

**Inputs provided by:** *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*

## **1. General description of mandates and objective(s) of your organization / associated network with institutional structure**

Reducing risks associated to natural hazards through risk management and prevention strategies is a priority need in Peru. On behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has developed a project that offers an innovative choice for risk reduction and climate change adaptation. The project is part of the BMU's International Climate Initiative (ICI).

### **Objectives**

The project's overall objective is to give small businesses, producer organizations, and sub-national governmental institutions on Peru's north coast the possibility of insurance coverage against extreme natural hazards by way of new, innovative insurance products.

The secondary objectives are:

- Analysis of the regional demand for insurance products associated to natural hazards.
- Develop innovative insurance products associated to natural hazards.
- Create a legal and institutional framework suitable for developing innovative insurance products associated to natural hazards.
- Contribute to scaling up the model by creating national and international visibility.

## **2. Relevant operational framework(s)**

The project is implemented in Peru's northern coastal regions that are most affected by the El Niño Phenomenon: Piura, Lambayeque, and La Libertad. In this area, natural hazards like droughts, floods, frosts, and large swings in temperature are now becoming more intense and frequent and are causing serious damage. The agricultural sector, which is fundamentally important to their economy, is particularly affected by climate change impacts.

The project strategy is divided into four action lines associated to each secondary objective:

1. Demand and risk analysis: Activities are related to promoting insurance products against natural hazards, thereby informing the public about the need and the advantages of having this type of insurance for lowering risk associated to natural hazards. Key stakeholders, government institutions, insurance companies, financial institutions, international reinsurers, and the Senamhi – Peru's National Meteorology and Hydrology Service – use quantitative and qualitative on-demand data.
2. Weather insurance product development: Products are adapted to the needs of the target group, following technical, institutional, and financial standards. The project works with financial institutions in order to offer innovative insurance products associated to natural hazards in the target regions.
3. Institutional and legal framework: Government institutions are supporting an innovative insurance market associated to natural hazards, having adapted the legal and institutional framework for promoting these products.
4. Knowledge Management: Information on these innovative insurance products is spread nationally and internationally, whereby an exchange of experiences is promoted and their reproducibility in other Peruvian and Latin American regions has been evaluated.

### 3. Focus areas of risk management for loss and damage associated with climate change impacts

The focus area is identifying options, designing and implementing risk management and risk transfer mechanisms such as insurance against climate risks for small businesses, producer organizations and financial institutions as well as national and subnational government institutions. The project has worked specifically with an index insurance product against extreme EL Niño phenomena.

### 4. Geographic coverage

Peru's northern coastal regions: Piura, Lambayeque, and La Libertad.

### 5. Key stakeholders

The project is coordinated nationally and sub-nationally with public and private sector institutions and Peruvian and international research institutes. The primary national stakeholders are the Superintendencia de Banca, Seguros y AFP (SBS) [Superintendency of Banks, Insurance Companies and Pension Funds], Ministerio de Economía y Finanzas (MEF) [Ministry of the Economy and Finance], Ministerio de Agricultura y Riego (Minagri) [Ministry of Agriculture and Irrigation], Ministerio del Ambiente (Minam) [Ministry of the Environment], Centro Nacional de Estimación, Prevención y Reducción del Riesgo de Desastres (Cenepred) [National Disaster Risk Estimation, Prevention, and Reduction Center], Asociación Peruana de Empresas de Seguros (Apeseg) [Peruvian Insurance Company Association], reinsurers, insurers, and financial institutions. On a sub-national level, the work focuses on the regional governments of Piura, Lambayeque, and La Libertad as well as producer associations and private enterprises.

### 6. Implementation modality / delivery mechanisms

The project has a duration of 3 years starting on November 2010. Its budget is € 2.0 million. Every year a report is made to German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU). The project indicators are:

- Indicator No. 1: One index for use in developing insurance associated to natural hazards for the target region has been created with the participation of key stakeholders (government institutions, insurance companies, financial institutions, international reinsurers, and the Senamhi).
- Indicator No. 2: One insurance company offers an index insurance product dealing with risk associated to natural hazards.
- Indicator No. 3: US\$ 25.8 million of agricultural loans covered by index insurance in the target region.
- Indicator No. 4: There is a fully developed index insurance product aimed at fishery sector (infrastructure, fishery, or other regionally important one).
- Indicator No. 5: There is one agreement solidified between an international reinsurer and a Peruvian financial institution (Partner Re and La Positiva Seguros).
- Indicator No. 6: The Superintendency of Banks, Insurance Companies and Pension Funds have access to a compendium of benefits, costs and risks of insurance products associated to natural hazards.

