Disaster Risk Financing and Insurance in Indonesia

Purpose: Information
Submitted by: Indonesia
Disaster Risk Financing and Insurance Policy

APEC SENIOR FINANCE OFFICIALS MEETING

Madang, 7-8 June 2018

Fiscal Policy Agency - Ministry of Finance, Indonesia
Outline

- Key concerns and priorities related to DRF
- Existing Disaster Risk Financing Policy and Schemes
- Policy Improvement and Instruments
Key concerns and priorities related to DRF
Fiscal Risk of Disaster: Key Challenges
Fiscal Risk of disaster due to limited fiscal capacity and unplanned fiscal management in the overall implementation of disaster risk reduction efforts.

- In the event of catastrophic, the Budget has funding limitation (covers less than 20% of total lost in each event), slow disbursement and less flexible procurement thus reducing the speed of Government response.
- Lack of ex-ante financing policy, more on ex-post approaches.
- Potential of tax revenue loss
- In the absence of catastrophic shock, the Contingency Fund has never been optimally absorbed.
- Lack of resilient infrastructure against disaster

Disaster Financing Policy Needs:
“to provide massive, fast, well-planed, well-targeted financing in more transparent management to reduce economic loss and fiscal risk and protect public finance against disaster”.

The GoI Key Priorities:
- Protect state-owned assets (national and subnational).
- Protect Key Public Infrastructures
- Protect households and communities, especially low-income household.
- Recover social aspect of communities.
- Support the development of domestic insurance industry (disaster)
Existing Disaster Risk Financing Policy and Schemes
## Recent DRFI in Indonesia

### Ex-Ante

<table>
<thead>
<tr>
<th>Policy</th>
<th>Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Assets Insurance</td>
<td>State Assets Insurance (not yet implemented)</td>
</tr>
<tr>
<td>Sovereign Insurance</td>
<td>None</td>
</tr>
<tr>
<td>Government support for Private/Communities</td>
<td>Agriculture Insurance (pilot).</td>
</tr>
<tr>
<td>Contingent Credit (i.e. CAT-DDO)</td>
<td>None</td>
</tr>
<tr>
<td>Catastrophe Bonds</td>
<td>None</td>
</tr>
</tbody>
</table>

### Ex-Post

<table>
<thead>
<tr>
<th>Policy</th>
<th>Scheme</th>
</tr>
</thead>
</table>
| National/Subnational Budget Allocation | 1. Regular budget
2. Contingency fund
3. Ready to use fund *(On-call)*
4. Village fund |
| Re-Allocation                 | available                                                              |
| International assistance/non-Governmental | Available                                                             |
| Tax Incentive                 | Available during the Catastrophe                                       |
| Deficit Financing             | None                                                                   |

**The main challenges for Ex-ante interventions:**
1. Scattered, unplanned and not yet integrated within the national DRM (rely on sectoral and regional initiative)
2. Low coverage and not well targeted.
3. Lack of technical support regulation.

**The main challenges Ex-Post financing interventions:**
1. In the event of catastrophic, the Budget has funding limitation, while In the absence of catastrophic shock, the Contingency Fund has never been optimally absorbed.
2. Follow Budget Cycle => Slow disbursement and less flexible procurement thus reducing the speed of Government response.
3. Financing for rehabilitation and reconstruction involves many stakeholders, laws/regulations: BNPB, ministry of finance, Ministry of public works and housing, ministry of internal affairs, ministry of social, Ministry of Villages, Under develop regions and transmigration, public works agency, social agency, regional disaster management agency, district, village, => authority barrier risk, responsibilities barrier risk, coordination challenges, slow response and not well targeted beneficiary; and transparency.

**Additional Challenges:**
Synergy and responses from all stakeholders
Policy Improvement and Instruments
Policy Framework

Disaster Financing Policy Needs:
“to provide massive, fast, well-planed, well-targeted financing in more transparent management to reduce economic loss and fiscal risk and protect public finance against disaster”.

Policy Framework on DRFI to enhance fiscal governance and resilience to disaster:
• Starting with better understanding on fiscal risk of disaster (including DRFI Education).
• Aiming to:
  ✓ Protect state-owned asset (national and subnational).
  ✓ Protect Key Public Infrastructure
  ✓ Protect households and communities, especially low-income household.
  ✓ Recover social aspect of communities.
  ✓ Support the development of domestic insurance industry (disaster)
• Policy output:
  ✓ Innovative and sustainable financing schemes that are fit to disaster risk of particular area, social and economic characteristic of the communities and align with the DRM policy and National Development Plan as well as social protection policy.
• Disaster risk financing policy is also aimed to support the domestic insurance market and private sector engagement.
• the increasing role and capacity of all relevant stakeholders is commendable.
Solution, Steps and Instrument

Solution:
- The development of policy; and innovative and sustainable risk financing scheme for ex-ante and ex-post financing (national strategy for disaster financing)

Steps/Instrument

2018-2019

1. Formulating National Strategy on DRFI (including the Macroeconomic Fiscal Policy Framework for 2019 Budget, KEM-PPKF)
2. Strengthening the current ex-ante scheme (Agricultural, fisheries insurance)
3. Implementation of the State Assets Insurance Pirot Project (under the MoF Management)
4. Understanding CAT-DDO that is fit with the country’s system and needs
5. DRFI Education to key related stakeholders (ministries/agencies, subnational gov, parliament, courts, police, attorney general, anti corruption agency/KPK)

2018-2023

1. Pooling Fund (FONDEN like):
   - For Ex-Ante and Ex-Post Financing => emergency response, rehab recon and mitigation and risk transfer (including to international market)
   - Source of fund: Endowment fund from National Budget and Contingency Fund optimization and third party fund
   - State Budget Complementary
2. Promoting new insurance schemes:
   - Low-income households residential insurance
   - Infrastructure insurance
3. Understanding CAT-BONDS that is fit with the country’s system and needs
4. National and Subnational Government Sharing on Ex-Ante Financing
Thank You