Parallel session 9

Strengthening resilience through insurance solutions

By Pedro Pinheiro

Insurance can be an important tool for managing climate risk and enhancing recovery in disaster-prone regions of the world. This session discusses three examples of insurance-based schemes that aim at strengthening the resilience of vulnerable populations – in the Caribbean, Ghana and Paraguay.

Creating linkages between direct and indirect climate risk insurance

The Munich Climate Insurance Initiative (MCII), in partnership with several international and local organisations, has launched the Climate Risk Adaptation and Insurance in the Caribbean (CRAIC) Scheme, aiming at addressing climate change adaptation and vulnerability by promoting climate risk insurance as an instrument to manage and transfer risk.

CRAIC Scheme

Countries
Jamaica and St. Lucia. Phase II will expand to Grenada, Belize and Trinidad & Tobago.

Perils covered
High wind speed and excessive rainfall.

Type of insurance
Trigger-based parametric index.

Data source
Rain is monitored by DHI[14] and wind is monitored by CCRIF[15] (until October 2017).

Partner organisations
CCRIF, Munich Re, DHI, ILO Impact Insurance Facility and local insurers, aggregators, ministries and regulatory authorities.

Distribution channels
Local insurers and authorised agents.

Policyholders
Over 500, with the aim of reaching 10,000 by July 2018.

Claims
Five payouts (US$ 112,774)

80 — Charlotte Norman, Director, National Disaster Management Organization (NADMO), Ghana.

81 — Alexandra Rudolph, Senior Policy Officer, Federal Ministry for Economic Cooperation and Development, Germany.

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14 Danish Hydraulic Institute

15 Caribbean Catastrophe Risk Insurance Facility

The CRAIC Scheme is based on the Livelihood Protection Policy (LPP), a non-subsidised insurance product accessible to all the people in participating countries. The policy covers damage from heavy rains and strong winds, with an expedited claims process that promises to pay within 14 days.

The scheme has found support with local regulators, who in some cases came up with special provisions to allow the establishment of the parametric index and inclusive insurance. But the limitations on distribution channels still pose a pertinent restriction to the scheme's outreach. Other challenges are related to clients' lack of willingness to pay, and trust-building in the face of previous bankruptcies on the part of insurers in the market. The common issue of basis risk in parametric insurance is also a concern. This led to an exceptional payment below trigger being allowed in Jamaica in order to reinforce product trust.

On the way forward, the CRAIC Scheme intends to partner with indirect schemes for disaster risk management and social protection policies, as well as providing additional services based on assessments of customer needs (see Figure 28).

Insurance plus risk management strategies

In Ghana, severe drought used to cause damage to crops and livestock, decreasing agricultural output, and creating extensive health problems before any aid could reach the affected population. Now, an update of the Integrated Climate Risk Management (ICRM) framework has included "risk transfer and financial protection" among its strategies. And drought is being tackled through food distribution and cash transfers with funds from the African Risk Capacity (ARC).

The ARC is a specialised agency of the African Union which enables participating member states to prepare, manage and finance natural disasters. It offers insurance coverage to national states provided they develop and implement contingency plans before purchasing coverage. Its funding will allow Ghana to put in place the Climate Smart Agriculture Programme, which will help local farmers in 20 communities to improve their techniques of soil management and water conservation. It will also supply drought resistant seeds, and direct agriculture insurance with access to credit.

The ARC's insurance policy will become accessible as Ghana obtains the Certificate of Good Standing, and the premium is calculated for inclusion in the public budget of 2018.

Figure 28
The way forward

Increase scale
— Link LPP to social protection
— Insurance a part of the government agenda

Enhance client value
— "Attachment point" payment
— Additional services based on customer needs assessment
— Build financial capacity

Enhance resilience
— Link product to DRM policies

Reduce basis risk
— "Hybrid payout" for member organisations

How?
— Product refinement and marketing through broadened partnerships with insurance industry or government
— Promote demand side through horizontal channels and initiatives at the bottom (i.e. Coffee Boards or cooperatives)
— Deepen linkages with insurance sector (macro-level/indirect scheme)

Source: Fernandez, Raúl. Presentation "Creating linkages between direct and indirect climate risk insurance in the Caribbean." 13th International Microinsurance Conference 2017.

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Integrating microinsurance into cash transfer programmes

The Microseguro Social in Paraguay is a benefit granted to participants in the government's cash transfer programme Tekoporã. It provides a safety net and enhances beneficiaries' capacity to overcome loss and hardship after the death or disability of a family member.

The microinsurance is part of the government strategy of integrating insurance into disaster risk management and climate change adaptation strategies. It allows individuals access to financial support after a disaster, requires government to take preventive actions to reduce the risk level, and contributes to a more productive and sustainable economic development. By improving ex-ante budget allocation and putting in place better ex-post risk management, it enhances people's resilience.

Microseguro Social – Paraguay

Coverage and insured sum
US$ 1,089 for the policyholder's death or total/permanent disability and US$ 454 for funeral expenses for the policyholder and up to 3 dependents.

Monthly cost
US$ 0.73

Limited exclusions
Suicide, civil war, criminal acts, serious fault, drunkenness, drug use and temporary invalidity.

Age limit for enrolment
74

Number of families covered
13,109 as of April 2017, aiming to reach every family in the Tekoporã programme.

Insurer
Tajy S.A Insurance Company

Percentage of Tekoporã budget
1.8%

Lessons learnt

— Direct schemes, like CRAIC-LPP, are struggling to reach sufficient scale – especially because of regulatory restrictions on distribution channels, clients' willingness to pay and trust issues – even though product demand in the Caribbean is latent.

— Direct schemes can achieve scale and become feasible by linking with indirect schemes for social protection and disaster risk management. The linkages provide operational synergies and institutional leverage.

— Integrating insurance into disaster risk management and climate change adaptation strategies benefits the government as well as vulnerable people.

— Microinsurance can be injected effectively into cash transfer programmes, which provide it with a ready market.

82 — Francisco Sánchez, Director, Social Action Secretariat (SAS), Paraguay.

83 — Raúl Fernandez, Project Associate, MCII, Germany.

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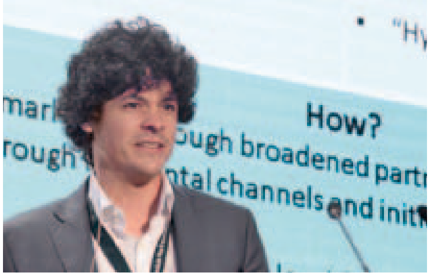

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