

CATASTROPHE BOND: ECONOMY

NEWS: How can cat bonds plan for a natural disaster?

WHAT'S IN THE NEWS?

Catastrophe bonds are high-yield insurance-linked debt instruments that offer quick disaster payouts, and experts suggest India adopt them to manage increasing climate-related risks and reduce fiscal pressure. Their design encourages preparedness but poses challenges like rigid triggers and high premiums in disaster-prone zones.

Call for Cat Bonds in India

- Recent expert opinions have recommended that India explore **Catastrophe Bonds (Cat Bonds)** as an innovative financial tool.
- This comes amid rising frequency and intensity of natural disasters, highlighting the need for **pre-arranged disaster financing and risk transfer mechanisms**.

What is a Catastrophe Bond (Cat Bond)?

- **Hybrid Instrument:** A cat bond is a **combination of insurance and debt**—an innovative financial instrument that converts disaster risk into an investible security.
- **Issued by:** Typically by governments, multilateral agencies (e.g., World Bank, ADB), or large insurers.
- **Purchased by:** Global investors seeking **high yields** with non-correlated risk.
- **Trigger-Based Mechanism:**
 - If a specified disaster (e.g., earthquake, flood, cyclone) occurs and meets predefined criteria, investors lose all or part of their principal.
 - The forfeited amount is then directed toward **post-disaster relief and reconstruction**.
 - If no disaster occurs, the investor earns **attractive interest (coupon) payments** over the bond period.

Special Purpose Vehicle (SPV)

- Every cat bond is linked to a **Special Purpose Vehicle (SPV)** – a legal entity created solely to manage that bond.
- **Functions of the SPV:**
 - Ensures the investor's funds are **secure and segregated** from the sponsor's general finances.
 - **Protects investor interests** and enables smooth disbursement upon trigger events.

- Acts as a **financial firewall**, reducing moral hazard and operational risk.

Advantages of Cat Bonds

1. Risk Diversification

- Cat bonds provide **uncorrelated risk** (i.e., disaster risks are independent of stock or bond market volatility).
- As per **Harry Markowitz's portfolio theory**, adding such instruments enhances risk-adjusted returns.

2. Faster Payouts

- Unlike traditional insurance that requires **claim verification and damage assessment**, cat bonds provide **near-instant payouts** post-trigger.
- This enables **timely disaster response** and avoids delays in relief mobilization.

3. Reduced Fiscal Burden on Governments

- Governments do not need to divert funds from essential services or emergency reserves.
- Cat bonds act as a **pre-arranged, contingency fund**, improving fiscal predictability.

4. Access to Global Capital Markets

- Helps developing nations like India **go beyond domestic insurance** or donor aid systems.
- Brings in **global investors** and institutional finance for disaster resilience.

5. Encourages Risk Mitigation

- Governments or entities with **robust disaster preparedness** and early warning systems can issue cat bonds at **lower premiums**.
- This promotes investments in **resilient infrastructure** and **disaster prevention strategies**.

Limitations of Cat Bonds

1. Trigger Threshold Rigidity

- If a disaster is just below the trigger level (e.g., a 6.5 magnitude earthquake when 6.6 is required), **no payout occurs**, even if the damage is significant.
- This creates a **perception of unfairness and inefficiency**.

2. Opportunity Cost

- If no disaster occurs during the bond term, the premium paid may seem **wasteful**, especially in **resource-constrained countries**.

3. Design Complexity

- Crafting an effective cat bond requires **sophisticated risk modeling** and scenario analysis.
- Poorly structured bonds may **miss important risk scenarios**, leading to inadequate coverage.

4. High Premiums for High-Risk Regions

- Areas prone to frequent disasters may face **high premium rates**, which may deter issuance unless **multilateral support** is available.

Why Cat Bonds Make Sense for India

1. High Disaster Exposure

- India faces **frequent and severe disasters**, including:
 - **Cyclones** (Bay of Bengal & Arabian Sea),
 - **Floods** (monsoon-linked),
 - **Earthquakes** (Himalayan belt, NE India),
 - **Landslides, droughts, and urban storms.**

2. Low Insurance Penetration

- A large portion of Indian households and businesses remain **uninsured or under-insured**.
- Most **post-disaster recovery costs** fall on the government or are met through relief aid.

3. Existing Government Funding Signals Readiness

- Since FY 2021–22, India allocates **₹1.8 billion annually** toward disaster mitigation and capacity building.
- This indicates **fiscal commitment to resilience** and opens the path for innovative financing like cat bonds.

4. Global Support Ecosystem Exists

- Institutions like the **World Bank, ADB, and UNDRR** are actively supporting **cat bond design, risk modeling, and capacity building**.
- India can **partner with global intermediaries** to minimize premiums and enhance bond reliability.

Conclusion

Catastrophe bonds offer India an opportunity to shift from **reactive relief to proactive risk financing**, enabling faster disaster response and protecting public finances.

While design challenges and cost issues exist, the country's disaster-prone profile and growing economic assets make **cat bonds a critical tool for climate resilience and financial preparedness**.

Source: <https://www.thehindu.com/business/Economy/how-can-cat-bonds-plan-for-a-natural-disaster-explained/article69793213.ece#:~:text=These%20bonds%20transfer%20haz>

SOCIAL SECURITY CODE: NATIONAL

NEWS: ‘Uber may implement social security code for drivers by year end’

WHAT’S IN THE NEWS?

