

Risk transfer options for poor and vulnerable

Workshop on Building Community-Based Risk Management and Responses to Natural Disasters, Bangkok, Thailand, June 10-13, 2008

Structure of presentation

- ProVention Consortium and Risk Transfer
- Micro-insurance Case Study: *Afat Vimo* (Disaster Insurance)
- IIASA/ProVention study: Disaster Insurance for the poor?
- Work in Progress.....
 - 2009 Global Assessment Report: Risk Financing Practice Review
 - Micro-insurance Client Impact Evaluations

ProVention Consortium

- Launched by the World Bank in 2000.
- Currently hosted by IFRC & Red Crescent Societies in Geneva, Switzerland.
- Informal partnership on disaster risk reduction between UN agencies, International Finance Institutions, academic institutions, civil society, red cross and private sector.
- Focusing on 5 thematic areas:
 - Risk Assessment;
 - Mainstreaming into Development;
 - DRR and Recovery;
 - Risk Transfer; and
 - Promoting DRR Research and Learning.

ProVention and Risk Transfer

ProVention interests

- **Strengthening risk transfer options for poor and vulnerable communities**
 - Pilot project on micro-insurance with AIDMI
 - A review of micro-insurance for natural disaster risks in developing countries with IIASA
 - Client impact evaluation in South Asia with AIDMI and IIASA
 - Undertaking a practice review on risk financing for the ISDR led 2009 Global Assessment Report on Disaster Risk Reduction
- **Developing incentives to shift from reactive post-disaster investments to proactive preventive measures**
 - Various projects with the World Bank to facilitate risk pooling for national governments

