



Microinsurance as a Disaster Risk Finance instrument for vulnerable groups

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Who are the most vulnerable and how are they affected?

Most vulnerable individuals



Farmers



Fishermen



Elderly



Women



MSMEs



People with Disabilities



Social Welfare Beneficiaries



Microinsurance Policy

=

Disaster Risk Financing (DRF) Instrument

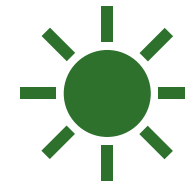
Natural Hazards



Extreme wind



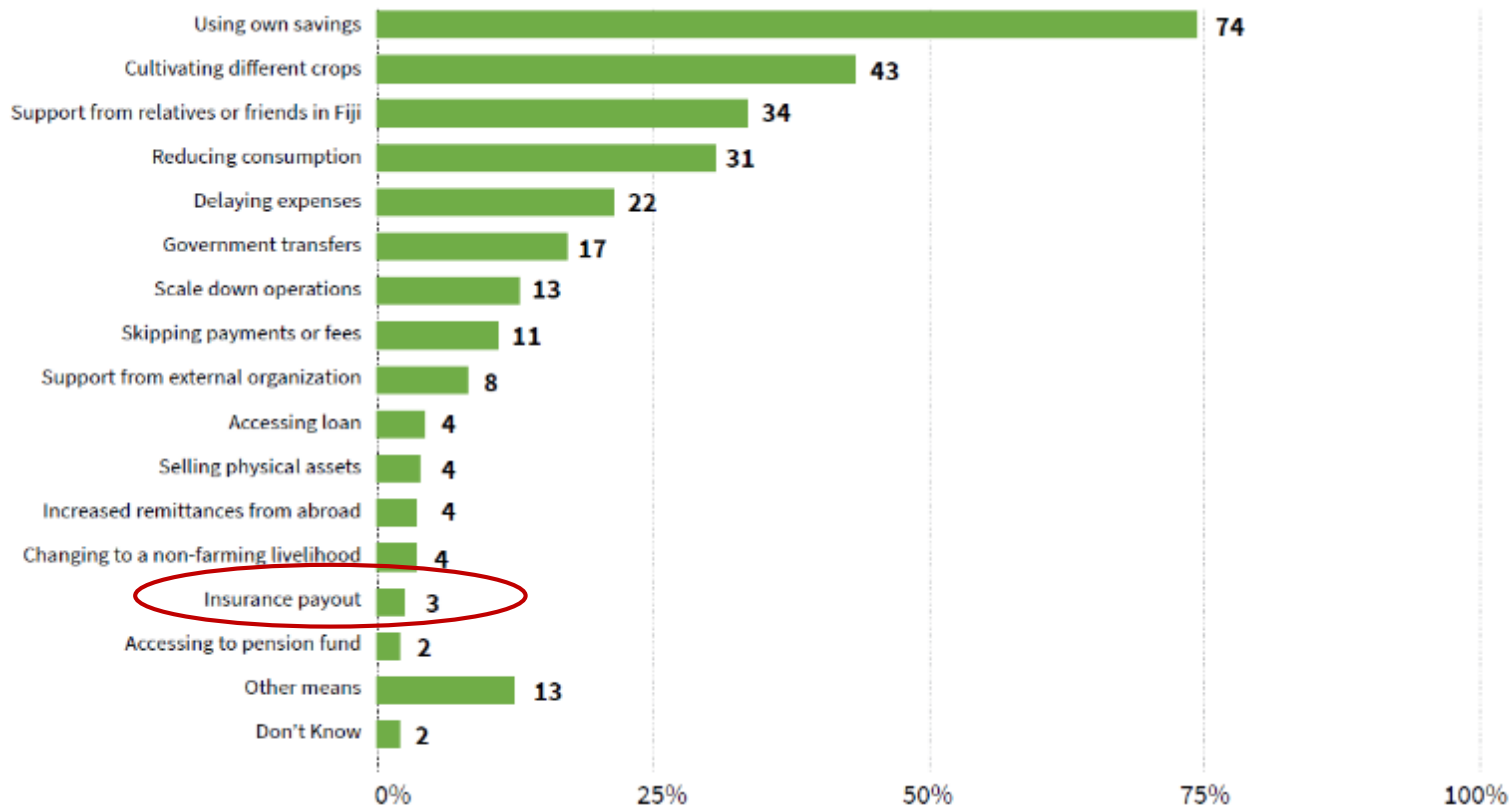
Excess rainfall/
Flooding



Absence of Rain/
Heatwave/ Drought

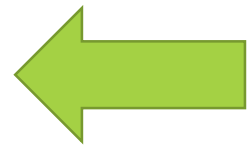
Financial Coping Mechanisms To deal with the impacts of natural hazards

