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Please cite this document as:
OECD, *Recommendation of the Council on Building Financial Resilience to Disaster Risks*, OECD/LEGAL/0436

Series: OECD Legal Instruments

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Background Information

The Recommendation on Building Financial Resilience to Disaster Risks was adopted by the OECD Council on 23 February 2017 on the proposal of the Insurance and Private Pensions Committee (IPPC) under the name Recommendation on Disaster Risk Financing Strategies. It was revised by the Council on 8 November 2023.

The Recommendation provides high-level policy guidance on the financial management of disaster risks, drawing on the lessons that have been learned through the OECD's work over the years, including for the G20 and APEC Finance Ministers. It aims specifically at addressing issues related to the financial management of disaster risks, and particularly the role of insurance markets, while recognising the importance of an integrated approach to disaster risk management and the contribution of risk assessment, risk awareness and risk prevention to the financial management of disaster risks. In this regard, it complements the 2014 OECD Recommendation on the Governance of Critical Risks [OECD/LEGAL/0405], providing integrated OECD guidance on disaster risk management and financing.

The need for a standard on disaster risk financing strategies

The effective management of disaster risks is a key public policy challenge for governments around the world, particularly those faced with significant exposures to such risks or limited capacity to manage the impacts of disasters. Disasters generate a broad range of direct and indirect impacts on all parts of society, including loss of life and damage and disruption to public and private property and infrastructure as well as fiscal impacts arising from recovery and reconstruction expenditures and decreased tax revenues. In the context of a changing climate and continued socio-economic development, and in light of the emergence (or re-emergence) of other types of large-scale risks such as cyber-attacks and infectious disease outbreaks, the frequency and impact of catastrophe events is expected to rise, exacerbating the challenges to ensuring that individuals, businesses and governments have the capacity to manage the consequent financial impacts. Promoting the recognition of good practices in financial management, including through risk financing and insurance mechanisms as well as public funding, can help promote financial resilience to disasters.

For many years, the OECD has been providing support and guidance to Members and non-Members on the critical elements of developing disaster risk financing strategies including through the adoption by the Council of legal instruments. The 2010 Recommendation on Good Practices for Mitigating and Financing Catastrophic Risks articulated a set of principles to be considered by governments and relevant public and private institutions in developing efficient strategies to mitigate and financially manage catastrophic risks from large-scale natural and man-made hazards. A Report to the OECD Council on the implementation of the 2010 Recommendation found that important challenges in terms of financial management of disaster risks remained, leading to the adoption by the Council of the 2017 Recommendation on Disaster Risk Financing Strategies that aimed to strengthen the policy guidance on the financial management of disaster risks and ensure the continued relevance of OECD guidance in this area.

The need to revise the Recommendation to reflect recent developments

Given the increasing economic and social impacts of natural hazards and other types of large-scale disasters such as COVID-19, the 2022 Report to the Council on the implementation of the Recommendation suggested that the Recommendation be revised to reflect lessons learned and experience from recent large-scale catastrophes and to ensure it is up to date.

The revision of the Recommendation in 2023 benefitted from discussions at the IPPC as well as from input from the high-level advisory board on the financial management of catastrophic risks and a number of other OECD policy communities (environment, public governance, development cooperation, science, technology and innovation). A public consultation was held in early 2023. A summary of the comments received and the IPPC response is available at: [add link].

Scope of the Recommendation

The Recommendation provides guidance on the development and implementation of national strategies for managing the financial impacts of disaster risks, comprising four building blocks:

- Ensuring comprehensive risk assessment by supporting the availability of data and technology necessary for the quantification of disaster risks and the identification of potential financial vulnerabilities - serving as the basis for making effective decisions on risk management and offering risk financing and risk transfer tools for these perils;
- Supporting the effective management of financial impacts, by building up a financial system and regulatory frameworks necessary to support the ability and willingness of households, businesses, non-profit institutions and sub-national governments to protect themselves against the financial impacts of disaster risks, with measures to support risk awareness, risk reduction and the availability of affordable risk transfer and risk financing tools;
- Effectively managing the impacts of disasters on public finances by evaluating potential financial impacts and developing an approach to ensure adequate funding to respond to financial needs; and
- Establishing strategies for managing the financial impacts of disasters, based on an integrated, multi-hazard approach and cooperation across levels of government and with relevant stakeholders, supported by the necessary resources and expertise.

