

*SCF Forum, 5+6 September 2016, Manila*

# The odds and beauties of risk transfer schemes



**MCH**

Allianz 



## 1. Support policy making processes:

- UNFCCC, Sendai Framework, SDGs, IPCC, etc.

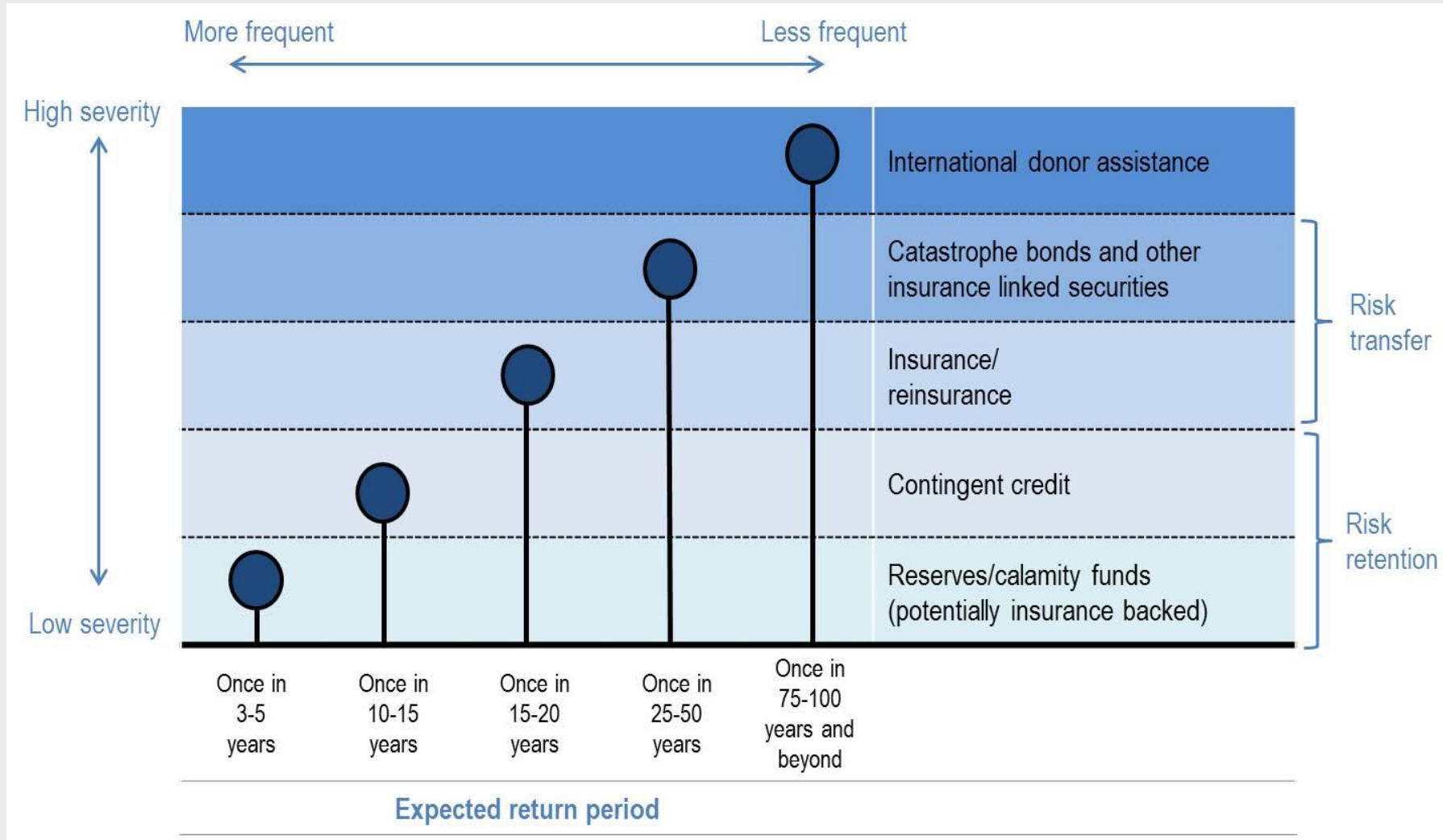
## 2. Research efficient and inclusive risk management tools:

- Efficient insurance linked risk transfer mechanisms for vulnerable people/sovereigns
- Incentives for risk reduction through insurance

## 3. Testing approaches on the ground:

- Lighthouse projects to gather results and feed-back lessons into policy processes.

