

# DISASTER INSURANCE IN VIET NAM – THE PATH TO OBLIGATORY SOLUTIONS



## Self-Reliant Fund for Natural Disaster Mitigation in Viet Nam

by

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## Purpose of Self-Reliant Fund for Natural Disaster Mitigation in Viet Nam



- Increase capacity to recover quickly after a disaster
- Provide support to households to re-establish livelihood
- Finance ex-ante disaster mitigation and vulnerability reduction

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# Relative Frequency of Natural Disasters in Viet Nam



Viet Nam

<u>High</u>	<u>Medium</u>	<u>Low</u>
Flood	Hail rain	Earthquake
Typhoon	Drought	Accidents
Inundation	Landslide	Frost
Tornado	Fire	
Flash flood	Deforestation	

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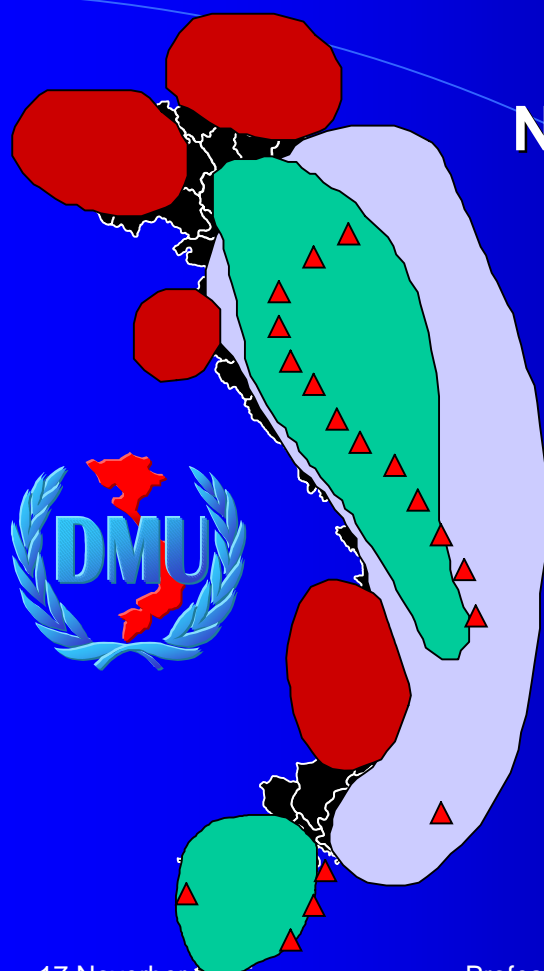
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## Natural Disasters in Viet Nam



