

Goal of Approach:

Microinsurance Catastrophe Risk Organisation (MiCRO)

MiCRO is a specialty reinsurance company that designs and delivers solutions that enable low-income people to protect themselves against losses after catastrophes. The poorest of the poor often live in conditions that leave them particularly vulnerable to natural disasters such as heavy rain, wind, or earthquakes. Microentrepreneurs who strive to escape poverty deserve financial tools to protect their business assets and minimize losses when disasters occur. However, insurance for low-income, vulnerable people (called microinsurance), is often scarce or imprecise in its payouts; and in the absence of effective insurance, a catastrophe like a hurricane or earthquake can send them back to square one. MiCRO seeks to break this cycle by offering a reinsurance product that allows microfinance institutions and other organizations to protect their clients or members against losses from catastrophic events. Established in March 2011, MiCRO was developed with a mission to empower those living in poverty to manage their risks in a sustainable and fair manner by bridging the divide between global markets and the most vulnerable. **MiCRO is an innovative public-private partnership offering a first-of-its-kind hybrid reinsurance product: a set of natural hazard triggers corresponding to wind speed, rainfall and earthquake shaking that offer a rapid payout, combined with coverage for additional funding to the extent that the triggers do not reflect actual losses on the ground.** The company's scalable model for <http://www.gccapitalideas.com/tag/microinsurance> microinsurance relies on an innovative structure that uses local partners to aggregate micro-risk, and international (re)insurers to price, manage and retain this risk.

Input provided by: Caribbean Risk Managers Ltd

Main elements of the implementation strategy

MiCRO was formed in the wake of the devastating 2010 earthquake in Haiti as a public-private partnership of the global humanitarian agency Mercy Corps, the international reinsurance leader Swiss Re, and the Haitian microfinance institution Fonkoze. The company is supported by the UK's Department for International Development (DFID) and the International Finance Corporation (IFC). Each player contributes something unique: Swiss Re brings expertise from the insurance world and provides the reinsurance backing for MiCRO's initial product, Mercy Corps brings decades of experience connecting the world's poor with financial tools and other resources, and Fonkoze is MiCRO's first client and implementing partner.

No other entity – nonprofit or for-profit – is currently offering a product like MiCRO's. The catastrophe coverage provided by MiCRO's reinsurance product takes advantage of the cost and expediency of parametric insurance, creatively combining it with a possible second payout in the event that the parametric payout is not sufficient to cover actual losses. This coverage of "basis risk" is critical to ensure that a client organisation's real losses can be compensated. For example, if a tropical storm in Haiti triggers a \$200,000 parametric payout, but microentrepreneurs actually suffered losses of \$250,000, MiCRO's hybrid product would ensure that client organizations have funding to cover the actual losses. Through the use of parametric triggers, MiCRO's policy process increases transparency to buyers and enhances rapid claim settlement after a disaster strikes. It also buffers Microfinance Institutions (MFIs) and their clients against basis risk by offering them the option to purchase basis risk coverage. Basis risk coverage is MiCRO's key innovation, as it provides a hedge against an impediment to the development of viable parametric micro (re)insurance products.

Currently, the parametric policy is backed by global insurance leader Swiss Re, while funds to pay basis risk claims are provided by MiCRO's risk-bearing cell for Haiti and further backed by a Multi-Donor Trust Fund (MDTF) managed by the Caribbean Development Bank. Support from DFID as well as the SDC has contributed both to the MDTF and MiCRO's risk-bearing cell for Haiti. The diagram (right) shows the simplified framework and operation of MiCRO.