The Social Security Code, 2020 aims to extend comprehensive welfare benefits like health insurance, old-age support, and maternity cover to all workers, including gig and platform workers like Uber drivers, through a co-contribution model and digital portability. Its implementation is key to formalising India's large informal and underprotected workforce.

Context

- Uber India is in discussions with the Union Government and may implement the **Social Security Code provisions for its drivers by the end of 2025**.
- This marks a major step toward extending social security to India’s growing gig and platform workforce.

What s the Social Security Code, 2020?

1. Legislative Background

- Enacted by Parliament in **2020** as part of India's labour law reforms.
- It consolidates **nine existing central labour laws** related to social security into a **single legal framework** for ease of implementation and universality.

2. Objective

- To create a **unified and inclusive social security net** that covers all worker categories, including:
 - **Formal workers** (regular salaried employees)
 - **Informal and unorganised workers**
 - **Gig and platform workers** (e.g., Uber, Ola, Zomato, Swiggy)
 - **Self-employed and seasonal workers**

Key Features of the Social Security Code

1. Expanded Coverage

- Moves beyond the traditional **employer–employee model** to include gig and platform workers.
- Recognizes the **changing nature of work** in the digital economy.

2. Enabling Framework for Welfare Schemes

- Empowers the Central and State Governments to design welfare schemes related to:
 - **Health insurance** (via ESIC)
 - **Old age pension and retirement** (via EPFO)
 - **Maternity and disability benefits**
 - **Education, skill development, and housing**

3. Institutional Mechanism: National Social Security Board

- Composed of representatives from:
 - **Gig and platform companies**
 - **Workers and trade unions**
 - **Government and independent experts**
- Responsible for:
 - Designing and monitoring social security schemes
 - Recommending funding mechanisms
 - Ensuring inclusive policy oversight

4. Interoperability of Benefits

- Gig workers (like Uber drivers) will retain their benefits even if they shift to another platform (e.g., Ola, Rapido).
- Ensures **continuity of coverage and portability** of entitlements.

5. Co-Contribution Funding Model

- Cost of social security to be shared by:
 - **Central Government**
 - **State Governments**
 - **Platform aggregators** (e.g., Uber, Zomato)
 - Option for **voluntary contributions** by workers

6. Comprehensive Social Security Components

- As defined by **ILO and UN guidelines**, includes:
 - Health care access

- Old-age security
- Disability and injury benefits
- Maternity support
- Unemployment protection
- Survivor benefits (in case of death)

Significance of the Social Security Code for Gig Workers

1. Legal Recognition

- Provides **legal identity and rights** to gig workers under Indian labour law.
- Addresses long-standing exclusion from labour protections.

2. Financial Protection

- Offers **income security during crises** such as accidents, illness, pregnancy, or old age.
- Especially crucial for low-income platform workers who lack safety nets.

3. Promotes Fairness & Equity

- Ensures that tech-based businesses **share responsibility** for the welfare of the workers they depend on.
- Aligns with the principle of “**equal protection for all types of work.**”

4. Aligns with International Norms

- Fulfils India’s commitments under:
 - **ILO Social Protection Floor Recommendation (No. 202)**
 - **UN Covenant on Economic, Social and Cultural Rights**

Challenges in India’s Social Security Landscape

1. Large Informal Sector

- **85% of India’s workforce** is informal with:
 - No written contracts
 - No access to social protection
 - Insecure and low-paying jobs

2. Limited Social Security Penetration

- Only **~35 million** out of 400 million workers have formal social security (mainly through EPFO or ESIC).
- **Gig/platform worker coverage is even lower** due to their ambiguous employment status.

3. Low Insurance Penetration

- According to **IRDAI (2024)**:
 - **Life insurance** penetration is below **3.2% of GDP**
 - **Health insurance** penetration is under **0.9% of GDP**
- Reflects widespread vulnerability to health and income shocks.

4. Fragmented Welfare Systems

- Schemes like **PM-SYM**, **Ayushman Bharat**, and **e-Shram** work in **silos**, resulting in:
 - **Duplication of efforts**
 - **Limited portability** for migrant workers
 - **Gaps in coverage** due to lack of integration

Way Forward

1. Accelerated Implementation of the Code

- Ensure timely implementation of the Code by **end of 2025** for all platform companies.
- Set up **real-time digital databases** to track worker registration, contributions, and entitlements.

2. Promote Digital Portability

- Expand use of **e-Shram cards** or **Universal Labour IDs** to allow workers to access benefits across platforms and states.

3. Incentivize Compliance

- Offer **tax breaks** or **recognition incentives** to platform companies that proactively register workers and contribute to social security.
- Enforce penalties on platforms that evade contributions.

4. Worker Awareness & Enrollment

- Conduct **massive awareness drives** to inform gig workers about their rights and benefits.
- Simplify enrollment through mobile apps or multilingual interfaces.

5. Strengthen Governance and Data Systems

- Integrate databases across **EPFO, ESIC, PM-SYM, Ayushman Bharat**, etc.
- Use **AI and blockchain** to improve tracking, reduce fraud, and enhance transparency.

Conclusion

The Social Security Code, 2020 is a transformative step toward **universal and inclusive welfare** in India. Its successful implementation for gig workers like Uber drivers will not only ensure **economic resilience** and **social justice** but also demonstrate India's leadership in adapting social protection to the digital age.

Source: <https://www.thehindu.com/business/uber-may-implement-social-security-code-for-drivers-by-year-end/article69788612.ece>