

REMITTANCES AND RISK TRANSFER

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Munich Re Foundation Symposium

Disaster Assistance:
Solutions at the Community Level

17 November 2005

HELPING COMMUNITIES HELP THEMSELVES

After Hurricane Wilma, Florida Chief Financial Officer, Tom Gallagher, has urged Congress to create individual **Catastrophe Savings Accounts** to allow homeowners to save tax-free dollars to pay deductible and storm recovery costs.



"CSA's would give Floridians the opportunity to save money tax-free to pay insurance deductibles and uninsured losses, as well as to strengthen their homes against hurricanes," Gallagher explained. "Money would grow over time to better protect Floridians from the financial threat of hurricanes."

Insurance Journal, 8 November 2005

GOVERNMENT INCENTIVES ON COMMUNITY RISK SHARING

It is in the interest of governments to encourage **GLOBAL** risk sharing among private citizens, to mitigate risk and ameliorate future post-disaster hardship.

Most of the million ethnic Pakistanis in UK have community links with Kashmir.



Kashmir: 8 October 2005

LIMITATIONS OF GOVERNMENTAL POST-DISASTER LOANS



E.I.B. is the European Union's long-term financing institution.

It provided a loan of \$100 million for the reconstruction of Kalamata, following the earthquake of 1986. EU granted a 3% interest rate subsidy on this loan.



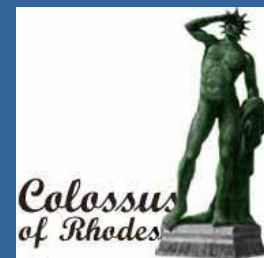
In December 1999, E.I.B. provided a loan of \$900 million following the Athens earthquake. But a year later, due to bank loan collateral problems, some people were still living in primitive tin huts, and suffering from heat exposure.

GREEK POST-DISASTER RESPONSE: 227 BC

'By laying stress on the greatness of the calamity and its dreadful character, and by conducting themselves with the greatest seriousness and dignity,

they had such an effect on cities and especially on kings, that not only did they receive most lavish gifts, but the donors themselves felt that a favour was being conferred on them.'

*Polybius
On the Rhodes earthquake
of 227 B.C.*



DISASTER RISK TRANSFER TO DIASPORA COMMUNITIES

First-World



Financial Risk



Third-World



Shouldering risk is a form of charitable donation, and merits tax relief in industrialized countries.

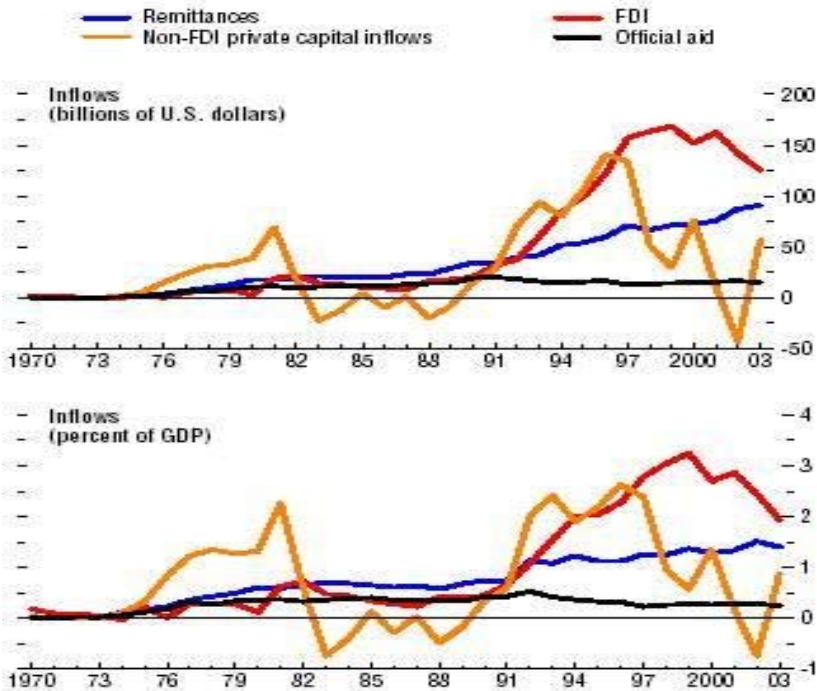
TAX RELIEF FOR DISASTER RISK TRANSFER
COMPLEMENTS POST-DISASTER STATE RELIEF

'We must build a virtuous circle of debt relief, poverty reduction, and sustainable development.'

Gordon Brown

Figure 2.1. Workers' Remittances and Other Foreign Exchange Flows to Developing Countries¹
(1970–2003)

Remittances to developing countries have been rising steadily over time. Currently, they are almost comparable to FDI, and exceed both non-FDI private capital inflows and official aid in magnitude.



