

## **ASEAN PLUS THREE FINANCE MINISTERS AND CENTRAL BANK GOVERNORS COOPERATION**

### **2023-2025 ACTION PLAN OF THE ASEAN+3 DISASTER RISK FINANCING INITIATIVE**

#### **I. CONTEXT**

ASEAN+3 member economies, home to almost 2 billion people with a combined gross domestic product of more than USD 25 trillion, are highly prone to disasters and climate events. Floods, tropical storms, droughts, earthquakes, and tsunamis have left severe physical, economic, and human impacts in the region. In all economies in the region, the losses from disaster risks are expected to increase for a variety of reasons, including growing infrastructure investments and urbanization, environmental degradation, and climate change. To strengthen the region's resilience against disaster and climate risks, governments are promoting disaster risk financing (DRF) solutions, including through regional cooperation mechanisms such as the ASEAN Disaster Risk Financing and Insurance program (ADRFI) and the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), among others. Against this backdrop, ASEAN+3 members are taking a proactive and forward-looking approach, building upon previous efforts, to further deepen and broaden DRF cooperation in the region through the establishment of a DRF initiative for all ASEAN+3 members (hereinafter referred to as "the ASEAN+3 DRF initiative").

This Action Plan (AP) sets out the key actions agreed upon by all ASEAN+3 members to establish DRF as a regular agenda under the ASEAN+3 finance track and launch the ASEAN+3 DRF initiative for all ASEAN+3 members. The AP is a living document to guide the principles and next steps for sustained cooperation by all ASEAN+3 members. It will be reviewed annually and revised as needed.

#### **II. STRATEGIC DIRECTIONS**

Member economies agree to the critical overall importance of strengthening the capacity of ASEAN+3 members to manage the impacts from disaster and climate risks through an inclusive and needs-based ASEAN+3 DRF initiative. The initiative will contribute to an ASEAN+3 region that is resilient to disaster and climate risks with access to necessary financial resources in the aftermath of shocks and regional instruments that reflect solidarity across countries. It will support ASEAN+3 members to strengthen their financial and societal resilience, and ultimately better protect their populations.

The main objectives of the initiative are to (i) support the implementation of DRF solutions through defining required policy frameworks, effective capacity building, information exchange, and technical learning; (ii) lay the foundation for DRF solutions through technical cooperation and investing in data and risk modelling, risk advisory toolkits and the development of enabling legal

and regulatory infrastructure, and (iii) increase access to affordable financial instruments to secure adequate and appropriate financing for increasing pre and post disaster efforts.

The initiative builds on and consolidates ongoing regional collaboration initiatives to avoid duplication. It will provide a platform for all members to work together in the spirit of ASEAN+3 cooperation in a fair, transparent and inclusive manner. It will also work with private sector partners to promote the development of innovative financial and insurance solutions and public goods that meet the needs of ASEAN+3 members.

### **III. FUTURE WORK**

The AP sets out activities related to the policy dialogue and implementation of the initiative, together with agreed activities along three Priority Areas in its establishment.

#### **A. Policy Dialogue and Implementation**

Actions under this area help advance efficient regional coordination on DRF through a consolidated and permanent discussion under the ASEAN+3 Finance Track. Concretely, this will help guide the joint regional as well as domestic DRF solutions. This will also enhance ownership of the ASEAN+3 members towards the initiative. This work will be closely coordinated with ADRFI and other DRF-related initiatives under ASEAN finance process, aiming to avoid the duplication and create synergies.

##### *1 Regional DRF Policy coordination*

In order to advance efficient regional coordination on DRF through regular discussions under the ASEAN+3 Finance Track, regional policy coordination will facilitate exchange on common challenges, updates on policy priorities and reforms, decisions on ongoing joint work, and review of potential new collaboration. Such regular dialogue will inform technical work and implementation of DRF policy reforms at country and regional levels.

##### *2 Regional DRF Policy Guideline*

Members will develop regional DRF policy guidelines to guide and inform joint regional as well as domestic DRF solutions, potentially acting as “benchmarks” to understand national protection gaps and priority areas to address these gaps. The existing and on-going work of international

organizations, in particular the IAIS<sup>1</sup>, the OECD, and the World Bank, could be a good guide or reference to advance this work.

