

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Sep-2020 | Report No: PIDC27315

BASIC INFORMATION

A. Basic Project Data

Country East Asia and Pacific	Project ID P170913	Project Name Southeast Asia Disaster Risk Insurance Facility (SEADRIF): Strengthening Financial Resilience in Southeast Asia	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 25-Sep-2019	Estimated Board Date 30-Sep-2020	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) SEADRIF Trustee, SEADRIF Insurance Company	Implementing Agency SEADRIF Insurance Company, SEADRIF Trustee	

Proposed Development Objective(s)

The project development objective is to improve access to pre-arranged financing through market-based mechanisms for responding to disasters in Southeast Asian countries.

Components

Component 1. Capitalization of the SEADRIF Insurance Company
 Component 2. Establishment and operationalization of the SEADRIF Company
 Component 3. Establishment and operationalization of SEADRIF Trust/Sub-Trust(s), project management, monitoring and evaluation

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	12.00
Total Financing	12.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	12.00
Southeast Asia Disaster Risk Insurance Facility (SEADRIF) Pr	12.00

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Regional Context

- The Association of Southeast Asian Nations (ASEAN) countries, home to more than 650 million people with a combined GDP of almost US\$3 trillion, are highly prone to disaster and climate events.** Floods, tropical storms, droughts, earthquakes and tsunamis all have left severe physical, economic and human impacts in the region, with more than 400 million lives affected over the past 30 years¹ and annual regional average expected losses equivalent to greater than 0.3 percent of regional GDP.
- ASEAN countries face different financing needs in the wake of disaster and climate shocks.** The countries are at different stages of economic development, have different socio-political structures, and differ by risk profiles, fiscal space, level of access to financial markets, all of which generate different funding needs following disasters and climate shocks. Notwithstanding the differences, the countries share a common denominator: heavy reliance on government budget and lack of pre-arranged risk financing mechanisms such as insurance or contingent credit.
- Smaller and disaster-prone economies in ASEAN comprising Cambodia, Lao PDR and Myanmar are exposed to potential short-term funding gap² for emergency response.** The governments in Cambodia, Lao PDR, and Myanmar have allocated contingency budgets and reserve funds to be used for emergency response, but when faced with a catastrophic event, they still need to rely heavily on international donor assistance for responses, relief, and recovery. The funding challenge is further exacerbated by constraints

¹ EM-DAT data 2019

² The difference between estimated emergency response costs of natural disasters and available budget resources

in raising liquidity at the outset of an event because of limited borrowing capacity, under-developed local insurance and capital markets, limited access to international (re)insurance and capital markets.

4. **Larger and disaster-prone economies such as Indonesia, the Philippines, and Vietnam face potential funding gaps for more severe but less frequent events.** Larger sized economies have a better capacity to raise liquidity than smaller economies, thanks to more developed local debt and insurance markets and better access to international capital and reinsurance markets. However, they are still confronted with challenges in obtaining sufficient and quality liquidity and coverage due to limited fiscal space and the limited capacity of local insurance markets for catastrophe risks.
5. **ASEAN countries may experience compound shocks from pandemics and natural disasters.** The Corona Virus Disease 2019 (COVID-19) outbreak has severely impacted ASEAN countries, with the full magnitude of the financial, fiscal, and social ramifications still unknown. If a large-scale disaster happens, particularly during the response or recovery phase of COVID-19, it will put further strains on the countries' already limited fiscal space, vulnerable populations, as well as firms' finances.

