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EXPERT FORUM

Disaster insurance:

How does it support and protect the poor and their livelihoods?



July 5, 3-4PM CEST



Housekeeping Items

- ✓ Today's Expert Forum is scheduled to last 1 hour including Q&A
- ✓ To ensure the highest quality of experience participants will be muted



- ✓ QUESTIONS can be submitted via the Q & A feature => selection chosen
- ✓ "Raise Hand" icon to speak



- ✓ Lower Hand and mute after
- ✓ Slides and a recording of this presentation will be circulated later We will also aim to address any questions left unanswered via email
- ✓ Message the Microinsurance Network via CHAT for any issues









Objectives

Understand the role disaster insurance can play after natural disasters in terms of emergency relief for low income people

Harness lessons learned from different case studies

Identify ideas for best ways forward

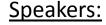












Ulrich Hess, Senior Advisor GIZ, Germany



Lourdes del Carpio, Director of Rural Insurance La Positiva Seguros y Reaseguros, Peru



Weijing Wang, Independent Consultant, (Previously with United Nations World Food Programme) Canada / China



Moderator:

Annalisa Bianchessi, Communications Coordinator Microinsurance Network

Luxembourg











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Introduction on disaster insurance schemes



Why manage disaster risk for the poor?

- Issues with **Disaster Assistance Programmes** (DAPs) generally
- CAT Insurance addresses fundamental needs of the poorer population
 - Potential benefits
 - Challenges











Early Recovery Vouchers



- The concept: Early recovery vouchers for the poor
- **Advantages**: set incentives for disaster risk reduction, easy to target, distribute via mobile banking and easily settled
- Challenges: basis risk (little), need SMART public funding













Lourdes del Carpio, Director of Rural Insurance La Positiva Seguros y Reaseguros, Peru









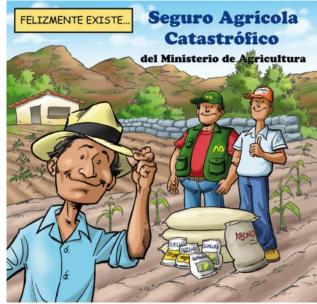




<u>Agricultural Catastrophic Insurance Programme</u>

- Launched by the Ministry of Agriculture in Peru in 2008.
- Insurance in place on the poorest regions of the country.
- Type of insurance: area-yield index insurance
- Trigger: 45% of the mean yield crop of a subdistrict
- **Perils covered**: flood, drought, hale, extreme temperatures, plagues and pests.

















<u>Institutional framework</u>

- National Government: Subsidies 100% of the premium.
- **Subsidy Fund Council** (Ministry of Economy, Agriculture and Ministries Council): Administers fund and approves payment of premium.
- Regional Governments: Decide what areas and crops to insure. They are the policy holder.
- Private insurance companies:
 - There are two private insurance that participate in the insurance programme as risk takers. One of them is La Positiva Seguros. They pay compensations when average yield is below the yield insured.









Characteristics of beneficiaries:



- Subsistence farmers (poor and extremely poor)
- Have less than 5 hectares, most of them grow more than one crop.
- They have only 8 years of basic education (should have 11)
- **Limited access** to **financial services**. (8 % of farmers in country have access to credit)
- **Limited technical assistance**. (10.8% of farmers in the country received technical assistance).







Agricultural Catastrophic Programme Numbers:

- Premium rate: **10.98** % (In 2009 it was 15%)
- Number of farmers insured: 439,000
- Number of hectares insured: 500,000 hectares (12.5% of total hectares cultivated in the country).
- Premium paid per hectare: USD 18
- Sum Insured per hectare: USD 165
- Accumulated loss ratio after six agricultural campaigns: 43 % with regional peaks of 230% and 128%
- Total payout 2009 -2015: USD 23 Million.
- Number of farmers that have received compensation: 330,444











Compensations:

- Reinvested in agriculture.
- Pooled their pay outs to repair irrigation channels.
- Use some to **buy food.**

For majority, it was the **first time visiting a financial institution**.

La Positiva contributes to financial inclusion:

Have opened **50,000 bank accounts** where the pay outs are deposited.

	% rural	
	population with	
Country	savings account	
Perú	13.30	
Latinoamérica	34.63	
Brasil	51.90	
Chile	30.68	





Challenges:



- 1. Scaling up. Increase subsidy fund.
- 2. Quality of yield information. Access to free weather information.
- **3. Quicker payments**. Reduce farmer's travelling time and cost to withdraw their compensation.
- 4. Reaching farmers with **financial education** programmes.