# Risk transfer for lower probability, higher risk events

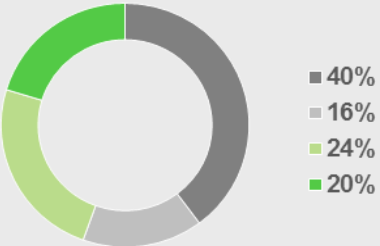


Source: Lydia Poole (2014): A calculated risk - How Donors Should Engage with Risk Financing and Transfer Mechanisms, OECD Development Co-operation Working Paper 17.

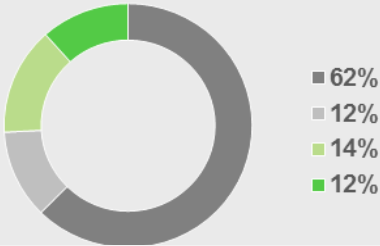
# The Gap: low insurance density in exposed regions



Number of relevant events: 16,600

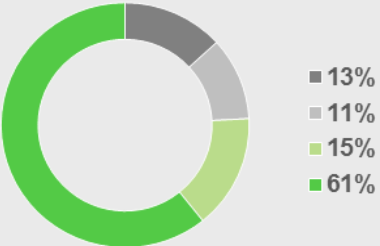


Overall losses: US\$ 3,200bn



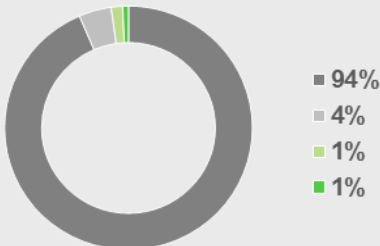
US\$ 832 bn overall losses in lower middle/low income economies

Fatalities: 860,000



76% of all fatalities in lower middle/low income economies

Insured losses: US\$ 940bn



Only 2% of overall losses insured in lower middle/low income economies

- High income economies (GNI ≥12,736 US\$)
- Upper middle income economies (GNI 4,126 – 12,735 US\$)
- Lower middle income economies (GNI 1,046 – 4,125 US\$)
- Low income economies (GNI ≤1,045 US\$)

Accounted events have caused at least one fatality and/or produced normalized losses ≥ US\$ 100k, 300k, 1m, or 3m (depending on the assigned World Bank income group of the affected country).

Events reported at individual country level: i.e. storm could affected three countries and is reported as three events.

In developed markets

In emerging markets

## Institutional hurdles

- Low **familiarity with insurance**;  
direct insurance reaches only a small fraction of vulnerable population
- Limited **purchasing power** to cover the cost of insurance
- Limited **financial & regulatory infrastructure**
- Visibility of **business case** for insurers to participate

## Customer acceptance and understanding as hurdle

- Missing **understanding of financial concepts**
- Customers expect **government to protect** them from extreme weather events
- Missing **understanding of the level of risk**, especially of reoccurring risks
- Reluctance to accept recommendations for risk management** coming from the private sector

"We will aim to increase by **up to 400 million** the number of people in the most vulnerable developing countries who have access to **direct or indirect insurance coverage** against the negative impact of climate change related hazards **by 2020** and support the development of early warning systems in the most vulnerable countries" (G7 2015).

## **MCI is supporting G7 InsuResilience in reaching its target group and increasing their resilience**

- How can InsuResilience effectively contribute to building the resilience of its target group?
- What are success factors, challenges and an enabling environment for climate risk insurance which targets the poor and vulnerable?