While focused on the financial elements of disaster risk management, the Recommendation clearly encourages an integrated approach to disaster risk management that leverages the contribution of risk assessment, risk reduction and risk transfer.

Next steps

The IPPC will continue to support the implementation and the dissemination of the Recommendation, and will develop a second report to Council on its implementation, dissemination, and continued relevance in 2033.

For further information please consult: https://www.oecd.org/daf/fin/insurance/disaster-risk-financing.htm.
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Implementation

2022 Report to Council

A Report on the dissemination, implementation, and continued relevance was presented to Council in 2022. The 2022 Report found that most Adherents have implemented the majority of the elements of the Recommendation, although there remain some areas where the implementation of an integrated and comprehensive approach to financial management is limited.

Developing a comprehensive approach to identifying and addressing financial vulnerabilities and fiscal risks and fully assessing the relative roles of risk reduction investment, risk financing and risk transfer across segments of society remain challenging components of the guidance to implement. In addition, significant financial protection gaps remain for many catastrophe perils although many Adherents are taking steps to respond to these gaps, by imposing mandatory purchase, mandatory offer, automatic inclusion or mortgage-linked insurance requirements and/or by establishing catastrophe risk insurance programmes to support the availability of affordable insurance coverage.

The 2022 Report concluded that the Recommendation remains relevant for Adherent’s efforts to build financial resilience against catastrophe risk although some indicated a need to better reflect (re)emerging catastrophe risks such as large-scale cyber attacks and infectious disease outbreaks. This has been reflected in the revision of the Recommendation completed in 2023.

A robust implementation strategy

The implementation of the Recommendation is supported by the development of analyses and the identification of good practices. For example, the Recommendation has been used to develop analyses and policy recommendations on the financial management of flood and earthquake risks.

Work has also been undertaken on how to develop a regulatory framework that leverages the contribution (and manages the risk) of international reinsurance markets to managing catastrophe risks, examining the potential contribution of technology and innovation (prepared in collaboration with the Asian Development Bank for the APEC Finance Ministers) and on the role of catastrophe risk insurance programmes in broadening financial protection for natural catastrophes and terrorism and potential applications to cyber risks and infectious disease outbreaks. In 2022, an analytical framework for managing the financial impacts of climate-related physical risks to public finances was developed to support G7 discussions.

THE COUNCIL,

HAVING REGARD to Article 5b) of the Convention on the Organisation for the Economic Co-operation and Development of 14 December 1960;

HAVING REGARD to the standards developed by the OECD in the area of earthquake safety in schools, water, digital security, financial literacy, financial consumer protection, budgetary governance, governance of critical risks, effective and efficient financial regulation and insurance claim management;

CONSIDERING the OECD's international leadership in developing analysis and guidance on managing the financial impacts of disaster risks and building financial resilience and that this work has been welcomed by international fora;

RECOGNISING the significant financial, economic, social and environmental impacts of disasters, arising from hazards of both natural and human-made origin, and the potential for climate change to increase the frequency and/or intensity of climate-related events, which if combined with continued increases in the value of assets in locations exposed to climate-related hazards, can be expected to lead to larger impacts in the future;

RECOGNISING that the potential costs resulting from disasters need to be properly assessed and financially managed, and that this requires the proactive development and regular update by governments of integrated strategies to mitigate the financial, economic, social and environmental impacts of disasters, that take into account differences in the allocation of responsibilities between different levels of government across different countries as well as complementary policy objectives, such as solidarity across countries/regions;

RECOGNISING that strategies for building financial resilience to disaster risks are a central component of a comprehensive approach to disaster risk management and sustainable development and should be anchored in an integrated framework of hazard identification, risk and vulnerability assessment, risk awareness and education, risk management, and response and resilient recovery;

RECOGNISING that, while risk transfer and risk financing tools as well as public compensation and financial assistance arrangements can play a fundamental role in reducing the financial, economic, social and environmental impacts of disasters, the only sustainable way to reduce disaster impacts over time is through investments in risk reduction and mitigation, climate adaptation and building resilience against these risks;