Sectoral and Institutional Context

6. **Confronted with narrow fiscal space, ASEAN disaster-prone economies seek to develop additional buffers to mitigate the impact of disaster and climate shocks.** These countries are in persistent budget deficits, ranging from 1% to 5% of GDP. In the context of increased losses from disaster and climate events, these governments are exploring new shock-responsive financing mechanisms as cushions for the government budget against disaster and climate risks. Governments of the Philippines and Indonesia, for example, already developed and implemented a financial protection strategy against disaster and climate risks, while others including Lao PDR, Myanmar, Cambodia, Vietnam are in the process of development.
7. **The financial sector in ASEAN disaster-prone economies has made important contributions to the countries' development, however, remain under-developed to shoulder part of the government's fiscal costs due to disaster and climate shocks.** Capital market capitalization in smaller economies remains modest at less than 50% of GDP, while the ratio for larger sized economies ranges between 70% and 150% of GDP. Insurance sectors are still largely under-developed in smaller sized countries with penetration ratio at less than 0.1% of GDP, whilst higher penetration was seen in larger sized countries at around 1.2% GDP.
8. **Pre-arranged risk financing options are often most efficient when combined with ex-post risk financing instruments through a risk layering strategy.** In countries where financial protection strategies were underpinned by risk layering, pre-arranged financing instruments such as contingent credit or insurance are combined with other traditional funding such as budget or reserves because no single instrument can help the governments weather the storm sustainably and efficiency gains can be best achieved when the instruments work in complementarity to respond to post-disaster funding needs.



9. **ASEAN+3³ Finance Ministers and Central Bank Governors have endorsed the establishment of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) as a platform to work together for better financial resilience of the ASEAN region against disaster and climate shocks.** A Memorandum of Understanding (MOU) for the establishment of SEADRIF was signed by Cambodia, Indonesia, Lao PDR, Myanmar, Japan, and Singapore on December 14, 2018.⁴ An additional MOU signatory was recorded in May 2019, with the Philippines officially joining as the 7th SEADRIF member country.
10. **Signatory countries to the SEADRIF MOU agreed to set up SEADRIF under a Trust structure, domiciled in Singapore.** The structure comprises (i) the SEADRIF Trust, a legal agreement for SEADRIF open to all ASEAN+3 countries and governed by the Council of Members (CoM) that will provide overall strategic direction for SEADRIF, and (ii) SEADRIF Sub-Trust(s), an arrangement(s) for a sub-group(s) of SEADRIF member countries and development partners to develop and govern specific initiatives. Japan and Singapore became the first Settlers of the SEADRIF Trust by signing the Trust Deed in July 2019.
11. **The SEADRIF Insurance Company (the Company) was established under Sub-Trust A to provide disaster risk financing and insurance products to the participating countries,** with financial support from development partners. The Company's initial capitalization is expected to be provided by the proposed grant in parallel with a grant provided by Singapore in October 2019. The Company was incorporated by the selected Trustee as its legal owner and shareholder and licensed as a general insurance company (with some regulatory exemptions) by the Monetary Authority of Singapore (MAS) under the jurisdiction of Singapore.
12. **Lao PDR and Myanmar agreed in May 2018 to establish and join the first regional catastrophe risk pool under SEADRIF Sub-Trust A,** while Cambodia pended their decision subject to further feasibility studies. The proposed catastrophe risk pool is designed as a reinsurance-backed disaster liquidity facility. The countries join the pool through an upfront payment of contribution/premium and receive quick payouts upon eligible disaster events. The pool will (i) retain some risk based on its joint reserves made of country premium contributions and donor contributions, and (ii) transfer excess risk to international reinsurance markets in order to ensure that all claims can be paid in full in the event of a severe event (or a series of severe events).
13. **This first product offered by the Company will be a hybrid insurance product, providing payouts for small, medium and severe flood events.** The insurance product will consist of two complementary components covered by one single premium: (i) a parametric insurance component to provide a limited but immediate payout to insured countries following medium or severe flood events; and (ii) a finite insurance (with soft trigger) component to mitigate the risks of parametric insurance which arise from basis risk (e.g., mismatch between the actual loss and the modeled loss) and losses which are not sufficient to trigger a payout under the parametric component (below the deductible) and to cover for perils other than floods.

