

The Marshall Islands: Potential Drought Insurance Designs & National Engagement Needs



Image by RMI National Disaster Management Office



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

- ▶ Drought events have caused some of the worst disasters in the Republic of Marshall Islands (RMI). During the **2021/22 drought**, for example, the country suffered **severe water shortages and food security issues, impacting 9,326 people on 17 atolls, with response costs of USD 2.2 million.**
- ▶ As a low-lying atoll island, RMI 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 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 RMI, **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, Banking, and Postal Services).
- ▶ 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 the Marshall Islands?

- ▶ **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 hydrologically related indices are also possible.
- ▶ **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, health).
- ▶ **Efficient and fast pay-out delivery structures:** While part of the pay-out may be disbursed directly to the Ministry of Finance to support the financing of logistics, the other part could be channelled directly to, for example, the Majuro Water and Sewer Company, given their relevance for water security.



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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 RMI 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).

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



- ▶ Ministry of Finance, Banking, and Postal Services
- ▶ Ministry of Resources and Development
- ▶ Ministry of Health
- ▶ National Disaster Management Office
- ▶ RMI Weather Services Office
- ▶ Majuro Water and Sewer Company
- ▶ The Pacific Community (SPC)



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