

Product summary: Livelihood Protection Policy

Policy Form	Individual Clients (sold to individuals)	Group Policy (version 1) (portion of premium paid by beneficiaries)	Group Policy (version 2) (premium paid by institutional insured)
Name of the policy:	<p align="center">Livelihood Protection Policy</p> <p align="center">"Shock Absorber" for individuals in order to help them cope with losses related to wind and excess rain.</p>		
Insurer:	<p align="center">Locally licensed insurance company</p> <p align="center">We are in contact with a specific insurance company, which is licensed in Grenada</p>		
Agent/Distributor:	<p align="center">Partner-Agent-Model</p> <p>Distributors will have a broad reach amongst the low-income population. (Conventional insurance distribution channels will not reach most of target audience). Cooperatives, credit unions, associations etc. might be suitable.</p>	<p align="center">Group Policy Model</p> <p>Group policies shall be sold to financial institutions (commercial banks, cooperative banks, micro-finance institutions, credit unions and associations). These institutions shall be the insured and shall enroll their clients/members to the group policy as beneficiaries of the group policy.</p>	
Insured:	<p align="center">Individuals from various occupations</p> <p>A broad swath of low-income people are exposed to weather risk. The policy will be open to a wide scope of low-income people. That could include fishermen, people working in the tourism industry, but also shop owners, taxi drivers etc.</p>	<p align="center">Financial and other institutions for the benefit of their clients/members</p> <p>The product targets institutions like commercial banks, cooperative banks, micro-finance institutions, credit unions and associations with clients falling under the same description, i.e. fishermen, people working in the agricultural industry, the tourism industry, but also shop owners, taxi drivers etc.</p>	
Geographical area:	<p align="center">Grenada</p> <p>The regional break down within a country should be as granular as possible for modelling purposes, to reduce basis risk/chance for the clients. The modeling approach uses 5 by 5 km grids.</p>		
Inception date:	<p align="center">Registration date (right after purchase)</p> <p>The policy should be sold during the entire year. A limitation to a specific sales periods does not seem useful, as the policy will not only cover hurricane related risk, but also heavy wind/rainfall outside the hurricane season.</p> <p>However, there would need to be a period prior to an approaching hurricane's arrival and during a rainfall 'event' where policy sales/enrollment to a group policy were stopped, to avoid adverse selection and arbitrage issues.</p>		
Duration:	<p align="center">One year from inception date</p> <p>The policy should run for a full year. A limitation to a</p>	<p align="center">Continuous policy with automatic annual renewal</p> <p>The policy shall be for an unspecified contract period with an annual cancellation option. The coverage period shall be one year after inception or renewal.</p>	

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Perils covered:	<p>Losses caused by wind, excess rain</p> <p>The policy will contain two triggers (rain and excess rain), as different people are differently exposed to wind and/or rain.</p>		
Annual premium:	<p>x% of the Annual Limit</p> <p>to be paid by the individual policy holder.</p> <p>The premium level is expected to be between 5% and 7,5% of the annual limit. The final figure will be calculated shortly.</p>	<p>x% of the Annual Limit</p> <p>to be paid by the institutional policy holder and charged to the beneficiaries.</p> <p>The premium level for this policy should be slightly below that of the individual policy, as the cost for the distribution is different. However, enrollment as well as premium collection costs for the insured have to be taken into consideration.</p>	<p>x% of the Annual Limit</p> <p>to be paid by the institutional policy holder, but not charged to the beneficiaries.</p> <p>For this policy type, the premium level should, again, be reduced as there is no premium collection cost for the insured associated with this policy.</p>
Distribution costs:	<p>Significant distribution and administration costs</p> <p>Distribution of insurance policies to individuals is expensive. The distribution channels expect (at least) compensation of these costs, if not the chance to earn money from selling the policies.</p> <p>Furthermore, the administration of a high number of small policies is expensive, as well.</p> <p>These high distribution and administration costs may make the policies unaffordable for the targeted clients.</p>	<p>Modest distribution and administration costs</p> <p>The sale and administration of such a group policy is much cheaper than an individual policy, as there is only one policy with high premium instead of a high number of policies with small premium per policy.</p> <p>However, the insured (financial institution) has to carry costs from the enrollment of its members/clients, and such cost has to be reimbursed.</p> <p>The idea is to give a pure reimbursement of costs without offering the insured an opportunity to make a profit.</p>	<p>Small distribution and administration costs</p> <p>In this policy, the insured has no (or only very little) administrative costs, as there is no premium collection process associated with the policy.</p> <p>Therefore, a cost reimbursement is not intended.</p>
Limit:	<p>\$ 250 or a multiple of it (per event and/or annually) Maximum limit possible is 20 times \$ 250 <i>(figures are examples only)</i></p> <p>The policy is intended to address people from different occupations with different needs, so the product offers flexibility as regards the limit of coverage they buy. This could be achieved by means of various numbers of blocks of limits, which could be bought (e.g. the basic block could have a limit</p>	<p>\$ 2.500 (per event and/or annually), option to “top-up” for individuals at their own expense <i>(figures are examples only)</i></p> <p>As this policy is bought and paid by the financial institution, all beneficiaries</p>	