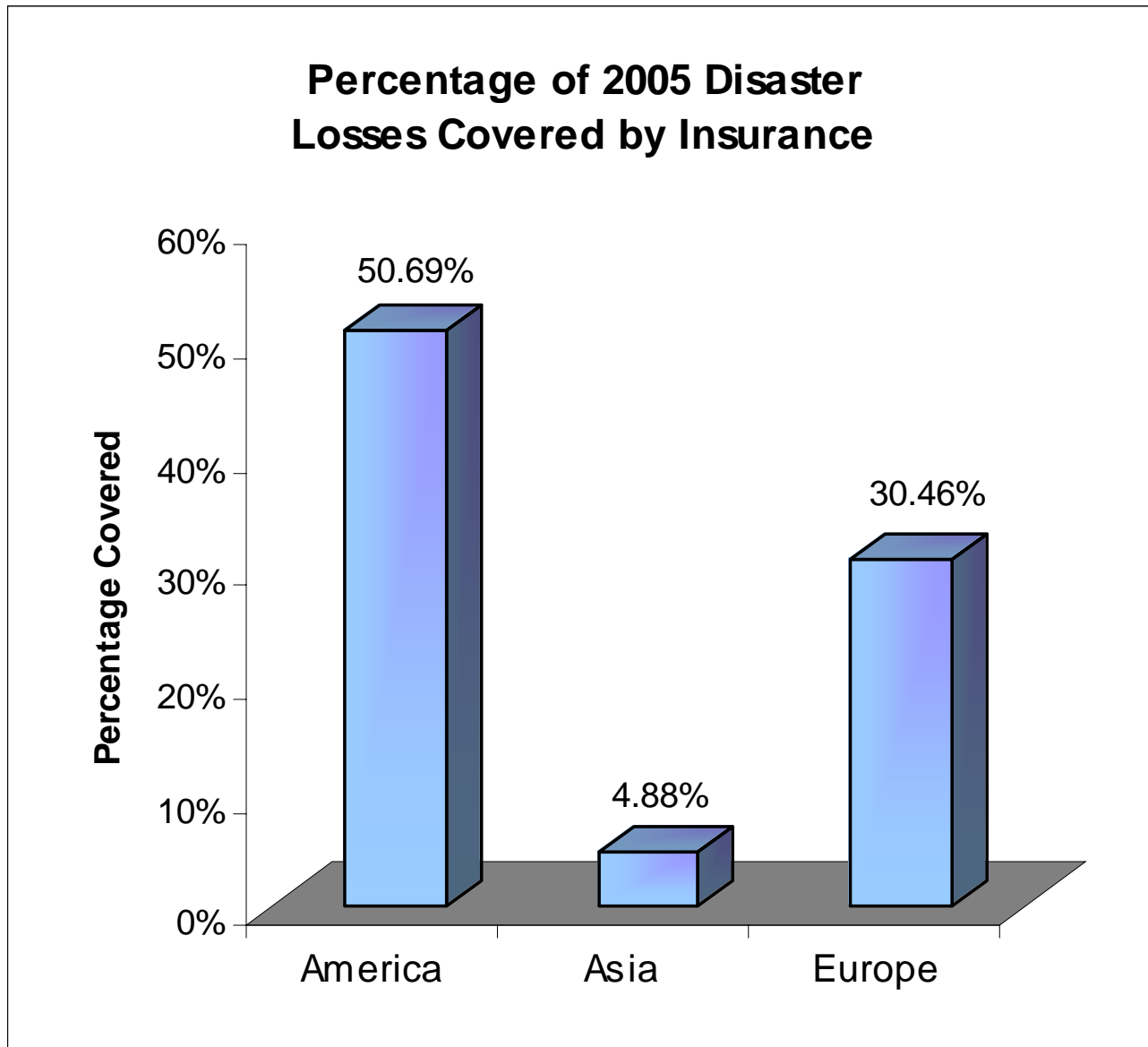
AIDMI Experience

- Communities are repeatedly exposed to disaster risks. They are also perpetually restricted in their access to vital financial services such as micro-insurance.
- Risk reduction is not a new thing; communities reduce risk on day-to-day basis, if they do not, they cannot survive. However, Disasters visit communities more frequently than their rate of building mitigation capacities.
- Loss assessments often ignores the loss of informal sector, compensation takes too long and is notoriously below market rates.
- Humanitarian actors initially provide relief and leave to provide relief to someone else. Therefore, after this relief, communities are still exposed to risk. This is odd. Most relief measures leave out risk reduction.

Indian scenario

- Each year, India suffers disaster losses of US\$1 billion according to World Bank studies.
- And on average, direct natural disaster losses amount to 2% of India's GDP and up to 12% of central government revenues. (Lester and Gurenko 2003).
- The Calamity Relief Fund of the Government of India spends US\$ 286 million towards providing relief to the victims of disasters.
- Assuming that the impact of natural disasters remains so high, and many estimates expect them to increase, how will India be able to cope?

Are we Funding Losses?



Financial losses to disasters in Asia have significantly less coverage than losses experienced in America and Europe.

What is AIDMI?

- The AIDMI is a community based action research, planning and advocacy organisation.
- Action and learning both.
- Established in 1989 after repeated droughts.
- Four sector programmes: Food, Water, Livelihood and Habitat.
- Team of 32: multi-disciplinary and multi-level.
- Implementing projects in Gujarat, Tamil Nadu, Jammu and Kashmir, Rajasthan, and Bihar

What is Livelihood Relief Fund?

- One of the activity centres.
- Started by All India Disaster Mitigation Institute (AIDMI) on June 1998 after Kandla Cyclone.
- Focusing on Livelihood recovery.
- Linking Relief and Rehabilitation with recovery.
- Has provided one-to-one retail relief to over 16000 micro businesses and families to recover. Almost all in low-income urban and rural areas and are below-poverty line.

Afat Vimo: The Scheme

- *Afat Vimo* (Disaster Insurance).
- Covers life (Life Insurance Corporation of India) and non-life losses (United India Insurance Company Ltd).
- One-time upfront premium. The annual premium is approximately three days' wage for the client.
- The scheme covers losses or damages to house, stock-in-trade, loss of work due to accident and death of earning family member up to Rs. 95,000 (\$2112).
- The scheme spreads risks across disaster events, communities, occupational groups and geographical areas.
- More than 4000 clients in Gujarat, Tamil Nadu, and Jammu and Kashmir.

Client Profile

- All disaster affected.
- All low-income families.
- All in low-income areas.
- Men and women both.
- Mostly micro businesses.
- Assets worth Rs.9000 on average.
- Annual incomes Rs.12000 to Rs.18000.
- Family involvement.

Relevance to Disaster Risk Management

- Client is a disaster victim.
- Intermediary is disaster mitigation agency.
- Coverage is for 19 types of disasters (includes fire, riots, strike, storm, cyclone, flood, tornado, landslide, earthquake, aircraft damage, typhoon, lightening to name a few).
- Includes micro-mitigation measures such as revolving fund in Bhuj, fire safety in schools, and capacity building inputs to clients.

Process Cycle



Scheme Performance

- Premium payment is good and regular. The renewal rate is currently 88%.
- A group of 4489 small businesses recovering from earthquake, riots, floods, and tsunami are covered under the *Afat Vimo* scheme.
- Capacity building inputs to 240 community leaders from small towns and villages of India.
- To date, 208 claims have been made to insurance companies. To date, 133 of these claims have been successfully settled, giving a combined payout of US\$ 17000.
- Of the claims that have been settled, 24 have been settled for life loss, eleven have been for personal accident (some resulting in fatality, others causing loss of earnings), two for house fires, and 18 for damage to property and contents as a result of monsoon flooding.