### *3 Policy oversight of new initiative*

Regular ASEAN+3 discussions will provide oversight of the ASEAN+3 DRF initiative, starting with the development of a proposed governance mechanism and institutional implementation arrangements for the new initiative, building on the existing regional initiatives, including ADRFI and SEADRIF. This will then include review of the AP on a regular basis through representatives from ASEAN+3 members.

### *4 Governance mechanism for cooperation*

A good governance mechanism is required for the new initiative. The establishment of this mechanism will explore and evaluate modalities for cooperation and governance of the initiative by ASEAN+3 members. Necessary instruments for formalizing the governance arrangements of the initiative will be explored. Once agreement is reached on the appropriate instrument, this will be finalized through these discussions for adoption, to ensure the effective implementation of the initiative. The vision, mission, objectives, and principles for the initiative will be developed where appropriate.

### *5 Implementation arrangements*

Following the establishment of the ASEAN+3 DRF initiative and adoption of this AP under the initiative, implementation arrangements must be developed, in order to translate the political commitment of ASEAN+3 members into concrete steps. This includes preparation of the operational structures, and entities to implement the activities under this AP. Upfront financial contribution is not required for ASEAN+3 members to join the initiative, except where a separate financial investment might be required by members that apply for specific solutions and products. ASEAN+3 members will start discussion and prepare a financing plan to enable sustainable and effective operations of the initiative starting in year 2.

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<sup>1</sup> Given the significance of its economic and social implication, the International Association of Insurance Supervisors (IAIS) has embarked on the project on the role of supervisors in addressing natural disaster protection gaps, including multi-stakeholder approaches such as public-private partnerships. The IAIS, in collaboration with the OECD, plans to engage with various stakeholders throughout the year, and publish a report by end-2023.

Existing regional structures for DRF (especially SEADRIF<sup>2</sup>) could be used as the foundation for the new initiative.

## **B. Priority Areas**

### **1. Financial Solutions**

Joint financial solutions are the core of a new joint initiative to strengthen financial preparedness to disasters. The proposed solutions must take into consideration countries individual circumstances and build on existing programs. Existing mechanisms such as SEADRIF can be deepened for insurance products. Additional joint insurance products can provide enhanced protection, for example for critical public infrastructure or large exposed agricultural areas. This priority area will also explore new financial products, responding to member demand. One such area to be explored is providing joint contingent financing to ensure access to rapid and cost-effective liquidity in the aftermath of shocks, potentially working with development banks as partners. New regional risk transfer products, such as a joint Catastrophe Bond (Cat Bond) could complement contingent financing. Finally, exploring new solutions to combine risk finance and preparedness or risk reduction investments will help strengthen overall resilience on both country and regional levels.

#### *1-1 Solution 1: Risk Transfer*

Joint insurance solutions can make it more effective for member countries to transfer risk to international insurance markets. Building on SEADRIF as the existing joint mechanism under ASEAN+3 for risk transfer, this would first consider renewal and expansion of the existing sovereign parametric insurance products, launching of public asset insurance products, and exploring options for future joint risk financing solutions for ASEAN+3 members based on members' needs, starting with agriculture insurance. Future years will expand these products and solutions based on implementation progress and demand from the members, including through exploring alternative risk transfer instruments such as catastrophe bonds. Key enabling actions required would include strengthening the governance and operations of the SEADRIF Insurance Company.

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<sup>2</sup> SEADRIF is composed of several tracks including SEADRIF Trust (a legal arrangement for SEADRIF) and SEADRIF Insurance Company, a general insurance company registered in Singapore.

### *1-2 Solution 2: Contingent Financing*

Financing the financial impacts of disaster and climate shocks in ASEAN+3 members requires access to and scale of finance that is timely and cost-efficient. The initiative will explore options for contingent financing that complements existing in-country post-disaster financing and risk transfer solutions such as insurance. This provides rapid access to external financing for early response and recovery after disaster events. ASEAN+3 member governments will explore the options of establishing a joint pre-arranged contingent financing mechanism, for example a joint reserve combined with pre-arranged contingent credit lines with multilateral, bilateral development partners and market-based liquidity backstop instruments in case of extreme events.

