

For safety's sake

India can draw on its experience to guide G20's disaster management initiative

The G20 under India's Presidency having endorsed a new working group on disaster risk reduction makes it well positioned to prioritize disaster risk financing to achieve the targets set by Sendai framework for 2030. Recent years have seen an increase in both natural and man-made catastrophes that have affected economies across the globe. The 2021/22 Human Development Report has unequivocally shown that disaster risks do not merely exacerbate poverty and thwart development but also generate social polarization that cuts across nations and communities. Compounding the issue, the lack of competent financial risk management and insurance has provided a fertile breeding ground for these risks to proliferate and intensify, wreaking havoc on various aspects of society and the economy. Moreover, annual disaster losses account for a significant share of Gross Domestic Product (GDP) in many low-income economies. To manage these risks, financial strategies must be developed.

The G20 has a crucial role to play in supporting countries to strengthen their financial risk management capabilities. States need to enhance their capacity to understand risks and integrate them into government planning and budget processes. The insurance industry needs better regulation, legislation, and supervision. Partnerships with the private sector need to be enabled to transfer sovereign risk to the capital markets, and financing for response, recovery, and reconstruction needs to be improved by shifting from ex-post to ex-ante mechanisms. Furthermore, there is a critical scarcity of investment in a development-oriented approach that unites all parties into a transparent framework of action at the national level. Solutions to these challenges exist, but there is a worrisome dearth of investment in all these areas.

To address these pressing issues, the G20's new Disaster Risk Reduction Working Group (DRRWG hereon) has recognized the crucial importance of prioritizing disaster risk financing. This will be the focus of their second meeting, scheduled to take place in Mumbai in May of 2023. By emphasizing the importance of disaster risk financing, the G20 can help governments worldwide to manage risk more effectively and ensure sustainable development for all.

The financial management of disaster risks has been approached in a variety of ways across different economies, reflective of both varying levels of disaster risk and economic development. However, there are still a number of common challenges that remain pervasive, such as the significant difficulty in collecting and analyzing data on hazards and exposures, the necessity of strengthening technical and institutional capacity for risk assessment and modeling, and the challenge of achieving comprehensive coverage of disaster risks.

In light of this, the newly established DRRWG of the G20 will offer an extensive overview of disaster risk assessment and financing practices across a wide range of economies. The DRRWG can also support the harmonization of definitions and methodologies for data collection and analysis to improve access to international (re)insurance markets. The DRRWG will strive to address all the key components of a comprehensive financial management strategy for disaster risks, encompassing disaster risk assessment and modeling, affordable and comprehensive insurance coverage of disaster risks, financial assistance and compensation for

affected individuals and businesses, and risk transfer mechanisms, including catastrophe bonds and insurance, for the management of fiscal risks.

Furthermore, IPCC's Sixth Assessment Report on Climate Change highlights the significant number of people living in highly vulnerable settings, while the Sendai Framework for Disaster Risk Reduction calls for substantial reductions in disaster risk and losses in all areas of life. As markets and society become more aware of the reality of climate change, there is a growing recognition that disaster resilience must be a priority. However, bridging the gap between high-level objectives and practical investments remains a challenge. This is where the deliberations and consensus generated at the G20 DRRWG could play a significant role in directing capital flow towards investments that make societies and economies more disaster resilient.

The working group on disaster risk reduction's addition in the Sherpa track of G20 will help issuers, investors, and other stakeholders to identify and classify disaster-resilient investments, assets, and entities in a more effective and evidence-based way. By providing screening criteria for investments in various measures, such as projects, assets, activities, or entities, the DRRWG could channel more capital towards disaster risk reduction investments, while also creating new opportunities for innovation in sectors less commonly associated with disaster resilience, such as health, social protection, and natural capital.

The financial sector must also recognize its stake in disaster risk financing. Over 300 potential hazards identified by the UNDRR can significantly impact the financial services industry and hinder progress towards the Sustainable Development Goals. Therefore, the industry must internalize externalities and incorporate material disaster risk into its investment decisions. While the private sector has made strides in ESG analysis, the integration of disaster risks into financial decision-making remains limited. We need to move beyond treating disasters as singular events and adopt a multi-hazard approach, considering various hazards and risks in financial decision-making. The second DRRWG meeting in Mumbai will strive to create vital links between public and private actors' investment and financial decision-making, encompassing a wide range of hazards and identifying strategies to address them.

Under India's presidency, by prioritizing disaster risk financing for the first time, the G20 can convert good intentions into specific, actionable, and investable opportunities. India has extensive experience dealing with natural disasters and can lead in promoting awareness of the financial impacts of disasters, investing in disaster risk prevention and reduction, and establishing a supportive legislative and regulatory framework to enhance the financial capacity of insurance companies to cover disaster losses. Through the DRRWG's systematic and granular approach, the G20 will make a significant contribution to global efforts to manage disaster risks and build resilient economies and societies.