Financial Coping Mechanisms used by HH to recover from Tropical Cyclones (Examples from Fiji)

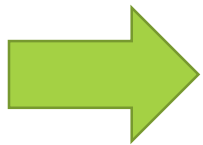


*Forthcoming: Disaster Risk Financing Solutions for farmers and fishers in Fiji and their preferences (UNU-EHS, UNDP, UNCDF 2023)

Savings = move money from today (when I put it in the bank) to the future



Credit = move money from tomorrow (when you pay it back) to today



Insurance = move money from good times (when you pay the premium) to bad



CDRFI refers to **financial instruments and strategies** that aim to **improve the financial preparedness and resilience** of individuals and societies **against climate and natural hazards.**



Central goal:

- Assist more rapidly and reliably those in need when a disaster strikes by using an array of quickly disbursing financial instruments.
- Protect livelihoods and development.



Microinsurance

/ maɪkrəʊ ɪn'ʃʊərəns /

Microinsurance provides affordable protection to low-income individuals against specific risks in return for low premium payments that are proportionate to the likelihood and cost of the risk involved. It primarily caters to people with limited access to traditional insurance services and other resources to manage risks effectively





Parametric insurance

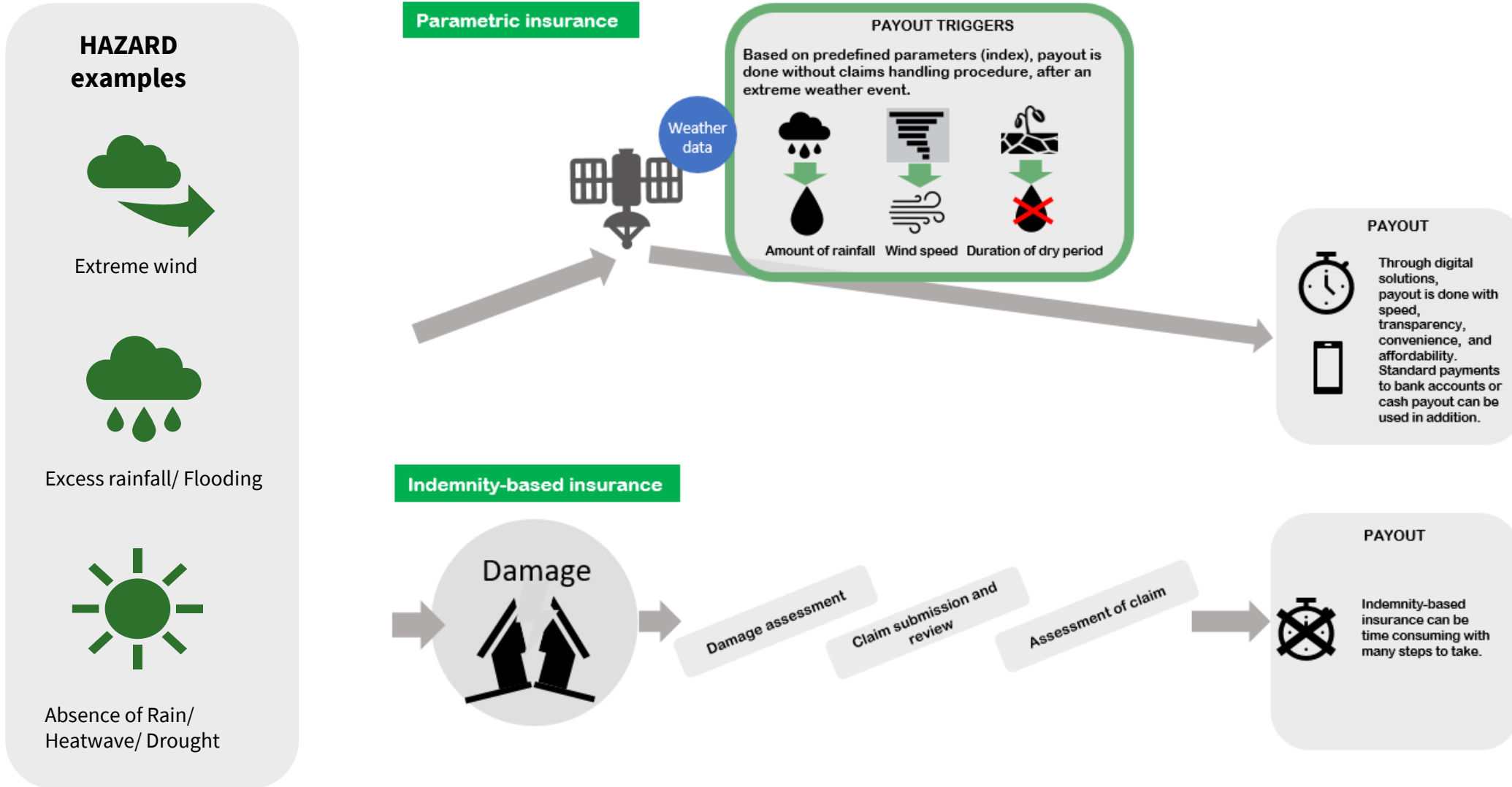
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Parametric insurance is a type of insurance in which a payout is automatically triggered when certain predefined parameters (e.g., duration of a dry period, amount of precipitation, wind speed) are reached or exceeded. This type of insurance can also be referred to as “index-based insurance” as the triggers are thought of as indexes.

