ring fencing – Operating revenue and surplus into consolidated account. Notional balance sheet for program income and expenditure.
(b) Ring fencing with retained investment – A dedicated account invested as part of the overall government investment portfolio, with investment income returned to the fund.
(c) Ring fencing with ceded investment - A dedicated account invested as part of the overall government investment portfolio, with investment income retained within the consolidated account.
Public Asset Insurance Program timeline

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   (1-2 years)
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     - Regulation
     - Ministerial direction
     - Rules
     - By-laws

Public Asset Insurance Program
Agencies managed own risks
No overall awareness or aggregation of government risks or liabilities
No incentive to mitigate

Promote best practice risk management for government agencies to improve policy formulation and service delivery.
Provide a comprehensive insurance fund to protect against insurable losses

Participation: Mandatory for all budget funded departmental agencies and non-corporates within the government sector, but not government corporate entities/businesses. Similar cover to market.
Obligations: Comply with Comcover Statement of Cover and other financial regulations.
Governance: Reports to Finance Minister, accounts reported to Parliament and Auditor-General access to accounts. Regular external auditors and actuarial reports. Location: In-house unit in Department of Finance.
Financial: Special account for income/expenditure but notional, and managed as part of consolidated accounts. Target funding ratio of 100% - funds returned if >$AUD150m.
Panel discussion

Facilitator: Benedikt Signer

Speakers:
Rob Antich, Australia | Heddy Pritasa, Indonesia | Greg Fowler, New Zealand
Perspectives from Indonesia

Heddy Pritasa
Head of Product Development, General Insurance Association of Indonesia (AAUI)
Head of the Technical Committee for the State Asset Insurance Program Consortium
Which aspect do you find the most challenging in relation to developing a public asset insurance program?

- The policy design: aligning the program with other government policies and objectives
- The program design: deciding who program participants are and what is expected of them
- The legislative process: deciding how the program will be set up and where it will be situated
- Budgets and financial planning: deciding how program funds will be collected, accumulated, invested and allocated.
- They are all equally challenging
Panel discussion

**What** have been the most challenging aspects, from your perspectives, in developing the policy and institutions for a financial protection program for public assets?

**How** do you bring together different perspectives? From across government agencies, the asset operator and private sector?
Questions and Answers

USE THE Q&A FUNCTION
PLEASE GET IN TOUCH IF YOU WOULD LIKE TO SHARE YOUR COUNTRY EXPERIENCE IN FUTURE WEBINARS

NEXT WEBINARS ON:
- PUBLIC ASSETS MANAGEMENT
- DATA AND INFORMATION REQUIREMENTS
BREAK FOR 4-6 WEEKS AND RESUME IN EARLY SEPTEMBER
Thank you