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منظمة  
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# FINANCE COMMITTEE

**Hundred and Eighty-sixth Session**

**7–9 June 2021**

**Utilization of the self-insurance special account surplus**

*Queries on the substantive content of this document may be addressed to:*

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### EXECUTIVE SUMMARY

- WFP commodities are insured through an internal self-insurance scheme that operates like a commercial insurance company. Insurance coverage is provided from the time WFP takes delivery up to handover to cooperating partners, beneficiaries or the government. Transactions related to the self-insurance activity are managed through a special account, the Self-Insurance Special Account, which records all receipt of premia, income, loss adjustment and underwriting expenses. The account also records all assets and liabilities as well as interest and other incomes generated from insurance activities.
- The most recent Executive Director circular on WFP's self-insurance arrangements (OED2020/001) provides that should the fund balance exceed the amount needed to meet claim settlement obligations, the Secretariat shall present a proposal to the Executive Board for the use of the excess funds.
- The Secretariat has determined that the special account has USD 20 million more than is required to meet claims settlement obligations. The Executive Director therefore proposes that the Executive Board approve the transfer of that amount to the Immediate Response Account.
- The recent increase in humanitarian needs and crisis response has reduced the balance of the Immediate Response Account, a critical mechanism that enables WFP to respond to emergencies quickly and to provide funds for life saving activities and pipeline breaks.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the "Utilization of the self-insurance special account surplus" and to endorse it for approval by the Executive Board.

#### Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decision as outlined in the document "Utilization of the self-insurance special account surplus".**



World Food Programme  
Programme Alimentaire Mondial  
Programa Mundial de Alimentos  
برنامج الأغذية العالمي

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Resource, financial and budgetary matters

For approval

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

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## Utilization of the self-insurance special account surplus

### Draft decision\*

Having considered the document "Utilization of the self-insurance special account surplus" (WFP/EB.A/2021/6-J/1), the Board approves the transfer of USD 20 million from the self-insurance special account to the Immediate Response Account.

### Introduction

1. WFP commodities are insured through an internal self-insurance scheme that operates like a commercial insurance company. Insurance coverage is provided from the time WFP takes delivery up to handover to cooperating partners, beneficiaries or the government. Transactions related to the self-insurance activity are managed through a special account, the self-insurance special account, which records all receipt of premia, income, loss adjustment and underwriting expenses. The account also records all assets and liabilities as well as interest and other incomes generated from Insurance activities.
2. The most recent Executive Director circular on WFP's self-insurance arrangements (OED2020/001) provides that should the Fund balance exceed the amount needed to meet claim settlement obligations, the Secretariat shall present a proposal to the Executive Board for the use of the excess funds.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the decisions and recommendations document issued at the end of the session.

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#### Focal points:

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3. The Secretariat has determined that the special account has USD 20 million more than is required to meet claims settlement obligations. The Executive Director therefore proposes that the Executive Board approve the transfer of that amount to the Immediate Response Account (IRA).
4. The recent increase in humanitarian needs and crisis response has reduced the balance of the IRA, a critical mechanism that enables WFP to respond to emergencies quickly and to provide funds for life-saving activities and pipeline breaks.

### **The self-insurance special account**

5. WFP's self-insurance scheme operates like an insurance company. The scheme collects premiums, pays claims, undertakes recovery actions against liable third parties and reinsures its catastrophic losses externally with commercial insurance providers. It maintains capitalization sufficient to meet its claims obligations. Any surplus funds above the established capitalization level are returned to WFP. Funds so returned should be returned in amounts that are large enough to be useful to WFP.
6. Through this scheme WFP operations benefit from insurance coverage at premium rates substantially below market rates, **access insurance coverage** for locations and loss types for which commercial coverage would not typically be available, and receive prompt settlement of claims so that programmes can continue uninterrupted. The scheme also enables WFP to better coordinate and manage its loss prevention activities.
7. In the WFP Management Plan (2021–2023),<sup>1</sup> the Secretariat informed the Board that the self-insurance scheme required capital of USD 47 million per year for 2020, 2021 and 2022 to meet its obligations. Based on that analysis the Secretariat has determined that the insurance fund has USD 20 million more than is needed.
8. In accordance with procedures established by the Secretariat, when the scheme has accumulated a significant amount of funds beyond what it needs to operate the Executive Director informs the Executive Board and proposes a use of the funds.

### **The Immediate Response Account**

9. The IRA is a critical financing tool that enables WFP to provide immediate assistance in life-threatening situations in the absence of forecasted contributions.
10. In 2020, a total of USD 188.6 million was allocated to 49 country strategic plans. The largest IRA allocations went to country strategic plans for Yemen (USD 32 million), Mozambique (USD 14 million), Lebanon (USD 13.5 million) and Burkina Faso (USD 12.6 million); the average monthly allocation is USD 15.7 million, a 17 percent increase in comparison to the 2019 average.
11. As of April 2021, the IRA had disbursed over USD 53 million in response to emergencies, including significant (greater than USD 1 million) allocations for activities in Afghanistan, Central African Republic, Ethiopia, Guinea, Guatemala, Madagascar, Mozambique, Myanmar and Nigeria.
12. While the level of allocations in 2020 was the second highest in the past ten years, the level of donor contributions directed to the IRA in the same year (USD 24.7 million) was the second lowest in the same period, despite the increasing demand for allocations.
13. A further increase in requests is foreseen, due to deteriorating food security and elevated risks. Around 174 million people are in Integrated Food Security Phase Classification (IPC) phase 3 or worse in 58 countries, compared to 135 million in 2019, while over 34 million people are facing emergency levels of acute food insecurity (IPC phase 4). Further

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<sup>1</sup> WFP/EB.2/2020/5-A/1/Rev.1.

deterioration is imminent across 20 hotspots, the main drivers being conflict and insecurity, weather extremes, transboundary threats (e.g. desert locusts), economic shocks compounded by the effects of COVID-19 and access constraints.<sup>2</sup>

14. While WFP continues to seek additional donor contributions to the IRA, its timely replenishment from WFP's reserves will therefore help address such competing requests for funding needed for life-saving activities.

**Proposed transfer from the self-insurance special account to the IRA**

15. In order to mitigate the risk of WFP not being able to accommodate concurrent requests for IRA funds during the COVID-19 pandemic, it is proposed that USD 20 million be transferred from the self-insurance special account to the IRA.
16. Based on the annual requirements analysis referred to above it is not expected that the proposed transfer, if approved, will have a negative effect on the self-insurance special account balance.

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<sup>2</sup> Taken from April 8 joint FAO-WFP briefing to the Executive Board.