Viet Nam



- River Flooding
- Flash floods
- Typhoons
- Storm Surges

- Not on map:
- Droughts
  - Salt water intrusion
  - Forest fire

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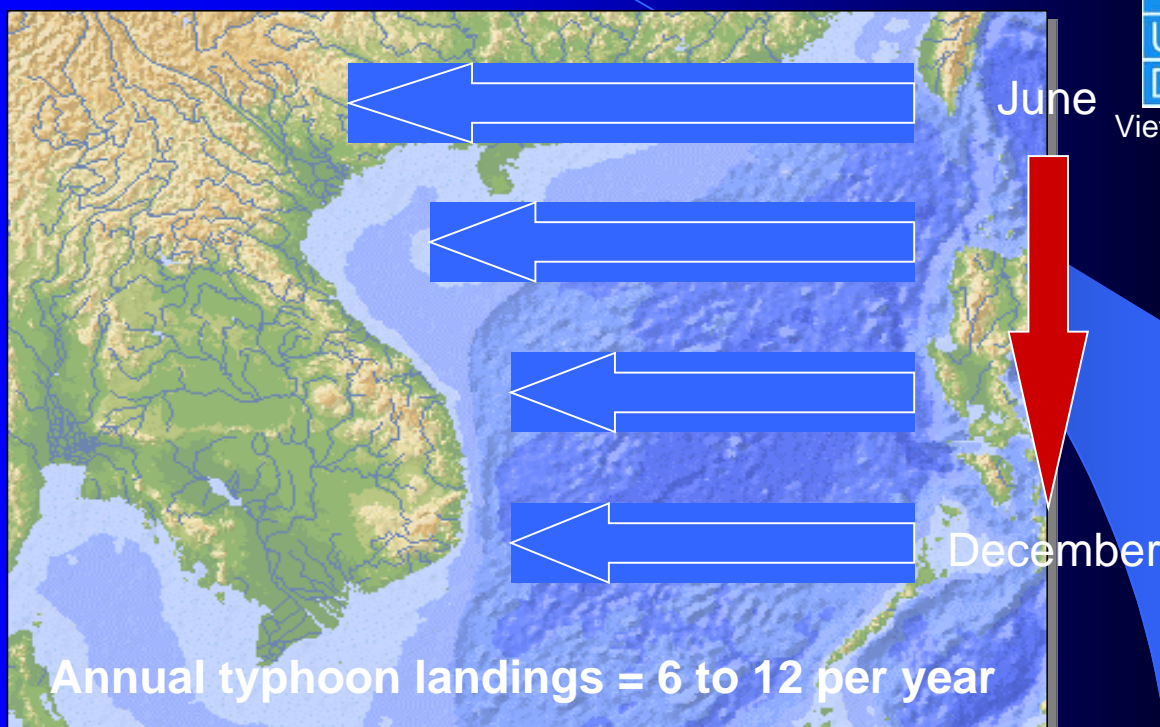
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# Annual Typhoon Tracks



Viet Nam



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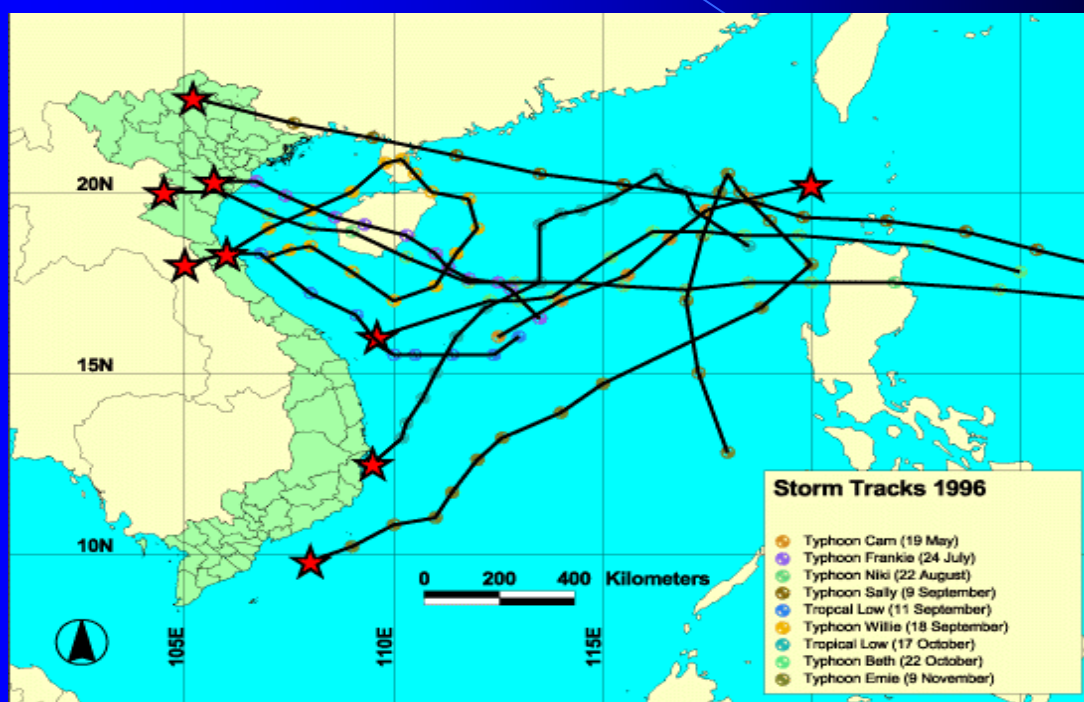
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# Typical Typhoon Tracks for Viet Nam