# The (potential) beauties of climate risk insurance



# MCI study on pro-poor insurance for InsuResilience

Level	Scheme	Anticipate	Absorb				Adapt			Transform	
		Promote risk assessment	Improved financial liquidity	Reduction of distress asset sales	Increased food security	Rapid recovery	Increased savings	Increased investment in higher-return activities	Improved credit worthiness	Promote risk reduction behavior	Culture of prevention
Micro	IBLIP	+	+	⊕	/	⊕	/	/	⊕	/	/
	MNAIS	+	+	/	/	/	/	/	/	⊕	/
	PCIC	+	+	/	/	/	/	/	+	/	/
	SANASA	+	+	/	/	/	/	/	/	/	/
	PepsiCo	⊕	⊕	/	/	/	⊕	/	+	/	/
	R4	⊕	+	/	⊕	/	⊕	⊕	⊕	+	/
	MicroEnsure	+	+	/	/	/	/	⊕	+	/	/
	ACRE	+	+	/	/	/	/	+	⊕	/	/
	IBLI	+	+	⊕	⊕	/	/	⊕	/	/	/
	MiCRO-HAITI	+	+	/	⊕	/	⊕	+	/	/	/
	La Positiva	+	+	/	/	/	/	/	/	/	/
	LPP	⊕	+	/	/	+	/	/	/	/	/
Meso	PlaNet Guarantee	+	+	/	/	/	+	/	/	/	/
	IBFI	+	+	+	/	/	/	+	/	/	/
Macro	CCRIF	⊕	+	/	/	+	/	/	/	/	/
	ARC	⊕	⊕	/	/	/	/	/	/	/	+
	FONDEN/ AGROADEMEX	+	+	/	/	⊕	/	/	/	/	/
	PCRAFI	⊕	+	/	/	/	/	/	/	/	/

- / information on this aspect is unavailable, impact could not be analysed
- ⊕ positive impact (middle evidence based on personal assessment of experts)
- ⊕ positive impact (strong evidence based on proper impact evaluation)



# Best practice: Livelihood Protection Policy

## Climate risk adaptation and insurance in the Caribbean

Extend financial safety net to previously excluded persons (low-income segment) to foster climate adaptation and sustainable development.

Target countries	Jamaica, Saint Lucia, Grenada
Time frame	20011-2014/2016-2019
Product	Parametric microinsurance cover against excess rain/heavy winds
Partners	Implementation by MCII, partnering with Caribbean Catastrophe Risk Insurance Facility (CCRIF), DHI and Munich Re.
Funding	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) under the International Climate Initiative



# Best practice: key lessons learned

<b>Holistic, needs based solutions</b>	<ul style="list-style-type: none"><li>- Demand study (2011) provided basis for product design and implementation</li><li>- Plan to embed LPP in national risk management plans (e.g. „Model Parish Concept“ in Jamaica)</li></ul>
<b>Enabling environment</b>	<ul style="list-style-type: none"><li>- Provided best available practices on microinsurance regulations to enable regulatory frameworks to accommodate (new) index-insurance &amp; microinsurance regulations</li></ul>
<b>Provide reliable and needs-based coverage</b>	<ul style="list-style-type: none"><li>- LPP can be bought in multiple „slices“ to be adaptable to coverage needs of clients.</li></ul>
<b>Affordability of premiums</b>	<ul style="list-style-type: none"><li>- LPP offers an affordable premium for low-income segment</li><li>- Participation is not restricted to income level, specific sector affiliation or occupation.</li></ul>
<b>Accessible delivery channels</b>	<ul style="list-style-type: none"><li>- Engaged with local distribution channels as first-point-of-contact and their role in educating clients on the use of the LPP.</li><li>- Explored innovative marketing strategies such as street theatre plays in local dialects explaining the benefits of the LPP.</li></ul>
<b>Participation &amp; capacity building for all relevant actors</b>	<ul style="list-style-type: none"><li>- Tailored trainings for local primary insurers, distribution channels, regulators, and clients on the introduction of new product</li><li>- Train-the-Trainer workshops for local primary insurers</li></ul>

# To sum up, insurance is...

- ...not a cure for all risks
- ...enhances economic well-being
- ...if well designed
- ...and part of comprehensive DRM plan



Picture: Russell Williams / DFID

## Annex

- ❑ Non-profit charitable association; leading innovation lab on climate change & insurance.
- ❑ Launched in 2005 based on UNFCCC (Article 4), Kyoto Protocol (Article 3):  
Insurance plays a role in adaptation to climate change!
- ❑ **Mission:** Provide a forum for insurance-related expertise on climate change impacts and explore ways how to develop sustainable approaches that create incentive structures for risk- and poverty reduction.
- ❑ **Governance:** MCII Executive Board + MCII Membership
- ❑ **Members:** Individual experts from a variety of backgrounds, incl.:

**Insurers** (Munich Re, Allianz, Hannover Re)

**NGOs** (Germanwatch, RESULTS UK)

**Regional Risk Insurance Pools** (CCRIF, ARC)

**Research & Academia** (IIASA, IASS Potsdam, legal experts)

**United Nations / Multilateral Organisations** (UNU-EHS, World Bank)

**Think Tanks** (Deltares, ICLR, RDL, Climate Analytics)

**Foundations, Enablers** (Munich Re Foundation, Global Risk Forum Davos)

**Independent Consultants** (PwC, private insurance experts)



# MCI study on pro-poor insurance for InsuResilience



- 18 case studies of existing climate risk insurance schemes
- Interviews with experts from the fields of insurance, climate risk management, climate change adaptation

