The World Bank's new pandemic insurance – A wise use of donor money?

The World Bank recently created a new insurance known as the Pandemic Emergency Financing Facility (PEF). Through the PEF donors pay private sector investors to insure poor countries against pandemics. If one of a series of pre-defined pandemics breaks out, the investors lose the money that they put forward. If it does not, investors get their money back after three years and keep the annual rsk compensation payments that they receive from donors in the meantime[i].

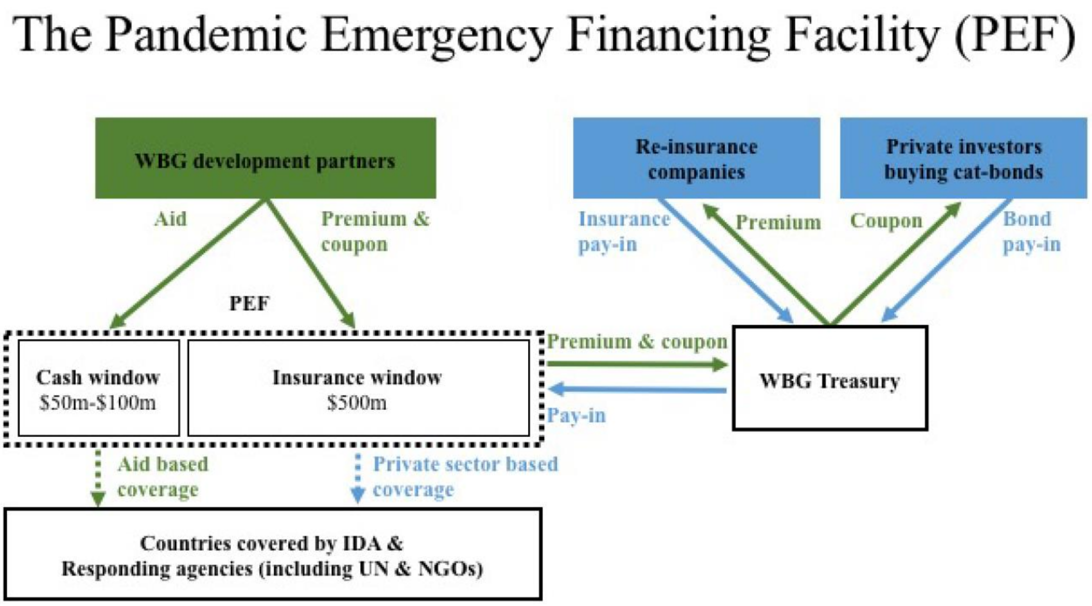

Diagram of how the PEF insurance works (based on Stein & Sridhar 2017):

The launch of the PEF was covered by much of the mainstream press. Yet, surprisingly, most of this coverage only reiterated what the World Bank itself had previously announced in reports and press-releases. Thus, the Financial Times praised the insurance's innovative nature and potentially speedy pay-outs, before stating that it gave investors "the chance to save the world and earn a juicy return". The Economist claimed that the PEF was "already spurring more advanced planning on the part of governments and international responders". The Guardian added almost no investigative analysis,[ii] while The Huffington Post decided to let the head of the Wold Bank himself describe the PEF to the public.

Two positive exceptions to this general lack of investigative scrutiny are worth mentioning. One was coverage by Devex, which highlighted already in 2016 that "the PEF's complexity and multiple funding windows are drawing criticism from some global health and development experts eager to see something a bit more straightforward". The other was a 2015 Financial Times commentary by Larry Summers. Summers considered the PEF to be a potential "win-win-win" mechanism, since the world's poor will want free insurance, development professionals should enjoy access to "the vast resources of the global capital market" and investors "are desperate for return". Yet he also pointed out two open issues. Firstly, a suitable price would have to be found at which donors compensate the private sector for providing insurance cover. Secondly, the circumstances under which PEF money would be paid out would have to be defined so that both investors and the health community are satisfied.

These first moments of critical analysis point to the fact that the PEF actually raises a series of questions that donors and health professionals may want answers to. We have outlined several of these in a recent article in the British Medical Journal, so I will only mention two of them here.

Firstly, pandemic risk mitigation does not have to be financial in nature. Instead, it can take the form of concrete measures like providing sanitary systems or simple waste disposal. Such activities do not just mitigate pandemic risk, they also improve people's lives before and after a pandemic strikes. People in the poorer neighbourhoods of Haiti's capital Port-au-Prince for example, rarely have access to clean water. They cannot afford to buy as much clean or potable water as they would need. Instead, the often have to use water from street ditches and natural streams for laundry and personal hygiene, thereby increasing their chances of getting infected with Cholera. Moreover, many of the busy sidewalks of Haiti's capital are covered in litter, which, once it has built up into piles, is burnt on the spot. Apart from being toxic, this much waste in the city increases the chance of vector-borne disease. So while a free nation-wide pandemic insurance is surely desirable for Haiti, such financial attempts at pandemic risk mitigation would have to be accompanied by much more concrete forms of preventative work. Concrete action has the positive side-effects of being immediately visible to people on the street and of mitigating the boom and bust cycles of both pandemic preparedness and financial markets.

A street corner in central Port-au-Prince, 06/10/2017, picture taken by the author

Secondly, the PEF's insistence on private sector involvement does not just render health insurance much more complicated than it would need to be, but forces donors to decide whether or not they overpay private sector investors for the coverage that they provide. Overpayment seems hard to avoid, as donor countries like Germany and Japan tend to have a lower cost of capital than many private sector institutions. Thus, they can generally raise money on capital markets more cheaply than private investors. Instead of putting their own money into an insurance fund, however, Germany and Japan now pay private institutions with a higher cost of capital via the PEF, to cover pandemic risk for them.

What is clear so far is that financial investors believe that they get a good deal out of the insurance scheme. A recent press release the World Bank's Treasury announced that when the bonds through which investors are paid for pandemic risk coverage were brought to market, they were oversubscribed by 200%, "reflecting an overwhelmingly positive reception from investors and a high level of confidence in the new World Bank sponsored instrument".

Whether the donors who pay for this mechanism will have a similarly positive view remains to be seen.

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[i] To find out how the PEF works in detail, see Stein F. & D. Sridhar. "Health as a "Global Public Good": Creating a Market for Pandemic Risk." The British Medical Journal 358 (2017): 1-4.

[ii] See https://www.theguardian.com/business/2016/may/21/world-bank-launches-500m-insurance-fund-to-fight-pandemics, and https://www.theguardian.com/global-development/2016/jul/18/ebola-escalation-could-have-been-avoided-world-bank-president-jim-young-kim-pandemic-financing-facility