NOTING that building financial resilience to disaster risks is critical for achieving the objectives of the Sendai Framework for Disaster Risk Reduction 2015-2030, the goals related to loss and damage included in the Paris Agreement on Climate Change (2015) and resilience objectives in the 2030 Agenda for Sustainable Development and that coordinated international initiatives to support financial resilience to disaster and climate risks in vulnerable countries can deliver needed technical assistance and support for financial coverage and innovation;

CONSIDERING that addressing the financial implications of disaster risks is a responsibility shared by national and subnational levels of government and that accordingly this Recommendation is relevant at all such levels, in accordance with legal, policy and institutional frameworks.

On the proposal of the Insurance and Private Pensions Committee:

I. **AGREES** that, for the purpose of the present Recommendation, the following definitions are used:

- **Catastrophe risk insurance programme**: an arrangement established by the insurance sector and/or government to provide insurance, co-insurance, reinsurance and/or a government guarantee for specific disaster risks;

- **Disaster**: a serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability and capacity, leading to one or more of the following: human, material, economic and environmental losses and impacts;
- **Disaster risk**: the potential loss of life, injury, or destroyed or damaged assets which could occur to a system, society or a community in a specific period of time, determined as a function of hazard, exposure, vulnerability and capacity;
- **Disaster risk assessment**: a qualitative or quantitative approach to determine the nature and extent of disaster risk by analysing potential hazards and evaluating existing conditions of exposure and vulnerability that together could harm people, property, services, livelihoods and the environment on which they depend;
- **Disaster risk reduction**: actions aimed at preventing new and reducing existing disaster risk and managing residual risk, all of which contribute to strengthening resilience and therefore to the achievement of sustainable development;
- **Financial resilience**: the ability of a household, business, non-profit institution or government to recover without significant financial disruption or hardship from the damages and/or losses resulting from a disaster;
- **Financial vulnerability**: a vulnerability that results from a gap between the risk of damage and loss and the financial capacity to absorb those damages and losses;
- **Public compensation and financial assistance arrangements**: arrangements to provide government funding or a publicly-funded grant or supplemental social security payment, loan, loan guarantee or other type of funding or guarantee to those impacted by a disaster;
- **Risk financing (tool)**: an approach to addressing the financial impacts of disasters that involves accessing financing to provide funding for some or all of the costs (e.g. through a financial instrument such as a loan or debt security);
- **Risk management standards and measures**: refers to the full range of standards and guidance, developed by governments or other organisations, public or private, for the purposes of reducing exposure and/or vulnerability to risk, such as land-use planning, building codes, physical, safety or digital security standards, protocols or frameworks;
- **Risk retention**: an approach to addressing the financial impacts of disasters that involves retaining responsibility for the financial costs;
- **Risk transfer** (tool): an approach to addressing the financial impacts of disasters that involves the transfer of responsibility for some or all of the financial costs (e.g. through a financial instrument such as a property insurance contract); and
- **Uninsurable losses**: damages and losses that cannot be covered through insurance or for which the level of risk or other factors precludes the widespread availability of insurance coverage that is objectively affordable, which may occur if the risk does not meet some of the requirements for technical, economic or legal/regulatory insurability (e.g. assessability, randomness, mutuality, loss magnitude, scope for diversification).

II. **RECOMMENDS** that Members and non-Members having adhered to the Recommendation (hereafter “the Adherents”) **promote comprehensive disaster risk assessments** to support the evaluation of potential financial impacts across the economy and population and allow for the identification of financial vulnerabilities and an assessment of the benefits of investments in risk reduction by:

1. Leveraging comprehensive, multi-hazard risk assessments that take into account both direct and indirect impacts, evaluating both normal and extreme scenarios, anticipating any significant changes in the future nature of risk (e.g., as a result of climate change), and accounting for the level of uncertainty inherent in such estimates as well as sectoral, regional and international interdependencies.