	<p>of, say \$250 and clients could purchase as many blocks as they wished) subject, however, to a certain maximum number of blocks.</p> <p>The policy will scale the limit in case of different trigger levels offered (<i>i.e.</i> a .step-like trigger rather than binary.) with three trigger levels of, say, \$62,50 (25%), \$125 (50%) and \$250 for different parametric values.</p> <p>The structure of the trigger levels allows for the policy to pay out as follows:</p> <ul style="list-style-type: none"> • It could either cover up to 4 “small” events (return period of 15 years); • or up to 2 “medium” event (return period of 20 years); • or a mixture of small and medium events until the annual limit is exhausted; • or cover 1 major event (return period of 25 years). 	<p>enrolled should enjoy the same level of benefit. Therefore, the system of blocks cannot be applied.</p> <p>However, it would be possible to offer the clients/members a standard coverage and, according to their wish, the option to buy an additional limit. Such additional coverage would, however, be on the expense of the individual client/member.</p>
<p>Trigger:</p>	<p style="text-align: center;">Peak wind speed, rainfall over specified time period</p> <p>The rainfall trigger would be aggregated over a set period of time (minimum 1 day, could be different options available for aggregation period).</p> <p>The trigger definition could include different levels/return periods (15, 20 and 25 years return period for example) with payout levels of 25%, 50% and 100% of the limit, according to the return period.</p>	
<p>Trigger notification:</p>	<p>Via SMS to the individual policy holder</p> <p>The idea is that the institution observing the trigger sends out an SMS to all policy holders with a triggered policy to notify them when a trigger level is reached. At the same time the policy holders could be informed about contact points/time frames to collect the insurance payout or when the payment will be credited to her/his bank account. If linked to a remittance service provider then cash could be available at the point-of-sale location, or trigger could activate a payment card.</p> <p>Such a notification system creates full transparency to the policy holder about trigger events and her/his right to collect money. Furthermore it would be possible (at least to a certain extent) to coordinate cash payments and secure the availability of cash at the collection points.</p> <p>The same trigger notification</p>	<p>Via SMS to the financial institution and the beneficiaries</p> <p>The idea is that the institution observing the trigger sends out an SMS to all beneficiaries with a triggered policy to notify them when a trigger level is reached. At the same time the beneficiaries could be informed about contact points/time frames to collect the insurance payout or when the payment will be credited to her/his bank account. If linked to a remittance service provider then cash could be available at the point-of-sale location, or trigger could activate a payment card.</p> <p>Such a notification system creates full transparency to the beneficiary about trigger events and her/his right to collect money. Furthermore it would be possible (at least to a certain extent) to coordinate cash payments and secure the availability of cash at the collection points.</p> <p>The same trigger notification shall be sent to the insurance company, the reinsurer and the regulator.</p>

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<p>DRR methods:</p>	<p style="text-align: center;">SMS warning including info regarding risk reduction methods</p> <p>The SMS warning system is a technically simple way to inform policy holders about upcoming weather events. It could lead to reduced losses, as people have the possibility to react and secure their assets. As they receive an explicit warning, it may be assumed that they really take action, even more as it would be to their direct advantage to do so. They are able to reduce their loss without any negative effect on the insurance payment (because it is parametric).</p> <p>The policy could use CCRIF RTFS system as basis for warning. Also should link in to local storm watch/warning messaging.</p>	
<p>Intended impact:</p>	<p>The intention of this policy is to provide low income people with an amount of money within a short period of time that allows them to quickly start rebuilding their farm/small enterprise and/or livelihood after an extreme weather event.</p> <p>The scope of the target group is not limited to farming as such, but should include all people falling under the “low income” definition. Wide availability, simplicity and scalability enables as wide a market as possible for people to easily hedge against livelihood impacts of severe weather events.</p> <p>The general impact of such a policy would be to stabilise the financial situation of the people and avoid any necessity to apply other risk management strategies (use of savings, sale of assets, family loan, credits etc.) that puts additional pressure on the people’s financial situation and, at the worst, could lead to sending them into poverty. As an additional (secondary) effect, such enhanced financial security could encourage people to be more proactive (less risk-averse) and therefore improve their livelihood.</p> <p>A further benefit could be that such policies could serve as (conditional) collaterals for loans, as banks no longer run the risk of nat cat losses within their portfolios and, therefore, should be willing to offer loans to such clients. That has to be discussed with the banks (including Development Banks).</p>	