Next steps include exploring options, carrying out a feasibility study and proposal of options to members, based on policy objectives and experiences to date with similar products offered by individual development partners. This will involve analysis of the required post disaster financing needs in the region, the targeted level of contingent financing that would be efficient to hold, and the costs and benefits of a joint contingent financing mechanism to complement other financing instruments such as insurance.

### *1-3 Solutions 3: Innovative Solutions for Resilience Financing*

New financial structures that combine risk finance and preparedness (e.g. risk reduction investments, preparedness planning, mitigation and adaptation) should be considered to strengthen overall resilience. The target is to pilot at least one innovative product offering to ASEAN+3 combining risk finance and resilience building, subject to members' demand. Solutions could include, for example, resilience bonds<sup>3</sup> or risk transfer embedded in project finance for infrastructure investments and environmental conservation investments.

The initiative as a first step could define a framework to test and pilot such solutions for resilience financing in a systematic way with governments, regulators, and private investors.

## **2. Knowledge Solutions**

Given the evolving nature of DRF solutions, access to adequate knowledge is essential. Knowledge activities under this AP include an overall capacity building and knowledge work program; training and knowledge products; and developing an effective knowledge management infrastructure and tools to ensure sustainable and targeted delivery. In the short term, knowledge solutions can utilize

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<sup>3</sup> Resilience Bond works like a Catastrophe Bond where bond coupon payments are reduced when resilience measures are implemented. In the event of an eligible disaster, investors lose all or a portion of the capital value of the bond, which is transferred to the bond sponsors.

ongoing efforts in training and experience sharing, supported by partners. This includes a knowledge sharing series on agricultural risk finance as well as e-learning on public assets protection and insurance fundamentals supported by the World Bank. Collaboration with ADRFI, and other regional initiatives such as the Global Asia Insurance Partnership (GAIP)<sup>4</sup> will be key to these efforts. Multiple outside partners could deliver knowledge support and trainings to members under the initiative's overall umbrella.

### *2-1 Training and Knowledge products*

The initiative will leverage existing learning materials by partners to deliver courses, starting with (i) a knowledge series on agricultural risk finance, (ii) e-learning on financial protection of public assets, and (iii) a financial protection of public assets masters class series (virtual), (iv) a program on fundamentals of insurance for the public sector (building on SEADRIF and with contribution from GAIP). Future activities will be developed following member demand, and could for example include a learning series on financial protection of small and medium-sized enterprises to protect the real economy (virtual and regional in-person workshop).

### *2-2 Knowledge management infrastructure and tools*

The initiative will provide member countries with an effective knowledge management infrastructure and tools via website and other innovative communications tools/channels to provide a knowledge repository and tools on disaster risk financing. This knowledge repository can be gradually developed into a centralized open learning and knowledge repository for broader use of member countries in following years.

## **3. Technical Solutions**

Joint technical solutions support members to implement domestic DRF reforms as well as regional financial solutions. The development of a regional repository for disaster risk data will support financial risk assessments and products, building on ADRFI work in establishing a regional data warehouse. Existing and evolving regional and global open risk data efforts can offer improved access to risk modelling and risk monitoring tools to provide open regional risk monitoring and impact assessments. Technical innovation and tools should build on work by partner organizations, e.g. in academia and development sector. The initiative can mobilize significant ongoing investment and expertise in this sector, rather than build such efforts itself.

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<sup>4</sup> *The Global Asia Insurance Partnership* is a tripartite partnership between the global insurance industry, regulators and policymakers, and academia based in Singapore.

### *3-1 Data Repository*

The development of a regional data repository will require the review of existing data solutions and data needs, identifying partners to develop and host data repository (for example, building on ADRFI & NTU<sup>5</sup> Data work). The next steps can consider the development of a data repository to host regional DRF related data sets and data tools and regularly review uptake and assess impact to feed into an updated strategy.