Lessons: What should done in the next years:

- 1. Endorse **policy** to **microfinance institutions** so that farmers could have access to microcredits.
- 2. Statistical information drawn from the insurance programme should be used to develop management risk public policies. Better understand weather risks that crops face.
- 3. The policy should include **good agricultural practices** that farmers need to comply in order to receive compensation.

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Weijing Wang, Independent Consultant, (Previously with United Nations World Food Programme) Canada / China









Disaster insurance programmes in China

NingBo Disaster Insurance

- Launched in Nov 2014
- Covers **10 million residents** in **NingBo** area
- Premium: 38 m RMB (**USD 5.8 m**) in the first year (2015)
- 57 m RMB (**USD 8.8 m**) in the second year (2016)
- 100% financed by municipal government
- **Total sum insured**: 600 m RMB (**USD 92.3 m**) in 2015 700 m RMB (**USD 107.7 m**) in 2016
- **Payout** (2015) 77.9 m RMB (**USD 12.4 m**) made **to 136,000 households** (Typhoons: Chanhong-July 11, 2015 and Dujuan-Sep 29, 2015)











Ningbo case study

- **Perils to cover**: typhoon, tropical cyclone, rainfall, flood, public security disasters (e.g. fire, explosion) and the secondary disasters
- Based on field loss adjustment (simplified and sampled)

Year: 2016	Total Sum Insured	The Sum Insured Per person/HH
Property Loss	300 million RMB (USD 46.2 m)	2,000 RMB (USD 308)
Life and health	300 million RMB (USD 46.2 m)	100,000 RMB (USD 15,385)
Public Security	100 million RMB (USD 15.4 m) -newly extended in 2016	100,000 RMB (USD 15,385) for life loss 8,100 RMB (USD 1,246) for temporary settlement







Pilot CAT insurance: Shenzhen case study



Shenzhen Disaster Insurance

- Launched in June, 2014
- 12-15 million beneficiaries estimated (residents, immigrate workers, temporary workers, tourists)
- Annual premium (1st year, 2nd year): 36 m RMB (USD 5.5 m)
 100% financed by municipal Government
- Total Sum Insured (1st year): 2.5 billion RMB (USD 385 m)
 (2nd Year): 2.7 billion RMB (USD 415 m)
- There was no payout yet
- Cover **15 perils**: typhoon, tropical cyclone, rainfall, flood etc. Earthquake and nuclear leakage are included
- Gov. Special Fund: RMB 30 million (USD 4.6 m)











Shenzhen case study



	Total Sum Insured (RMB)	Sum Insured per Person/HH (RMB)
Life and Health Care	2,000 m RMB (USD 307.7 m)	100,000 RMB (USD 15,400)
Evacuation cost caused by nuclear leak	500 m RMB (USD 76.9 m)	2,500 RMB (USD 385)
Housing	200 m RMB (USD 30.8 m)	20,000 RMB (USD 3077)











Pilot CAT insurance: NingBO and Shenzhen

Disaster Risk Financing Diagramme



Commercial Disaster Insurance

Gov. Special Fund

Disaster Insurance Payout

Initial capital: 5 m RMB (USD 0.8 m, Ningbo)
30 m RMB (USD 4.6 m, Shenzhen)

Max Insurance Payout:

700 m RMB (USD 108 m, Ningbo) 2,700 m RMB (USD 415 m, ShenZhen)











Lessons learned



Feature:

Public-Private-partnership Model

- Financially: premium financing, and special fund as extra backup
- Operationally: loss adjustment

Challenges:

- Loss adjustment very intensive
- Dispute on payout
- High Loss Ratio
- Coordination among local Gov. and staff to be improved











Ways forward...



- ✓ Cat Insurance Act (End of 2017 expected)
- ✓ Risk sharing by participant insurers (Earthquake Risk Pool has been set up last year with 45 insurers participating)
- ✓ Nation-wide disaster fund to enhance the capacity of risk financing (2017-2020 Expected)
- ✓ Improved disaster risk financing mechanism reinsurance, contingent credit, CAT bond, and last resort by Gov. resource when needed (First CAT bond for earthquake issued in 2015)







Points of clarification?

Questions? Comments?











Discussion points

Q1

How can the use of modern technologies help pave the way for disaster insurance schemes for low income people?

What solutions are in sight?

What may be some of the limitations with the use of such technologies?









Discussion points

Q2

What is a sustainable disaster insurance scheme?

The examples we have encountered are subsidised, can we therefore consider them sustainable?











Discussion points

Q3

How can disaster insurance and humanitarian relief operations best complement each other?











Key take-aways & concluding remarks











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