³ Comprising ASEAN countries and China, Japan and the Republic of Korea

⁴ Member countries refer to all MoU signatories. Participating countries refers to the member countries which are eligible to receive insurance coverage and other services by SEADRIF and technical assistance from the World Bank. The list of participating countries currently includes Cambodia, Indonesia, Lao PDR, Myanmar and The Philippines.

14. **Payouts from the catastrophe risk pool will be used for post-disaster emergency relief, response and recovery of critical infrastructures as well as maintenance of essential government services and monitored by SEADRIF.** Lao PDR and Myanmar have committed to developing contingency plans to ensure timely, effective and transparent use of insurance payouts. The countries' contingency plans will follow the contingency planning guidelines developed and approved by the Committee before the insurance policy is issued. These guidelines require the countries to strengthen their existing system and processes for the use of insurance proceeds as well as financial management and acquittal procedures. The World Bank (WB) will review these guidelines and the contingency plans prepared by Lao PDR and Myanmar before issuance of insurance policies⁵.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project development objective is to improve access to pre-arranged financing through market-based mechanisms for responding to disasters in Southeast Asian countries.

Key Results

15. **The achievement of the PDO will be measured through the following key indicators:**
- i. The Company has the capacity to make insurance payout within up to 30 days of the occurrence of an insured event under the first catastrophe risk pool;
 - ii. The Company has the claims-paying capacity to sustain a 1-in-200 year insured loss in each financial year after allowance for its reinsurance protection⁶;

D. Project Description

16. **The proposed project has three components** that have been identified in consultation with the Committee, Trustee and Company. The components aim to support the set-up, operationalization, and capitalization of the Company and support the implementation as well as monitoring and evaluation of the project to achieve the desired development objectives.
17. **Component 1. Capitalization of the SEADRIF Insurance Company (US\$10 million).** This component provides grant financing to the Trustee who would then subscribe shares to the Company as the sole shareholder. This financing would enable the Company to (a) satisfy the capital adequacy requirement under the Insurance (Valuation and Capital) Regulations 2004 issued by the MAS and (b) be adequately capitalized to sell its first product as the catastrophe risk pool for Lao PDR and Myanmar in line with the business plan agreed with the WB. The capitalization would also enable the Company, subject to agreement with the Trustee as the shareholder, the Committee as the governing body, to:

- (i) Make an insurance payout within up to 30 days of the occurrence of an insured event;

⁵ Supported under the ongoing Southeast Asia Disaster Risk Management projects in Lao PDR (P160930) and Myanmar (P160931)

⁶ Subject to reinsurance market conditions

- (ii) Be able to retain and manage a portion of the risk while the excess risk is transferred to the reinsurance markets;
- (iii) Be able to earn income on investment of the capital;
- (iv) Pay part of reinsurance premiums or lower insurance premiums;

18. **Component 2. Establishment and operationalization of the SEADRIF Insurance Company (US\$1,200,000).** This Component supports the setup and operationalization of the Company, including *inter alia* regulatory fees, risk modeling, (new) product development, communications, system development and other related professional fees/costs necessary for the set-up and operations of the Company.

19. **Component 3. Establishment and operationalization of SEADRIF Trust/Sub-Trust(s), project preparation, and implementation, monitoring & evaluation (US\$800,000).** This component supports the Trustee for (a) the establishment and operations of SEADRIF Trust and Sub-Trusts, fulfillment of the Trustee’s role as the sole shareholder of the Company and (b) the project preparation, implementation and monitoring and evaluation (M&E). M&E activity will focus on (i) use of grants provided by the WB for the project including project reporting; (ii) implementation arrangements for compliance with WB’s Environmental and Social Framework including for the use of insurance payouts from the Company, including but not limited to monitoring the submission and receiving the beneficiary countries’ reports and information on their use of payouts, reviewing these reports and information with support from an environmental & social Focal Point and reporting to the Committee, arranging audits of the beneficiary countries’ use of payouts upon instruction from the Committee and at the request of the WB; and (iii) other M&E of project activities.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

20. **The proposed project is anticipated with overall environmental and social benefits,** including securing access to timely and cost-efficient financing for short term emergency response to disasters and climate events, in a context of increasing frequency and magnitude of floods, tropical storms, droughts, earthquakes and tsunamis, causing severe physical, economic and human impacts in the Southeast Asia region.

