Swiss Re

Public-private partnerships offer innovative solutions for disaster risk relief, lowering governments' financial burden, says Swiss Re research

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Zurich, 27 January 2011 – Public-private partnership solutions can substantially ease the financial burden natural disasters put on government budgets. The economic costs of natural catastrophes have risen from an average USD 25 billion per annum in the 1980s to USD 130 billion in the 2000s. With climate change unfolding, catastrophic events such as hurricanes, floods and droughts are likely to increase further, hitting in particular emerging markets and developing countries.

The increasing severity and frequency of natural catastrophes are driving up the cost of disaster relief, especially in developing and emerging markets as they are hurt the most and prepared the least. When hurricane Ivan struck Grenada in 2004, the economic losses amounted to USD 889 million, ie a staggering 203% of the Caribbean island state's gross domestic product (GDP). One year later, the country defaulted on its foreign debt. In the case of the more recent Haiti earthquake, the losses still stood at 114% of GDP.

From post-disaster financing to a three step approach
"The mounting exposure to catastrophes calls for a more diversified approach in financing disaster relief," says Michel Liès, Chairman Global Partnerships at Swiss Re. The focus of disaster risk management has hitherto been on post-event relief, rehabilitation and reconstruction. Instead, a more balanced approach is preferable, combining both pre- and post-event elements. As a first priority, governments should ensure a functioning insurance market through appropriate legislation. This will help to absorb a big part of disaster losses suffered by individuals and businesses. Then, governments should consider pre-event financing solutions that build up reserves, as well as contingent finance and sovereign insurance solutions. Post-disaster financing of relief, rehabilitation and reconstruction through budgetary means, debt financing or donor aid should only come into play to cover residual losses once all other risk transfer solutions have been exhausted. In a new publication,

Swiss Re presents seven case studies showing how these concepts have been put into real life practice.

Hurricanes and earthquakes: the example of CCRIF
One such example is the Caribbean Catastrophe Risk Insurance Facility (CCRIF) which insures 16 Caribbean countries and territories against earthquakes and hurricanes. CCRIF works like an insurance mutual, combining the benefits of pooled reserves from participating governments with the capacity of the financial markets. It retains some of the risks insured by the member governments and transfers the remainder to reinsurance markets. Together with others, Swiss Re is supporting CCRIF as the lead reinsurer.

Financial risk transfer only part of a bigger picture
"Through its involvement in numerous public-private partnerships, Swiss Re has the track record demonstrating that it can effectively support governments in tackling the financial implications of natural catastrophes and make these societies more resilient in the face of adversity," states Liès. He highlights, however, that financial risk transfer should not be looked at in an isolated way. An integrated and structured risk management approach should be undertaken that includes a thorough analysis of the risk landscape. This enables political and public sector decision-makers to determine the priorities in advance and to allocate scarce resources accordingly. A comprehensive approach allows governments to minimise risks wherever possible, transfer the costs of peak risks, such as natural catastrophes, where necessary and thus maintain long-term financial health of their countries.

Notes to editors

Further Information

Swiss Re's publication "Closing the financial gap – Public private partnerships: New solutions for financing disaster risks" includes seven case studies from the Caribbean, Central America, Mexico, the state of Alabama, Malawi, China and Vietnam exemplify how pre- and post-disaster financing mechanisms can operate in practice. To read, please visit www.swissre.com

To read learn more about Swiss Re's transactions and the ECA methodology, first published in the ECA Working Group report "Shaping Climate-Resilient Development," please visit www.swissre.com or www.swissre.com/climatechange.

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