Level	Scheme	Acronym	Country/Region
Micro	Index-Based Livestock Insurance Program	IBLIP	Mongolia
	Modified National Agricultural Insurance Scheme	MNAIS	India
	Philippine Crop Insurance Program	PCIP	Philippines
	SANASA Agricultural insurance	SANASA	Sri Lanka
	PepsiCo - Scheme	PEPSICO	India
	R4 Initiative	R4	Ethiopia
	MicroEnsure	MICROENSURE	Rwanda
	Agriculture and Climate Risk Enterprise	ACRE	Kenya Rwanda Tanzania
	National index-based disaster insurance program (weather derivative) for Malawi	NIBDIP	Malawi
	Index based livestock insurance	IBLI	Kenya, Ethiopia
	Microinsurance Catastrophe Risk Organisation (Micro Haiti)	MICRO-HAITI	Haiti
	La Positiva Seguros	LA POSITIVA	Peru
	Livelihood Protection Policy	LPP	Latin America & Caribbean
	PlaNet Guarantee	PLANET GUARANTEE	Mali, Burkina Faso
Meso	Index Based Flood Insurance Project	IBFIP	Bangladesh
	Caribbean Catastrophe Risk Insurance Facility	CCRIF	Caribbean
Macro (Pan-national fund)	African Risk Capacity	ARC	Africa
	National Disasters Fund (FONDEN) & AGROASEMEX	FONDEN/ AGROASEMEX	Mexico
	Pacific Catastrophe Risk Assessment and Financing Initiative	PACRAFI	Pacific

Source: Schaefer, L./ Waters, E./ Warner, K./ Zissener, M./ Ramm, G./ Mani, T. 2016: Climate risk insurance for the poor & vulnerable: How to effectively implement the pro-poor focus of InsuResilience. An analysis of good practice examples, literature and expert interviews. Munich Climate Insurance Initiative (forthcoming).

# Different instruments for different needs

	Macro / sovereign level ins.	Primary insurance
<b>Ease of distribution</b>	Depending on government infrastructure	Depending on insurance company infrastructure and tailoring to the market
<b>Pay out in case of claim</b>	Relatively quick	Indemnity-based: lengthy claim process Index / parametric: quick
<b>Incentive for prevention</b>	Moral hazard on end beneficiary level, can be addressed by obligatory preventive measures	Insurance pricing discovers risk and provides incentive for prevention Natural proximity between risk and beneficiary
<b>Financial sustainability</b>	Depending on continuous government / donor funding	Long-term sustainable (if risk adequate premiums are paid by the insured)

# Example for micro-insurance: Sahel Crop Insurance

The poster features the logos for PlaNet Guarantee (PlaNet Finance Group) and Allianz. The title 'SIIMAN PANGA' is prominently displayed in green. Below the title is a photograph of a small green seedling growing out of a cracked, dry, brown earth. The French text 'Assurer nos récoltes, c'est garantir notre production.' is written in blue. A circular logo at the bottom right contains a corn cob and the text 'ASSURANCE RECOLTE SAHEL'. At the bottom, contact information for Planet Guarantee in Ouaga 06 is provided, along with logos for IFC, Grameen Credit Agricole, and AECF.

- Insurance policy coupled with loan for seed purchase
- Since 2011
- In 2013 over 15,000 farmers in Burkina Faso and Mali took out policies with Allianz Africa
- Index-based, easy payouts
- Basic financial education for farmers
- Caution: Sensation of security, risky behavior?

