

Kiribati: Potential Drought Insurance Designs & National Engagement Needs



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What are the most critical impacts of drought in Kiribati and when do they occur?

- ▶ Droughts have caused some of the worst disasters in Kiribati. The **2022 drought**, for example, impacted **94,000 people** and resulted in response costs of **USD 2.6 million** with Kiribati declaring a state of drought emergency.
- ▶ Kiribati's **water supply is limited due to the small size and low-lying character of its islands and the lack of capacity to build large storage facilities**. Consequently, Kiribati has fragile water resources, and, as much of the country depends on rainfall for drinking water, relatively short periods of low rainfall can cause critical water stress, including through saline contamination, and incur high response costs.



What is a parametric/index insurance product and how does it relate to drought?

- ▶ **Parametric/index insurance products** as offered by PCRIC can rapidly mobilize response resources for governments and get help to where it is needed quickly, while contributing to bridging potential liquidity gaps and avoiding the re-allocation of public budget.
- ▶ Parametric insurance products are **based on pre-defined indices (triggers)** which are monitored and measured in real time. In the context of drought in Kiribati, such indices **could be critically low rainfall levels** as captured by a rainfall index, such as the Standardized Precipitation Index (SPI).
- ▶ **Unlike traditional insurance**, where pay-outs are linked to actual losses and involve post-hazard damage assessments to validate the policyholders' financial claims, **parametric pay-outs are triggered as soon as the pre-defined indices are met**. The funds are rapidly disbursed into the account of the policyholder (e.g., the Ministry of Finance and Economic Development).
- ▶ The **pay-out size** is pre-defined and **proportional to the response costs** of historic droughts.
- ▶ PCRIC is **currently designing** excess rainfall and **drought solutions** for governments in the Pacific.



What could a parametric insurance product for drought risk look like for Kiribati?

- ▶ **Easy to understand hazard triggers:** Straightforward rainfall-deficit based drought **indices**. Indices, such as the SPI, which is widely used across the Pacific to define drought, can serve as a trigger index. Other precipitation or hydrological indices, such as rainfall as mentioned in the Drought Management and Response Plan for Abaiang or the rainfall index and salinity measures of the South Tarawa Drought Plan, could also be considered.
- ▶ **Needs-based pay-outs:** Pay-outs will be based on a tailored understanding of the historical drought response costs for priority sectors (e.g., water security and agriculture).
- ▶ **Efficient and fast pay-out delivery structures:** While part of the pay-out may be disbursed to the Ministry of Finance and Economic Development, other portions may be channelled directly to, for example, Kiribati's water utility or water management groups at the community level, thus enhancing the speed of pay-out delivery. Additionally, pay-outs to community revolving funds within cooperatives could also be considered.



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What further information needs to be identified with national drought stakeholders?

- ▶ **Index design:** Available meteorological and hydrological gauged data across the country.
- ▶ **Trigger design:** Critical drought impacts across Kiribati and linkage to rainfall and water storage levels.
- ▶ **Pay-out/Coverage needs:** Information on historical response measures and costs (e.g., from Post-Disaster Needs Assessment). Possible options to lower overall response cost (e.g., cash transfers through Kiribati's Active Labour Market Programme (ALMP)).

Proposed stakeholders for initial country engagements to address the above information needs?



- ▶ Ministry of Finance and Economic Development (MFED)
- ▶ Ministry of Public Works and Utilities (MPWU)
- ▶ Water and Sanitation Engineering Unit (WEU)
- ▶ Water Division, Public Utilities Board (PUB)
- ▶ National Disaster Management Office (NDMO)
- ▶ Kiribati Meteorological Service (KMS), including the Climate Division
- ▶ Kiribati Red Cross Society (KRCS)
- ▶ The Pacific Community (SPC)
- ▶ Kiribati Insurance Corporation (KIC)
- ▶ Kiribati Provident Fund (KPF)



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