2. Promoting the development of technologies and expertise in monitoring and assessing disaster risks by government, the private sector and non-governmental organisations, including the scientific and academic communities and, where beneficial, by taking advantage of private sector capabilities and expertise in the development of disaster risk assessment and exposure models.

3. Ensuring that data necessary for the quantification of potential disaster impacts are produced, collected, shared and made publicly available, subject to applicable confidentiality and privacy requirements. This should include data on hazards, the exposure and vulnerability of assets, eco-systems and populations, as well data on past losses. Efforts to harmonise the collection and reporting of data nationally, regionally and internationally, should be made. Post-disaster loss assessments should be conducted for significant events, undertaken based on a consistent methodology and co-ordinated with the private sector, in order to support the availability of data necessary for assessing disaster risks going forward.

4. Assessing financial capacities to manage the financial impacts of disasters, taking into account responsibilities for managing these risks across the public and private sectors, including different levels of government, and the availability and use of risk financing and risk transfer tools, with the aim of identifying any potential financial vulnerabilities that may emerge as a result of disaster risks, including among different segments of the population and economy.

III. RECOMMENDS that Adherents **support the financial resilience of households, businesses, non-profit institutions and subnational governments to disaster risks** and the availability and use of risk transfer and risk financing tools for disaster risks by:

1. Supporting initiatives to raise awareness of disaster risks among individuals, businesses, non-profit institutions and, where applicable, subnational governments, their responsibility for managing those risks, and the availability of risk financing and risk transfer tools provided by insurers, other financial institutions such as banks, and public entities. Information on disaster risks and the availability of risk financing and risk transfer tools should take into account the behavioural biases of individuals and groups, such as the tendency to underestimate risk as well as the level of financial literacy and inclusion.

2. Ensuring the implementation of a financial sector policy, regulatory and supervisory framework that:

a) Ensures a sound, open, efficient and operationally resilient financial sector with sufficient financial capacity to absorb disaster risk and offer risk financing and risk transfer tools that provide adequate and inclusive financial protection against disaster risks, including by enabling the use of risk transfer to national and international (re)insurance and capital markets.

b) Requires the use of contractual terms on the scope of financial protection and any conditions, endorsements, exclusions or limitations that are clear and understandable to non-experts.

c) Enables pricing, contractual terms and conditions (e.g. premiums, deductibles, coverage limits) that encourage and support risk reduction where relevant and as appropriate.

d) Facilitates the use of new technologies for disaster risk assessment, risk reduction and financial product innovation, while ensuring that consumers are appropriately protected.

e) Ensures that the necessary plans, processes and operational capacity are in place to provide timely and fair provision of funds, including the payment of insurance claims, to support efficient response, recovery, rehabilitation and/or reconstruction from disasters.

3. Considering public and private measures to address any challenges to the availability and/or affordability of risk financing or risk transfer tools and the existence or emergence of financial vulnerabilities for all or certain disaster risks, which may differ based on the characteristics of different hazards and specific country circumstances, such as:

a) Effective risk management standards and measures and targeted investments in risk reduction;

b) Regulatory requirements related to the purchase or offer of risk transfer tools;

c) Regulatory measures and other mechanisms to increase access to inclusive and quality financial products that meet the needs of vulnerable segments of the population;

d) Financial incentives or other mechanisms to support public and private investment in risk reduction; and,

e) Catastrophe risk insurance programmes, which can support the broad availability and affordability of risk transfer tools.

4. Where necessary, developing public compensation and financial assistance arrangements, co-ordinated across levels of government, to provide timely, targeted, transparent and equitable assistance for uninsurable losses and financial transfer mechanisms to provide support to sub-national levels of government facing fiscal constraints, with the aim of minimising economic disruptions and supporting recovery and future resilience.

5. Ensuring that catastrophe risk insurance programmes and public compensation and financial assistance arrangements, where established, encourage public and private risk reduction as appropriate, recognise the benefits of utilising the capacity of national and international banking, (re)insurance and capital markets to provide financial protection, and minimise the risk of moral hazard.

