Recurring floods and other natural disasters affecting the safety and livelihoods of large populations are a major challenge in Southeast Asia and often leave governments with a critical need for immediate liquidity to finance emergency response and early recovery.

In May 2018, Finance Ministers of Cambodia, Lao PDR, Myanmar, Singapore, and Japan agreed to establish the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) domiciled in Singapore, to strengthen financial resilience to climate and disaster risks. This agreement built on the joint preparatory works by the Regional Technical Working Group, which was established in May 2017 through a Memorandum of Understanding signed by Cambodia, Lao PDR, Myanmar, and Japan.

SEADRIF is a platform for ASEAN+3 countries to access disaster risk financing solutions and increase financial resilience to climate and disaster risks. SEADRIF has been highlighted as a key initiative to fulfill the commitment of ASEAN+3 Finance Ministers and Central Bank Governors to strengthen regional cooperation on financial resilience in their Joint Statement in 2018.

SEADRIF provides participating countries with advisory and financial services for post disaster rapid financing to reduce their impact on people and their livelihoods. The first financial solution developed under SEADRIF is the catastrophe risk insurance pool for Cambodia, Lao PDR and Myanmar. SEADRIF will also develop a range of financial solutions for other ASEAN countries as per their requests.
The Joint Statement of The 21st ASEAN+3 Finance Ministers’ and Central Bank Governors’ Meeting (4 May 2018, Manila, Philippines)

We reaffirm our commitment to increase the financial resilience of ASEAN+3 members to climate and disaster risks. We welcome the agreement to establish a regional catastrophe risk insurance pool for Lao PDR and Myanmar as the first product of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), with support from Japan, Singapore and the World Bank. We also recognize that Cambodia may join the regional catastrophe risk insurance pool, subject to the result of the feasibility studies. We acknowledge that SEADRIF, which will be domiciled in Singapore, aims to provide climate and disaster risk management and insurance solutions to ASEAN member states, and helps to narrow the natural catastrophe protection gap within the region. We welcome the ASEAN Disaster Risk Financing and Insurance Program (ADRFI) to work and collaborate with SEADRIF on some issues, including data assessment and modeling, and capacity building. We invite other ASEAN+3 members to join the SEADRIF, and encourage donor partners beyond ASEAN+3 to support this initiative.

SEADRIF - Platform for ASEAN+3 Countries to Develop Disaster Risk Financing Solutions

SEADRIF is established and owned by ASEAN+3 countries, with support from donor partners and technical support from the World Bank. It is composed of:

- **SEADRIF Trust**: a strategic decision-making body open to all ASEAN+3 countries;
- **SEADRIF Sub-Trust**: a sub-group of the SEADRIF member countries and donor partners within and beyond ASEAN+3 to develop and govern specific initiatives, such as the catastrophe risk pool; and
- **SEADRIF Company**: a general insurance company fully owned by the SEADRIF Sub-Trust to provide insurance and financial services, including the catastrophe risk pool as the first product.

All the entities of SEADRIF will be established in Singapore, with support of the Government of Singapore.
SEADRIF Catastrophe Risk Pool for Lao PDR, Myanmar, and possibly Cambodia

The first financial solution offered by SEADRIF, is a regional catastrophe risk pool for flood risks developed by and for Cambodia, Lao PDR, and Myanmar. Lao PDR and Myanmar agreed in May 2018 to establish and join the pool, while Cambodia will determine their participation subject to their feasibility studies. The pool will provide participating countries with rapid liquidity for disaster response through a combination of joint reserves with market-based risk transfer instruments. This will be the first such pool in Asia, building on similar ones in Africa, the Caribbean and the Pacific.