21. **The Trustee and the Company, as grant recipients of the Project, will be subject to the requirements under the WB’s Environmental and Social Framework (ESF).** The ESF requirements are applied to

SEADRIF's own operations for the Project and the use of the insurance payouts by the beneficiary countries for the first catastrophe pool for Lao PDR and Myanmar. The insurance payouts from the Company are expected to cover country-specific goods, services and physical works needed for emergency response, recovery and maintenance of essential public services, excluding activities that could cause substantial or high environmental and social risks and impacts.

E. Implementation

Institutional and Implementation Arrangements

22. The proposed project will be implemented over five years, with the Trustee and the Company as Recipients of grant funds separately.

- i. **SEADRIF Trustee:** A licensed trust company (Intertrust (Singapore) Ltd.) has been appointed as the Trustee by the Settlers (Governments of Japan and Singapore) to hold the legal title of the SEADRIF Trust/Sub-Trust properties and perform the duties of a Trustee. The Trustee conducts its operations for this project in accordance with the Project Operations Manual (POM) which is subject to the Sub-Trust A Committee's approval as well as the WB's review and no objection. The Trustee's operations will also comply with the SEADRIF Trust and Sub-Trust A Operations Manuals which are subject to the CoM and the Committee's review and amendment respectively, as necessary and as acceptable to the WB.
- ii. **SEADRIF Insurance Company:** The Company is domiciled in Singapore as a general insurance company to provide insurance products to Sub-Trust A beneficiary countries. The Company is regulated by the MAS and governed by a Board of Directors. The Company's Board is comprised of three seasoned Directors with decades of experience in the insurance industry. The Company outsources its functions to third party service providers including but not limited to the insurance manager, asset manager, reinsurance broker, and calculation agent. The insurance manager supports the Company's Board by coordinating the various functions serviced by third-party providers. The Company conducts its operations in line with its constitution, standard operating protocols as well as the POM. The POM is subject to review and amendments by the Company's Board as necessary and also subject to the WB's review and no objection.

23. There will be two implementing agencies for this project.

- i. **SEADRIF Trustee** is the project implementing agency for component 1 and 3. The Trustee will receive grant funds from the WB to (a) capitalize the Company through a share subscription agreement, (b) set up and operationalize the Trust and Sub-Trust(s) and fulfill the Trustee's role as shareholder of the Company and (c) prepare an M&E plan and implement M&E activities including preparing M&E reports for the project together with the Company, such as managing the information and reports from the beneficiary countries on their use of payouts and arranging audit of the use of payouts by beneficiary countries as may be required by the Committee or the WB, amongst others.
- ii. **SEADRIF Insurance Company** is the implementing agency for component 2. The Company will receive grant funds from the WB to finance its set-up and operational expenses such as regulatory fees, risk



modeling, calculation agent, (new) product development, communications, system development, asset management, audit, and other related professional fees/costs necessary for the Company's set-up and on-going operations.

24. **The Trustee and the Company will each enter into a grant agreement with the WB** to receive funding for implementation.

25. **Flow of funds.** Grant for capitalization under Component 1 will flow from the World Bank SEADRIF Multi-Donor Trust Fund to the Trustee who then transfers to the Company on a share subscription agreement. Other grants will flow directly to the Company for set-up and operational expenditures under Component 2 and to the Trustee for set-up and operationalization of SEADRIF Trust/Sub-Trust and project preparation, management and implementation costs under Component 3.

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The World Bank

Southeast Asia Disaster Risk Insurance Facility (SEADRIF): Strengthening Financial Resilience in Southeast Asia (P170913)

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APPROVAL

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