Main Challenges

- Low levels of private sector player interest. Focus on high premium and low volume.
- Setting up operational systems for collection and settlement.
- Mitigation matters. Risks must be reduced, not merely covered.
- It is a great struggle to do such projects as pilot, even more difficult to upscale action and advocacy with government and international bi-lateral institutions.
- Caution about all marketing no service experience.

2007 *Afat Vimo* Review

Key findings

- The scheme is clearly welcomed by client and there is pressure to extend it.
- The insurance companies have proved to be quick in resolving claims (average about 20days).
- Clients have suggested number of additional elements for insurance, notably health, but express doubts when the costs are set out).
- AIDMI should consider an option to insure entire family rather than just the policy-holder.
- The main value of micro-insurance lies in limiting the indebtedness that can quickly arise around an event such as death, accident or disaster. It does not so much take people forward as prevent them from slipping back.
- Risk comes at poor people from many angles and it is only by a combination of savings, credit, organization and so on that they can be overcome.

IIASA/ProVention study

Disaster Insurance for the poor?

- **A review of 10 micro-insurance schemes for natural disaster risks in developing countries**
- **These included**
 - Bundled vs. independent schemes
 - Mandatory vs. voluntary schemes
 - Traditional and index-based schemes
- **The study looked at 4 factors for viability**
 - Contribution to risk reduction
 - Affordability
 - Financial robustness
 - Governance

IIASA/ProVention study

Key findings/lessons

- **Often major challenge to assure financial sustainability while still providing affordable premiums.**
- **Lack of direct links and incentives from micro-insurance schemes to reduce the direct losses from disasters.**
- **Not enough transparency about how portfolios and exposure are diversified.**
- **Value of creative alliances among NGOs, microfinance organisation, private insurance companies, regulators, entrepreneurs, and donor institutions.**
- **Need for collecting more evidence and eliciting lessons from operating experiences by research community.**

2009 Global Assessment Report

Risk Financing Practice Review

Goal:

- Highlight state-of-the-art developments in risk financing targeting disaster risk reduction in short summary overview

Partners:

- ProVention Secretariat, AIDMI, Christian Aid, and range of additional partners for case examples

Key Areas (opportunities for proactive risk financing):

- Catastrophe pools
- Micro-insurance
- Micro-finance
- Social funds

2009 Global Assessment Report

Catastrophe Pools

Key topics:

- Public Private Partnerships, role of donors, and private sector players

Case Studies:

- Catastrophe pools for housing insurance. Case study from Caribbean hurricane insurance pool-World Bank
- Catastrophe pools for housing insurance. Case study from Turkey and Bulgaria World Bank Projects.
- Bulgaria case also has interesting partnership aspect involving NGOs and private sector construction firms-World Bank.

2009 Global Assessment Report

Micro-insurance

Key topics:

- Index-based approaches, effective delivery channels, risk analysis, insureses roles in defining triggers and payouts, distinguishing private sector and donor roles, high transaction costs and difficulties in targeting subsidies and regulatory incentive effectively.

Case Studies:

- Discussion on the role of the enabling environment. Case study from CGAP study in India.
- Input from evaluation study of micro-insurance pilots. Results from AIDMI/IIASA/ProVention study.
- Use of cell phones and kiosk vendors for distribution of microinsurance. Case study from Opportunity International in the Philippines.

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Micro-finance

Key topics:

- Ability of borrowers to pay back loans, especially if assets are lost or damaged, ability of MFIs to continue their business operations, additional needs of existing borrowers and access to credit for new borrowers.
- Predominance of grant assistance in relief model reduces interest and willingness to borrow.

Case Studies:

- Input from Microfinance Summit Campaign
- Community saving schemes. Case study from PACT-Vietnam.
- Surviving Disasters and Supporting Recovery: A Guidebook for Microfinance Institutions-
<http://www.proventionconsortium.org/?pageid=37&publicationid=36#36>

2009 Global Assessment Report

Social Funds

Key topics:

- Formal and informal funds/ties to public safety nets
- Ability of social funds to continue their operations after disasters

Case Studies:

- Social protection. Case study from World Bank work.
- National insurance funds. Case study from WFP drought insurance program in Ethiopia.
- Remittances as insurance. (Research study done by Dean Yang and Hwajung Choi at University of Michigan)

ProVention/AIDMI/IIASA study

Potential of risk transfer for pro-poor DRM

- **Goal:**
 - Build the evidence base for risk transfer as a tool for reducing disaster risks in developing countries
- **Objectives:**
 - Better measure the range of impacts that are often posited for micro-insurance schemes
 - Document the business models in use to answer questions about the viability of schemes
 - Highlight strategies for strengthening enabling environment
- **Approach**
 - Multi-partner initiative on knowledge development
 - Facilitated by AIDMI, IIASA, and ProVention
 - A range of other partners from South Asia such as Basix, Yasiru, and BRAC.

Thank you.