Cambodia, Lao PDR, and Myanmar face significant short-term funding gaps for disaster response and early recovery. The countries are exposed to multiple hazards, including floods, cyclones, earthquakes, landslides, and droughts. The countries have experienced large floods, resulting in billions of US dollars in losses. The 2015 Myanmar major floods displaced 1.6 million people and caused an estimated US$1.5 billion in total losses and damages. Financial analysis has revealed that contingency budgets provisioned by those governments would face substantial shortfall in the face of response costs for severe events, such as the flood events in 2000 in Cambodia, 2013 in Lao PDR and 2015 in Myanmar.

The participating countries will pay a contribution to SEADRIF cat risk pool for a 3-year coverage, and in the event of a qualifying flood event, they will receive a payout from SEADRIF cat risk pool. Each country’s contribution is based on their own risk profile and desired level of coverage, avoiding cross-subsidization. It is expected that donors within and outside ASEAN+3 will contribute seed capital and start-up and operating costs for the development and implementation of the catastrophe risk pool.

Insurance Product Design

The insurance product offered by SEADRIF catastrophe risk pool has the following features:

- **Multi-year coverage** (3 years);
- **Parametric trigger component**, which will trigger either a partial or full insurance payout against flood risks, based on a pre-agreed parametric trigger (e.g., a flood severity index);
- **Soft trigger component**, designed to provide a payout for disaster events that do not trigger a payout under the parametric trigger either due to (negative) basis risk, losses below the parametric trigger, or losses caused by perils other than floods. They will require a proof of loss (e.g., declaration of emergency).

Preliminary actuarial analysis shows that the participating countries can benefit from premium savings of up to 25% by purchasing insurance through SEADRIF cat risk pool rather than directly from the international insurance market. This is due to (i) risk diversification among the participating countries; (ii) seed capital from donor partners; (iii) efficient access to international reinsurance.

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1 Estimates by the Asian Development Bank include total loss and damage.
Flood Risk Assessment Platform

SEADRIF is supported by an innovative flood risk assessment platform which underpins the disaster risk finance solutions. State-of-the-art technology and advances in satellite data help make risk information more accessible and timely to governments. The flood risk assessment platform provides financial decision makers with flood risk and impact assessments in near-real time for ex-ante financial decisions and post-disaster financial decisions. The tool is currently under development and will be available initially for Cambodia, Lao PDR, and Myanmar.

Benefits of SEADRIF to Participating Countries

- **Reduced reliance on disruptive budget reallocations or uncertain humanitarian assistance.** Rapid disaster financing reduces the need to reallocate budget or wait for uncertain international assistance.

- **Facilitated access to international reinsurance and capital markets.** Regional risk pooling and collective approach can design and develop low cost sovereign (re)insurance options.

- **Access to public goods such as a flood risk assessment model backed by state-of-the-art technology.** Innovative disaster risk models assist governments in accessing risk information more easily and timely.

- **Regional leadership.** The countries demonstrate regional leadership in Asia in building a joint mechanism for better managing climate and disaster risks. The Joint Statement of the 21st ASEAN+3 Finance Ministers’ and Central Bank Governors’ Meeting in 2018 has already recognized this leadership.

- **International support.** Demonstration of strong regional ownership, accountability and transparency in managing disaster risk, and its financial innovation can collectively result in strong donor support. Regional disaster risk financing solutions have received attention in policy dialogues, such as G7 and G20.

Timeline (as of July 2018)

- **May 5, 2017** Cambodia, Lao PDR, Myanmar and Japan signed the MoU for the Regional Technical Working Group to conduct the feasibility and preparatory work
- **June 2017-Dec 2018** Feasibility and preparatory work on the establishment of SEADRIF; Flood risk modeling development; disaster risk insurance product design
- **May 4, 2018** Ministerial Agreement to establish SEADRIF and select Singapore as its domicile
- **May 2018-Dec 2018** Finalization of the legal documentation
- **Dec 2018** Establishment of SEADRIF
- **Early 2019** Capitalization of SEADRIF cat risk pool with donor support
- **Mid 2019** Launch of SEADRIF cat risk pool