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G20's new Disaster Risk Reduction Working Group (DRRWG)

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Why in News: The G20 under India's Presidency has endorsed a new working group on disaster risk reduction. This makes it well-positioned to prioritise disaster risk financing to achieve the targets set by Sendai framework for 2030.

The Need for Disaster Risk Management

Recent years have seen an increase in both natural and human-made catastrophes across the globe.

The 2021-22 Human Development Report shows that disasters do not merely exacerbate poverty and thwart development, but also generate social polarisation across nations and communities.

The lack of competent financial risk management and insurance has provided a fertile breeding ground for these risks to proliferate and intensify, wreaking havoc on various aspects of society and the economy.

Annual disaster losses account for a significant share of GDP in many low-income economies. To manage these risks, financial strategies must be developed.

Role of G20 in financial risk management of Disasters

The G20 has a crucial role to play in supporting countries to strengthen their financial risk management capabilities.

States need to enhance their capacity to understand risks and integrate them into government planning and budget processes.

The insurance industry needs better regulation, legislation, and supervision.

Partnerships with the private sector need to be enabled to transfer sovereign risk to the capital markets, and the financing for response, recovery, and reconstruction needs to be improved by shifting from ex-post to ex-ante mechanisms.

There is also a scarcity of investment in a development-oriented approach that unites all parties into a transparent framework of action at the national level. Solutions to these challenges exist, but there is a worrying dearth of investment in all these areas.

G20's new DRRWG

To address these pressing issues, the G20's new Disaster Risk Reduction Working Group (DRRWG) has recognised the importance of prioritising disaster risk financing.

This will be the focus of their second meeting in Mumbai in the last week of May. By emphasising the importance of disaster risk financing, the G20 can help governments worldwide to manage risk more effectively and ensure

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sustainable development.

The financial management of disaster risks has been approached in a variety of ways across different economies, reflective of both varying levels of disaster risk and economic development.

However, there are still a number of common challenges that remain pervasive, such as the significant difficulty in collecting and analysing data on hazards and exposures, the necessity of strengthening technical and institutional capacity for risk assessment and modelling, and the challenge of achieving comprehensive coverage of disaster risks.

The DRRWG will offer an extensive overview of disaster risk assessment and financing practices across a wide range of economies. It can also support the harmonisation of definitions and methodologies for data collection and analysis to improve access to international (re)insurance markets.

The DRRWG will strive to address all the key components of a comprehensive financial management strategy for disaster risks.

These include encompassing disaster risk assessment and modelling, affordable and comprehensive insurance coverage of disaster risks, financial assistance and compensation for affected individuals and businesses, and risk transfer mechanisms, including catastrophe bonds and insurance, for management of fiscal risks.

Significance of DRRWG

The IPCC's Sixth Assessment Report highlights that significant number of people live in areas that are highly vulnerable to climate change, while the Sendai Framework for Disaster Risk Reduction calls for substantial reductions in disaster risk and losses.

As markets and society become more aware of the reality of climate change, there is a growing recognition that disaster resilience must be a priority.

However, bridging the gap between high-level objectives and practical investments remains a challenge.

This is where the deliberations and consensus generated at the G20 DRRWG could play a significant role in directing capital flow towards investments that make societies and economies more disaster resilient

The working group on disaster risk reduction's addition in the Sherpa track of G20 will help issuers, investors, and other stakeholders to identify and classify disaster-resilient investments, assets, and entities in a more effective and evidence-based manner.

By providing the screening criteria for investments in various areas — projects, assets, activities, entities — the DRRWG could channel more capital towards disaster risk reduction investments, while also creating new opportunities for innovation in sectors less commonly associated with disaster resilience, such as health, social protection, and natural capital.

Over 300 potential hazards identified by the UNDRR can significantly impact the financial services industry and hinder progress towards the Sustainable Development Goals.

The industry must incorporate material disaster risk into its investment decisions. We need to move beyond treating disasters as singular events and adopt a multi-hazard approach, considering various emergencies and risks in financial decision-making.

The second DRRWG meeting in Mumbai will strive to create vital links between public and private actors' investment and financial decision-making. It will encompass a wide range of hazards and identify strategies to address them.

By prioritising disaster risk financing for the first time, the G20, under India's presidency can convert good intentions into opportunities for investment.

Conclusion

India has extensive experience dealing with natural disasters and can lead in promoting awareness of the financial impacts of disasters. It can also lead the way in establishing a regulatory framework to enhance the financial capacity of insurance companies to cover disaster losses. Through the DRRWG's systematic and granular approach, the G20 will make a significant contribution to global efforts to manage disaster risks and build resilient economies and societies.