IV. RECOMMENDS that Adherents effectively **assess and manage the financial impacts of disasters on public finances**, by:

1. Evaluating the potential financial impacts of disasters on government, taking into account, where applicable:

a) The expected costs of relief and recovery as well as of reconstruction and rehabilitation of assets, economic and social infrastructure and eco-systems under public responsibility;

b) Exposures to losses as a result of funds invested into or (re)insurance or guarantees provided to catastrophe risk insurance programmes;

c) Estimated payments under public compensation and financial assistance arrangements and through financial transfers to households, businesses, non-profit institutions and/or sub-national levels of government facing financial vulnerabilities or fiscal constraints;

d) Possible unanticipated demands or needs for public compensation and financial assistance and/or financial transfers; and

e) The potential impact of a deterioration in macro-economic conditions, such as a decline in economic activity, government revenues or a deterioration in the balance of payments.

2. Developing an ex ante plan or plans, as necessary, to ensure adequate funding to address the impacts of disasters on public finances, including public funding, along with risk financing (e.g. debt financing, contingent credit) and/or risk transfer tools (e.g. insurance, catastrophe bonds), taking into account fiscal and borrowing capacities as well as the cost, timing and availability of the various funding sources.

3. Ensuring adequate plans are in place to disburse funds for relief, recovery, reconstruction and public compensation and financial assistance in a timely and equitable manner in order to limit the social and economic impacts of disasters.

4. Publicly disclosing, where permissible, that plan or plans (or portions thereof) with the aim of building confidence in the government's capacity to manage the financial impacts of disasters.

5. Assessing the cost and benefit of risk retention, risk financing or risk transfer relative to ex ante public investments in risk reduction.

V. RECOMMENDS that Adherents **establish coherent strategies for building financial resilience to disasters**, that:

1. Foster an integrated approach to managing the financial impacts of disaster risks across all levels of government, which appropriately respects differences in responsibilities and governance arrangements for managing disaster risks, and involves ministries and agencies with responsibility for risk assessment, risk reduction, critical infrastructure services, financial sector regulation, social protection and the management of public finances, among others.

2. Provide the resources necessary to ensure sufficient institutional capacity and expertise for the implementation of these strategies.

3. Ensure co-operation and co-ordination across organisations in the public and private sectors with responsibilities for, and expertise in, managing the financial impacts of disaster risks.

4. Leverage, where relevant, opportunities for international co-operation and information sharing, recognising the potential cross-border drivers and impacts of disaster risks.

5. Take into account the characteristics, evolution and implications of different types of hazards, which may require additional measures to address potential limitations in the use, availability and/or affordability of risk transfer and/or risk financing, including but not limited to:

a) the potential for climate change to increase the frequency and/or severity of climate-related disaster events;

b) the impacts of digitalisation on the frequency and/or severity of cyber events, including the potential for accumulation risk;

c) the implications of social and political tensions for the frequency and/or severity of terrorism attacks, including cyber-terrorism attacks; and

d) the potential for environmental damage, habitat encroachment as well as other human actions to increase the frequency and/or severity of infectious disease outbreaks, including global pandemics resulting in highly-correlated losses across regions.

VI. **INVITES** the Secretary-General to disseminate this Recommendation;

VII. **INVITES** Adherents to disseminate this Recommendation at all levels of government and to relevant domestic stakeholders;

VIII. **INVITES** non-Adherents to take into account and adhere to this Recommendation;

IX. **INSTRUCTS** the Insurance and Private Pensions Committee to:

a) serve as a forum for exchanging information, including experience with the implementation of this Recommendation;

b) develop tools to support the implementation of this Recommendation; and

c) report to the Council on the implementation, dissemination and continued relevance of this Recommendation every ten years following its revision.

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- **Substantive Outcome Documents** are adopted by the individual listed Adherents rather than by an OECD body, as the outcome of a ministerial, high-level or other meeting within the framework of the Organisation. They usually set general principles or long-term goals and have a solemn character.

- **International Agreements** are negotiated and concluded within the framework of the Organisation. They are legally binding on the Parties.

- **Arrangement, Understanding and Others**: several other types of substantive legal instruments have been developed within the OECD framework over time, such as the Arrangement on Officially Supported Export Credits, the International Understanding on Maritime Transport Principles and the Development Assistance Committee (DAC) Recommendations.