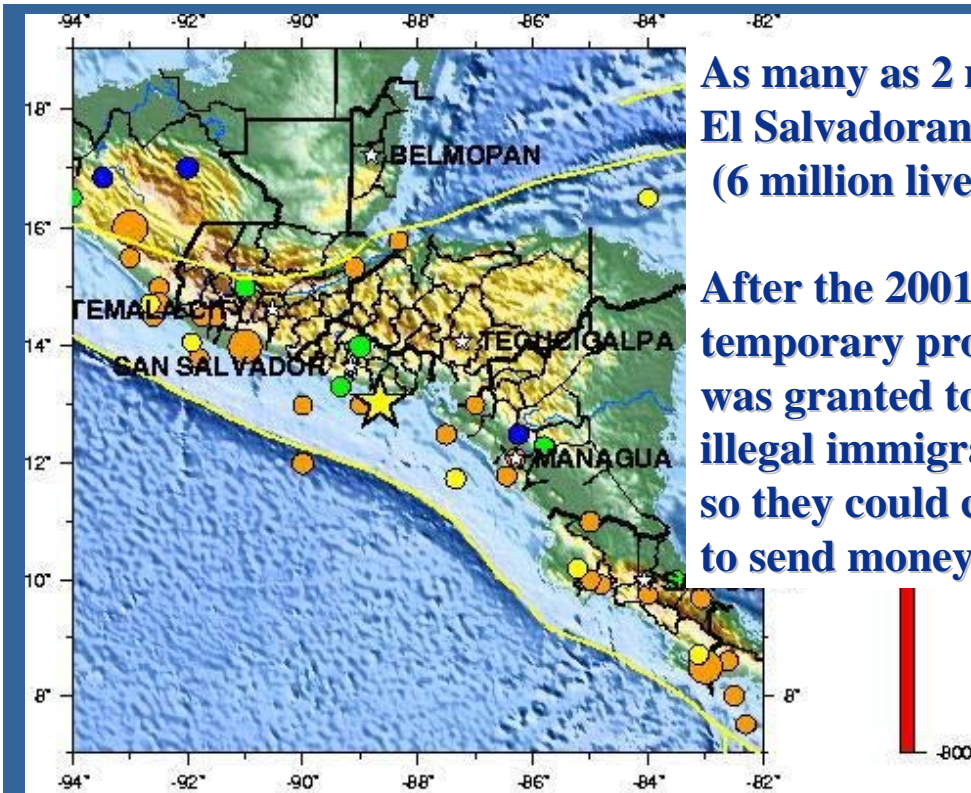
Sources: IMF, *Balance of Payments Statistics Yearbook*; and IMF staff calculations.
¹For a detailed definition of the components of remittances, see Appendix 2.1.

**Official
International
Remittances:**

\$120 billion/yr

**Estimated
Unofficial
Remittances:**

\$ 60 billion/yr



**As many as 2 million
El Salvadorans live in USA;
(6 million live in El Salvador).**

**After the 2001 earthquakes,
temporary protective status
was granted to 150,000
illegal immigrants,
so they could continue
to send money home.**

EL SALVADOR

2001 01 13 17:33:32 UTC 13.04N 88.66W Depth: 60.0 km, Magnitude: 7.7

Earthquakes, Magnitude 7 and Greater, Since 1900

USGS National Earthquake Information Center

WASHINGTON, D.C.– As part of the Administration's ongoing efforts to assist El Salvador Temporary Protected Status for El Salvador Extended to
March 9, 2005

Employment in recovering from the devastating earthquakes that affected the nation, the Bureau of Citizenship and Immigration Services (BCIS) announced today an extension of Temporary Protected Status (TPS) for El Salvador for a period of 18-months until March 9, 2005. This TPS extension, which covers approximately 290,000 Salvadoran registrants, is effective September 9, 2003 and will remain in effect until March 9, 2005.

“Although El Salvador has made progress in its post-earthquake reconstruction effort, much work remains,” said Eduardo Aguirre, Director, BCIS, in the Department of Homeland Security. “This 18-month extension reflects the Administration's continued commitment to assist El Salvador in its recovery process.”

WASHINGTON [January 6, 2005] -- As part of the Administration's ongoing efforts to assist El Salvador in recovering from the devastating earthquakes that affected the nation in 2001, the U.S. Citizenship and Immigration Services (USCIS) today announced an 18-month extension of Temporary Protected Status (TPS) for nationals of El Salvador until **September 9, 2006**.

"We have determined that it is necessary to extend protection to nationals of El Salvador who are present in the United States while El Salvador recovers from a series of devastating earthquakes that affected that nation in early 2001," remarked Eduardo Aguirre, Director, U.S. Citizenship and Immigration Services.

THE USE OF REMITTANCES TO PAY FOR NATURAL DISASTERS

- ❑ Paying off laboriously, over a number of years, the cost of post-disaster reconstruction

OR.....

- ❑ Paying natural disaster insurance premiums
- ❑ Contributing towards risk mitigation measures

SECURITIZATION OF REMITTANCE FLOWS

Domestic banks in developing countries could raise money for disaster mitigation by securitizing future remittance flows.

In Brazil, El Salvador, Mexico and Turkey, a few private institutions have securitized their future remittance flows.

For example, Banco Cuscutlan in El Salvador securitized \$125 million of remittance flows in 2003.

World Bank Policy Research Paper, June 2005

Annually, \$2 billion are sent back by expatriates to El Salvador. This is described by the US Housing Secretary as: “*a remarkable act of self-sacrifice*”.

A FIRST WORLD SOLUTION FOR A THIRD WORLD PROBLEM

- ❑ Diaspora communities already make large financial contributions to their countries of origin.
- ❑ Given the large relative differences in incomes and property prices, diaspora communities can much more easily afford to pay insurance than family members in the Third World.
- ❑ **These premiums might be around a dollar a week.** It is in the self-interest of First World governments to encourage this form of Third World charity, and subsidize these insurance payments through tax incentives.

DIASPORA DISASTER INSURANCE

- ❑ Global disaster insurance products targeted at diaspora communities could be designed centrally at the World Bank.
- ❑ The global diaspora market for disaster insurance has large financial potential. Demographically, diaspora communities are growing as a proportion of host First World populations.
- ❑ Diaspora disaster insurance would be commercially attractive as a business opportunity for the insurance industry.