### *3-2 Risk Models*

Risk data is critical to inform planning, design, and implementation of financial solutions. Much of the work in this area can build on existing ongoing work by partners in the region and globally. The first step is to review and update of the SEADRIF Flood Monitoring tool to assess future demand and functionalities. In line with that demand, the SEADRIF Flood Monitoring tool could be expanded to new geographies and functionalities. Modeling tools for risks other than flood and open regional risk monitoring services could be advanced subject to technical work and member countries' demand. This could build on ongoing work in the region such as the Asian Disaster Preparedness Center (ADPC)<sup>6</sup> in Bangkok.

### *3-3 Risk Monitoring*

The initiative will review existing solutions and country needs on risk monitoring to feed into the enhancement of the regional support programs. To understand evolving risk and support forward looking planning, members can use emerging platforms for risk monitoring. For example, to understand critical infrastructure risk, building on work carried out under the SEADRIF initiative, and utilizing outputs from the Global Resilience Index Initiative<sup>7</sup> (GRII).

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<sup>5</sup> Nanyang Technological University is a national research university in Singapore, which is also collaborating with GAIP as a main academic and talent development partner.

<sup>6</sup> The Asian Disaster Preparedness Center (ADPC) is an autonomous international organization that works to build the resilience of people and institutions to disasters and climate change impacts in Asia and the Pacific. Established in 1986, it provides comprehensive technical services to countries in the region across social and physical sciences to support sustainable solutions for risk reduction and climate resilience.

<sup>7</sup> The Global Resilience Index Initiative (GRII) was launched at COP26 as a public private initiative to bridge the current gaps and challenges in open access to global, objective, common risk metrics. GRII will provide reference data on climate and natural hazard risks to inform and protect populations and economies, particularly in emerging and developing countries. This information will be open, accessible to all using shared standards and consistent metrics at local to global scales. At COP26, GRII launched a Southeast Asia pilot, with the support of the World Bank (<https://seasia.infrastructureresilience.org/summary>).

ASEAN+3 DRF Action Plan 2023 – 2025

<u>Activity Track</u>	<u>Year 1 (May-Dec. 2023)</u>	<u>Year 2 (Jan.-Dec. 2024)</u>	<u>Year 3 (Jan.-Dec. 2025)</u>
<b>A. Policy Dialogue and Implementation</b>			
1 Regional DRF Policy coordination	<i>Exchange views on DRF issues of common interest</i>  <i>Review, update on country policies and decisions / agreements on new and ongoing joint DRF actions</i>	<i>Exchange views on DRF issues of common interest</i>  <i>Country and regional policy updates, decisions on new and ongoing joint DRF actions towards common objectives</i>	<i>Exchange views on DRF issues of common interest</i>  <i>Country and regional policy updates, decisions on new and ongoing joint DRF actions towards common objectives</i>
2 Regional DRF Policy Guideline	<i>Discuss development of an ASEAN+3 regional DRF Policy Guideline to understand national protection gaps</i>	<i>Acknowledge the regional DRF Policy Guideline</i>	<i>Review and advance the policy Guideline as needed</i>
3 Policy oversight of new initiative	<i>DRF Initiative AP reviewed and adopted</i>  <b><i>* DRF initiative formally launched.</i></b>	<i>AP review and update</i>	<i>AP review and update</i>
4 Governance mechanism for cooperation	<i>Explore and evaluate modalities for cooperation and governance of the initiative</i>	<i>Adopt instrument for formalizing the initiative governance arrangements</i>	<i>Review governance mechanism as appropriate</i>
5 Implementation arrangements	<i>Evaluate options for implementation, building on existing structure</i>	<i>Finalize and adopt institutional arrangements for the new initiative</i>	<i>Build out operational system for the initiative</i>