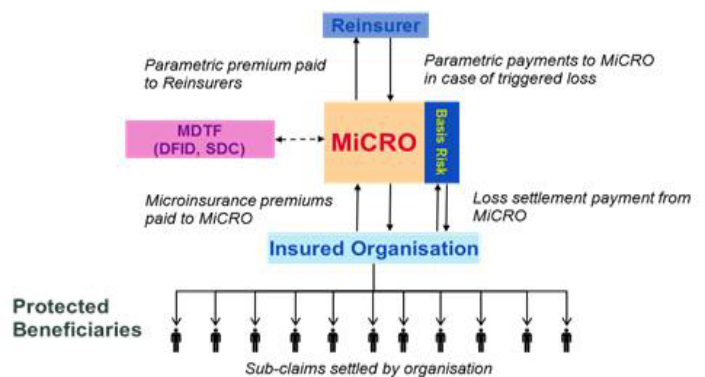


Figure 1: Simplified Framework and Operation of MiCRO

The product offered by MiCRO encompasses the following features:

- **Customisable:** Policy can be designed to suit each organisation;
- **Replicable:** Initial introduction in Haiti; can develop catastrophic risk transfer solutions nearly anywhere in the world;
- **Sustainable:** Designed and supported by private commercial enterprises with targeted public-sector support;

- **Efficient:** Parametric policy streamlines programme administration and payout process reducing reliance on aid for disaster recovery;
- **Interest Alignment:** Cell structure enables segregation of the regional company liabilities and facilitates requisite investments by basis risk transfer policyholders.

Targeted beneficiaries

MiCRO was established to support the provision of microinsurance solutions to the poorest and most vulnerable populations, living in high-risk regions of the world. Customised programmes can be created for almost any kind of entity but are aimed at the 'informal sector' – the organised poor who have taken steps to increase their economic standing and stability through the creation of small businesses. In Haiti, Fonkoze offers MiCRO's benefits to its members – all Haitian women who have taken out small loans to start or expand businesses – through the catastrophe recovery product 'Kore W'. The borrowers benefit from: (i) Elimination of borrower's debt (loan balance reimbursement to Fonkoze); (ii) Emergency HTG 5,000 (US\$125) cash payment; (iii) A new loan to recapitalise their business when the client was ready. Fonkoze made Kore W available to nearly 55,000 members starting in early 2011. In the company's first year, MiCRO provided US\$1.64 million in payouts that Fonkoze has used to provide funds to nearly 6,800 Haitian women. Most recently, Tropical Storm Isaac, which struck Haiti in late August, triggered a payout to Fonkoze of more than \$217,000.

Any significant lessons learned

(i) The self-sustaining, financial security model of MiCRO presents a wise investment for donors who want to build resilience in vulnerable communities and reduce the need for post-disaster assistance; (ii) MiCRO's hybrid product makes it financially feasible for client organisations to provide microentrepreneurs with a more responsive insurance programme (tailored to the geography, income level and vulnerability of their clients) that protects assets and limits losses from catastrophes; (iii) Microinsurance can help MFIs retain and grow their client base - when Kore W was introduced at the beginning of 2011, Fonkoze had close to 50,000 clients; by the end of the year, they had 59,000 and Fonkoze's dropout rate was also lower than ever before; (iv) MiCRO's product signals a significant step forward for self-sustainability of microfinance clients and offers a form of disaster risk reduction that allows microentrepreneurs to rebuild after catastrophes instead of falling back into abject poverty and aid dependency; (v) Cost and claims settlement process are the key drivers of client satisfaction; (vi) Merging parametric and basis risk transfer allows the international risk markets to participate in coverage designed to meet needs at the individual level in a least-developed country, a pre-requisite for catastrophe microinsurance at scale. (We note, however, that designing such hybrid products continues to be challenging and new lessons are constantly being learned.)

Resource requirements

(i) Hazard parameters on which triggers are based are available globally and are in the public domain; technical capacity required to design triggers and operate real-time trigger and payout calculation systems; (ii) *Kore W* claims settlement requires significant resources to manage response, particularly after major events; (iii) MiCRO basis risk coverage requires capital to underwrite at best-possible cost bearing in mind the high uncertainty in analysing this risk.

Potential for replication or scaling-up

Achieving transfer of Haitian MFI client's catastrophe risk to the international risk markets is a major key to developing catastrophe micro-insurance programmes for the world's most vulnerable people at a scale at which they can achieve real impact in building resilience. Low-cost loss adjustment/claims processing model developed by Fonkoze through *Kore W* and necessary for cost-effective basis risk coverage, is also replicable and scaleable.

Any additional information

For additional information and resources please visit MiCRO's website: <http://www.microrisk.org/>