Viet Nam



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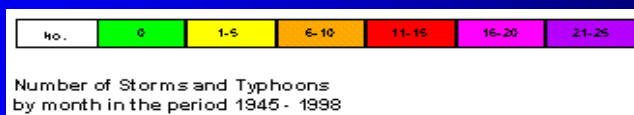
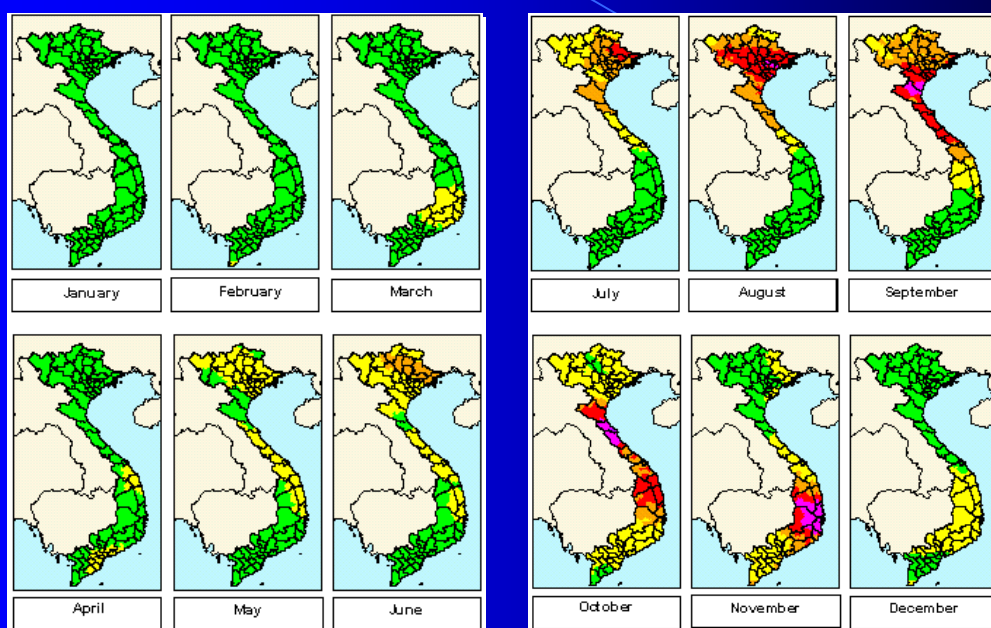
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# Annual Distribution of Typhoons



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# Typical Typhoon Damage in Viet Nam



Viet Nam



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# State of the Art Policy Review for Risk of Natural Disasters



Viet Nam

- Increase use of risk transfer mechanisms
- Design insurance instrument to obtain greater uptake
  - ✓ More participation of the population
- Combine different mechanisms for different risk
- Use insurance strategies more effectively
- Make insurance and related mechanisms available to the poor

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# Financing Recovery from Natural Disasters in Viet Nam: 2000-2005



Viet Nam

	Percent
<b>ECONOMIC LOSS</b>	<b>100 %</b>
Pre-event recovery resources	
- State budget contingency	48 %
- Funds for disaster protection	4 %
- Charitable funds	2 %
- Credit	2 %
- Insurance	2 %
- Donor emergency assistance	7 %
<b>Uncovered loss born by affected households</b>	<b>35 %</b>

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# Problems in Financing Recovery from Natural Disasters: 2000-2005