## Quote



*“When the rains failed I was really surprised when the insurance company came the long way to my village to bring me the news that I receive an insurance payment for my seed loan.”*

**BARTHELEMY KOHOUN**  
 A FARMER FROM POUNDOU,  
 A VILLAGE OF 4,000 PEOPLE IN BURKINA FASO



# Example for risk assessment and development of insurance market: RIICE



- Public-private partnership since 2012
- 7 Asian countries
- Development of remote-sensing system which serves as an early-warning system
- Basis for development of insurance market for smallholder rice farmers

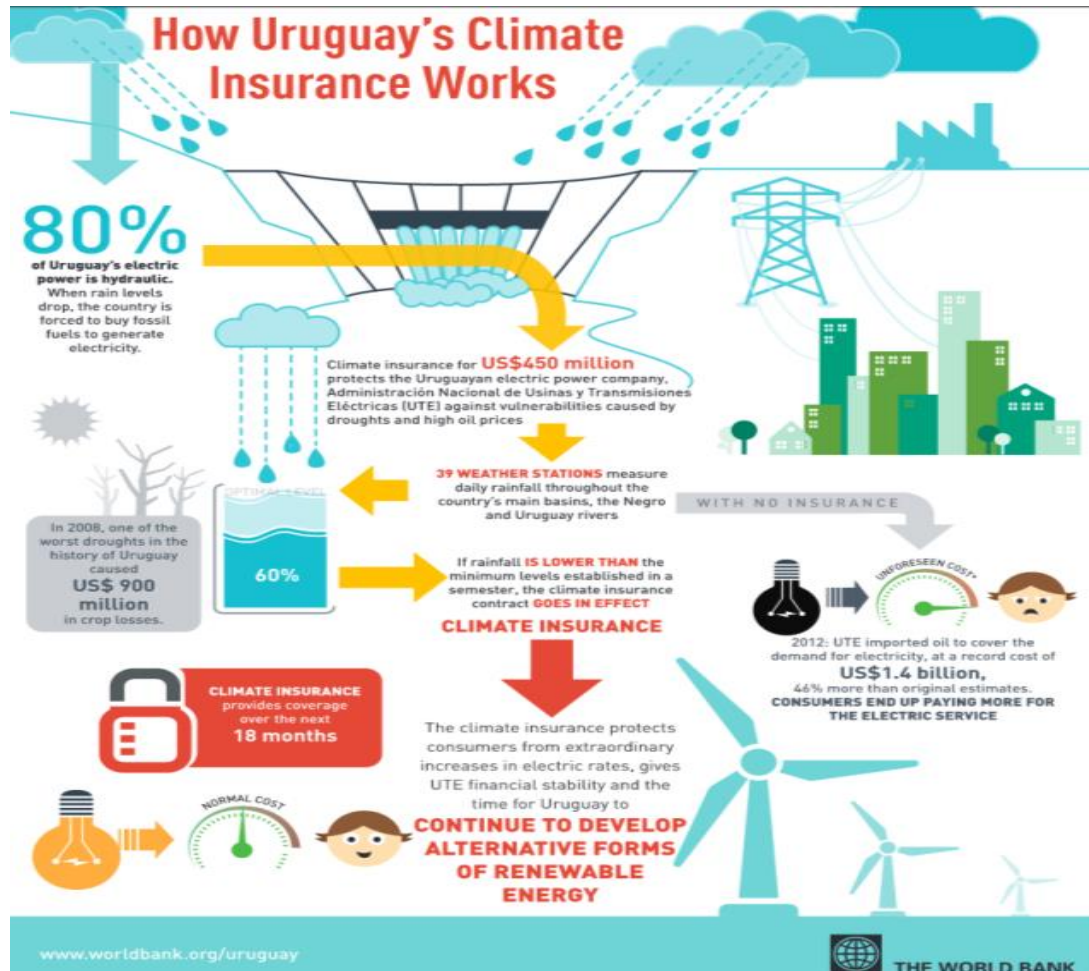


*"We want to transfer the financial risks that small-holder farmers face from natural catastrophes to the formal insurance market. Through the remote sensing technology we have a reliable and unbiased tool to calculate insurance premiums and evaluate the losses."*

**AMER AHMED**  
ALLIANZ RE CEO



# Example for national level insurance: Uruguay weather and oil price insurance



- A PPP between World Bank, Swiss Re and Allianz Risk Transfer
- Since 2014 in Uruguay
- First index-based weather insurance for hydroelectric power coupled with oil price
- Decreases the country's financial exposure in times of drought
- Swiss Re Corporate Solutions and Allianz Risk Transfer took on a material part of the risk



*"Combining protection against the risk of drought and high oil prices is something that works particularly well for hydropower companies [...] This transaction is a good example of how we can focus our financial and technical expertise, combined with experiences in other countries, to deliver solutions that meet specific client needs."*

**MADELYN ANTONCIC**

Vice-President and Treasurer of the World Bank