These terms are used somewhat interchangeably. Some types of parametric insurance are based on a modelled loss approach in which a payout is triggered when the value of modelled losses, calculated based on the hazard parameters, exceeds a given threshold.



Parametric Insurance vs. Indemnity Based Insurance



How can climate risk insurance help increase the **financial preparedness and resilience** of individuals to deal with the impacts of natural hazards climate-induced disasters?

ANTICIPATE

Ability to estimate the impact of weather events on individuals and countries and the response measures and costs required to adequately address the impacts.

ABSORB

Ability to cope with the impacts of an extreme weather event and absorb the effects of the event.

ADAPT

Ability to adjust to actual or expected extreme weather events and its effects. Adaptation seeks to moderate or avoid harm or exploit beneficial opportunities.

- Does climate risk insurance **improve the ability of people to anticipate** climate impacts?
- Does insurance enable beneficiaries to **absorb** climate impacts?
- Does insurance enable beneficiaries to **adapt** to climate impacts?
- Does insurance **transform the way in which risks are managed**?

ANTICIPATE

- Insurance can catalyze risk assessment

ABSORB

- Insurance can provide timely finance that improves financial liquidity after a disaster
- Timely finance after a disaster helps beneficiaries not to resort to negative coping strategies and enables rapid recovery
- Insurance can help reduce distress asset sales
- Insurance can help to increase food security

ADAPT

- Insurance can help increase savings
- Insurance can help improve creditworthiness
- Insurance can support people by increasing investment in higher-return activities

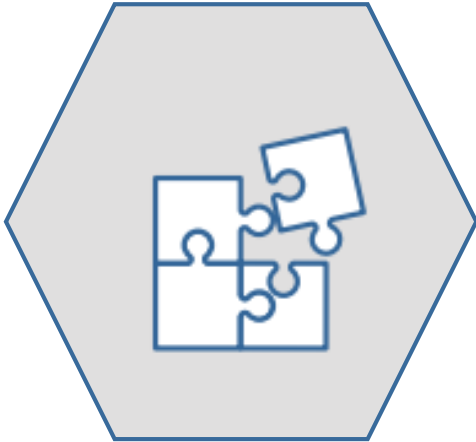
TRANSFORM RISK MANAGEMENT

- Insurance can help to reshape ex-ante risk management
- Insurance can foster risk-reduction behavior



*Schaefer, L. and Watts, E. (2016). Climate Risk Insurance for the Poor & Vulnerable: How to effectively implement the pro-poor focus of InsuResilience. An Analysis of good practice, literature and expert interviews: https://climate-insurance.org/wp-content/uploads/2020/05/MCII_2016_CRI_for_the_Poor_and_Vulnerable_full_study_lo-res-2.pdf