Viet Nam

- Insufficient funds go to households
- Funds given to households are slow in delivery
- Poorest households are afraid to use credit for recovery
- Insurance penetration is small or non-existing
- Experience in applying insurance coverage to poor households have not been encouraging

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# What Are Objectives of Self Reliant Fund



Viet Nam

- Mobilize increased domestic resources
- Strengthen donor commitments
- Focus on the most important gap: Re-establish livelihoods
- Speed up recovery assistance
- Achieve risk transfer: Reinsurance
- Encourage disaster prevention and vulnerability reduction

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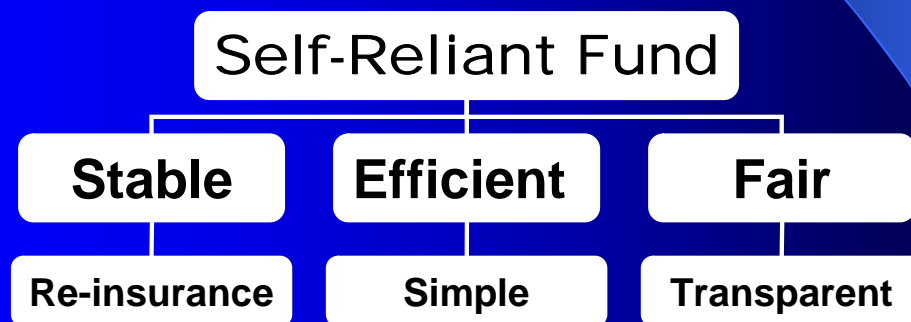
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# Basic Design Fundamentals of Self Reliant Fund



Viet Nam



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# Basic Design Questions of Self Reliant Fund



Viet Nam

- Who contributes resources
  - ✓ How much and how is premium collected
- Who is eligible to benefit
- What events enable a household to receive benefits
  - ✓ How much and how is money paid out
- How does the Self Reliant Fund manage its assets
  - ✓ What investments does it make
  - ✓ How does it reinsure itself

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# Design Fundamentals of Self Reliant Fund In Viet Nam



Viet Nam

- **Design the scheme in the medium term to be attractive to the traditional insurance and reinsurance industries**
  - ✓ Medium term 3-5 years
  - ✓ Objective is to maximize benefits to the maximum number of people
- **Adhere to the fundamental and irrefutable needs of any new intervention**
  - ✓ Champion – Plan - Financing

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# Design Fundamentals of Self Reliant Fund In Viet Nam



Viet Nam

- **Absolutely necessary to obtain geographic diversity for disaster risk reduction**
  - ✓ Actuarial and real science will eventually kill the program
- **Reward policy holders that reduce their risk to natural disasters**
- **Maintain a 'Bottom-up' approach to all planning and decision making**
- **Continuously strive to maintain gender equality in all aspects of the programme**

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## Obligatory Framework in Viet Nam That Makes Self-reliant Fund Possible



Viet Nam

- Disaster reduction fund is a legally established tax
  - ✓ Entire population of Viet Nam pays equivalent of US\$ 1 per year
  - ✓ Annual premiums received are US\$ 70 million
- Financial payouts for disaster recovery are established by law
  - ✓ Value for complete loss of a house is US\$ 300
  - ✓ Value for damage to a house is US\$ 100
- Disaster prone areas are well mapped and are part of national building code
- Typhoon risk is well known based on historical record

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## Lessons Learned in Implementing Self-reliant Fund Possible



Viet Nam

- Government agencies responsible for insurance do not understand insurance
  - ✓ Collection of premiums is well understood
  - ✓ Payment of claims is not well understood
- A mechanism of payment of claims is difficult
  - ✓ Developing countries are a cash society
  - ✓ Checks are not used for financial transactions
- Assistant of national and international NGOs are needed
  - ✓ Train grass roots population to use insurance
- Government does not understand the concept of KISS

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# Concept of Kiss For Disaster Insurance in Developing Countries



Viet Nam

# Keep it simple

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