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<b>B. Priority Areas</b>			
<b>1. Financial Solutions</b>			
1-1 Solution 1: Risk Transfer	<i>Renew sovereign parametric insurance products (building on SEADRIF), following members' demand (including strengthening the governance and operations of SEADRIF Insurance Company for scale up of future insurance solutions)</i>	<i>Expand sovereign parametric insurance products following members' demand</i>  <i>Assess sub-national parametric insurance demand</i>	<i>Expand sovereign parametric insurance products to sub-national level following members' demand</i>
	<i>Launch public asset (indemnity) insurance</i>	<i>Expand public asset (indemnity) insurance, subject to members' demand</i>	<i>Continue expansion</i>
	<i>Explore options for joint agricultural risk financing solutions including Takaful solutions, and other solutions</i>	<i>Conduct a feasibility study and prepare a pilot for joint agricultural risk financing scheme, subject to members' demand</i>	<i>Implement agricultural insurance scheme, subject to members' demand</i>
	<i>Explore options for a joint ASEAN+3 Cat Bond Issuance, e.g. group of member countries or as backstop to the initiative's Insurance Vehicle</i>	<i>Assess feasibility for a joint Cat Bond issuance, and country demand for participation</i>	<i>Issue joint Cat Bond, subject to members' demand</i>
1-2 Solution 2: Contingent Financing	<i>Explore options for joint pre-arranged financing</i>	<i>Prepare a feasibility study and product proposal, subject to approval of options</i>	<i>Implement joint contingent financing options subject to members' preference</i>

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		<i>Introduce the joint contingent financing to members and seek their preference on the scheme</i>	
1-3 Solutions 3: Innovative Solutions for Resilience Financing (financing integrated risk reduction, preparedness, risk transfer)		<i>Explore solutions combining risk finance and preparedness (e.g. risk reduction investments, preparedness planning)</i>	<i>Launch a product offering to ASEAN+3 combining risk finance and resilience building, subject to members' demand</i>
<b>2. Knowledge Solutions</b>			
2-1 Training and Knowledge products	<p><i>Launch a learning series on agricultural risk finance, including sharing experience from A+3 members (virtual and in-person workshop)</i></p> <p><i>Launch an e-learning on financial protection of public assets (building on SEADRIF)</i></p> <p><i>Prepare a financial protection of public assets masters class series (virtual)</i></p>	<i>Prepare a learning program on fundamentals of insurance for the public sector (virtual and in-person workshops, building on SEADRIF and with contribution from the Global Asia Insurance Partnership)</i>	<i>Prepare a learning series on financial protection of small and medium-sized enterprises to protect the real economy (virtual and regional in-person workshop), subject to members' demand.</i>
2-2 Knowledge management infrastructure and tools	<p><i>Prepare an Initiative Website and other communications tools /channels to provide access</i></p> <p><i>Explore options for knowledge repository and tools</i></p>	<i>Adopt a centralized open learning and knowledge repository</i>	<i>Develop and build out knowledge repository and tools for access and deployment</i>

<u>Activity Track</u>	<u>Year 1 (May-Dec. 2023)</u>	<u>Year 2 (Jan.-Dec. 2024)</u>	<u>Year 3 (Jan.-Dec. 2025)</u>
<b>3. Technical Solutions</b>			
3-1 Data Repository	<i>Review existing data solutions and data needs, identify partners to develop and host data repository (building on ADRFI &amp; NTU Data work)</i>	<i>Develop a data repository to host regional DRF related data sets and data tools</i>	<i>Adopt data repository and develop tools  Review uptake and assess impact to feed into updated strategy</i>
3-2 Risk Models	<i>Update SEADRIF Flood Monitoring tool and assess future demand and functionalities</i>	<i>Expand SEADRIF Flood Monitoring tool geographies, functionalities in line with member demands  Explore the development of modeling tools for risks other than flood</i>	<i>Provide open regional flood risk monitoring service, subject to technical work and member demand  Assess impact and needs to feed into updated strategy</i>
3-3 Risk Monitoring (building on existing initiatives such as the Global Resilience Index Initiative and Climate Change Risk Index (CCRI) index developing under AMRO project)	<i>Provide access to Southeast Asia critical infrastructure risk assessment tool</i>	<i>Provide new open risk monitoring and assessment tools, especially on infrastructure</i>	<i>Review existing solutions and country needs to feed into updated strategy</i>