Comprehensive needs-based solutions



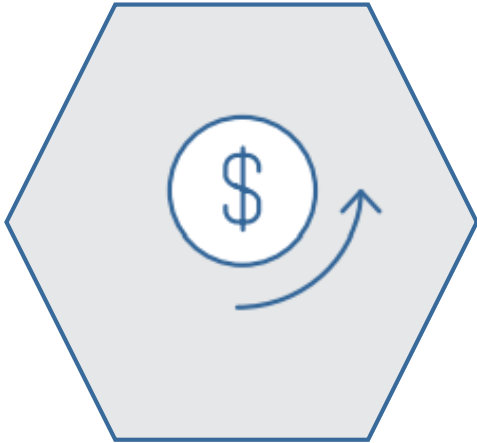
Solutions to protect the poor and vulnerable from extreme weather events must be tailored to local needs and conditions.

It is imperative to embed insurance in comprehensive risk management strategies that improve resilience.



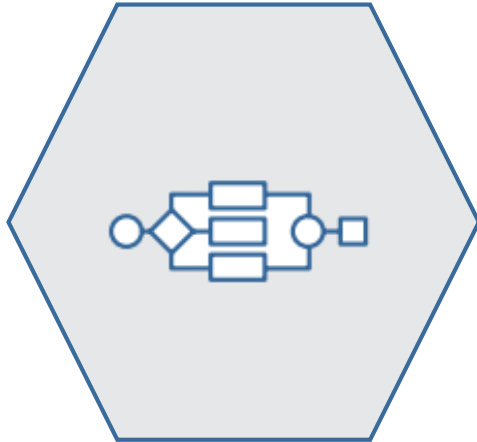
Client value

Providing reliable coverage that is valuable to the insured is crucial for the take-up of insurance products.



Affordability

Measures to increase the affordability for poor and vulnerable people are paramount to the success of an insurance scheme and also important to satisfy equity concerns.



Accessibility

Efficient and cost-effective delivery channels that are aligned with the local context are key for reaching scale.

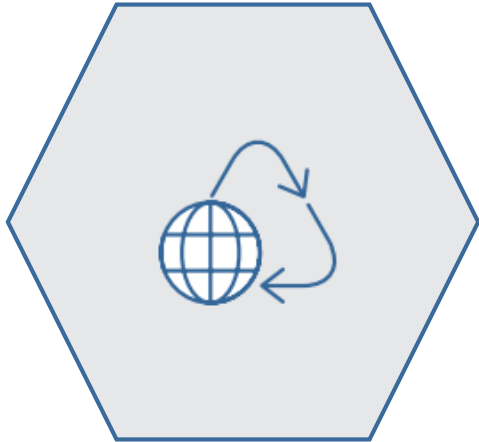
Participation



Successful insurance schemes are based on the inclusive, meaningful and accountable involvement of (potential) beneficiaries and other relevant local level stakeholders

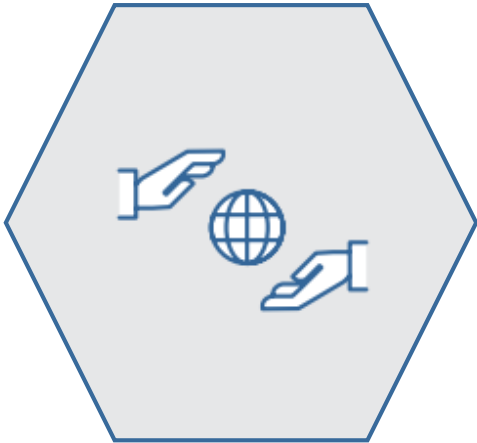
– in the design, implementation and review of insurance products –

creating trust and providing a basis for local ownership and political buy-in.



Sustainability

Safeguarding economic, social and ecological sustainability is crucial for the long-term success of insurance schemes.



Enabling environment

It is vital to actively build an enabling environment that accommodates and fosters pro-poor insurance solutions.

Climate Risk Adaptation and Insurance in the Caribbean (CRAIC) Project



Countries:

- Jamaica
- Saint Lucia
- Grenada
- Belize
- Trinidad & Tobago

MCH

Thank you!



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