### 7. Key activities / outputs to date

### 1. Estimated economic losses associated with the El Niño phenomenon

Studies with detailed information on economic losses in the regions of Piura, Lambayeque and La Libertad and losses in drinking-water systems and sanitation in the capitals of these three regions during extreme El Niño phenomena in 1982-1983 and 1997-1998 exists. In addition, the studies carried out by the project include the estimation of impacts of an El Niño phenomenon of similar magnitude on the regional economy and drinking-water systems and sanitation in the year 2010.

### 2. Revitalization of the index insurance market

The microfinance bank Caja Nuestra Gente, one of the top 100 microfinance institutions in Latin America and the Caribbean in 2011, bought an insurance against El Niño to protect 585 agricultural loans worth USD 4.6 million. In 2011, it expanded this number to 3,560 agricultural loans with a total volume of USD 27.3 million. If an El Niño phenomenon occurs, the financial institution would receive compensation *before* the catastrophic floods and could thus initiate preventive measures against flooding.

### 3. Improvements to the Catastrophic Agricultural Insurance

In 2009, Peru established the Guarantee Fund for Rural and Agricultural Insurance, which is intended to fund agricultural insurance mechanisms. This fund has invested to protect the crop by Catastrophic Agricultural Insurance (SAC), which is funded entirely by the government. In 2012, the Ministry of Agriculture and Irrigation approved a new policy that includes recommendations to SAC regarding the beneficiary identification process, adjustment methodology, payments to beneficiaries and training; the recommendations are the result of a joint study by the Ministry of Agriculture and Irrigation, the Ministry of Economy and Finance, the Superintendency of Banking, Insurance and Pension Funds, insurance companies and the Institute of Peruvian Studies.

### 4. Mass and focused marketing strategies

Diffusion and marketing of the El Niño insurance was achieved through a massive marketing strategy, such as theatre and rural radio as well as through focused bilateral meetings and trainings with medium and large enterprises.

### 5. Capacity Building

The capacities of the technical staff of public institutions, both national and regional levels, have been enhanced through workshops, conferences and exchange of experiences related to insurance against climatic phenomena. About 1,000 teachers have been trained on management and risk transfer through the distribution of cartoons that were developed jointly with the Superintendency of Banks, Insurance Companies and Pension Funds. Regarding the private sector, the project has developed models and marketing tools for training insurance brokers in promoting agricultural insurance.

### 6. Communication bridge between the public and private sector

The project coordinates between government agencies and the private sector regarding the management of public policies. It has organized meetings and workshops to promote dialogue on climate risk insurance.

### 7. Joint decision and coordination between the national and subnational government levels

Regional authorities were capacitated in the field of risk management and transfer and joined multi-sectoral committees for comprehensive risk management. Regional Governments of the Regions of Piura, Lambayeque and Libertad are in contact with the private sector through the multisectoral risk management committees which favored investment projects related to the prevention of the El Niño phenomenon.

#### 8. Dissemination of scientific information

- Through the information on the website, sharing workshops and training courses, technical information that supports the promotion of index insurance is accessible.
- Technical papers in Spanish and English disseminate knowledge about index insurance and risk transfer.
- In cooperation with the Costa Rican University for International Cooperation, the project has organized a Latin American diploma course in Index Insurance for Disaster Risk Management and Climate Change Adaptation; 318 students from 17 countries in the Americas and Europe have signed up for the course.
- The digital compendium is an online course focused on agricultural insurance in Peru. It will form part of the training of the Superintendency of Banking and Insurance (SBS) and is intended to provide training on the conceptual and operational framework for managing the risks associated with climatic phenomena in the context of climate change

#### **8. Any additional information and contact details**

For more information, please contact us:

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