POLICY BRIEF

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Implementing the National Disaster Management Plan with the Citizens

Risk Transfer through Disaster Insurance: Investing in DRR for Resilience

1. EXECUTIVE SUMMARY

For decades, the financing of disaster management in developing countries such as India has relied on a reactive approach. This approach focuses on providing relief after the disaster has happened, however it does not fully focus on preparedness against such events Ex-post funding approaches are usually not well coordinated and are often poorly targeted and insufficient.[1] This gap can be partially addressed by using risk transfer through disaster insurance it is a financial mechanisms formulated to reduce vulnerability to disasters by employing structured instruments to spread risks in exchange for a premium. It is important to take into consideration during the AMCDRR as it currently has not received international credibility despite from its effectiveness. One of the most widely discussed types of disaster insurance is microinsurance.[2] The intent of microinsurance is to serve low income clients by offering limited cover and greatly reducing their transactions costs. This does not preclude the existence of disaster insurance for governments, where they can respond to disasters collectively; these are often provided by international organisations such as the World Bank.Other methods that exist are resilience through risk transfer; this innovation is a small business disaster microinsurance programme. It aims to enhance recovery of local markets, which are in critical situation, by providing goods and services to disaster-affected populations in urban settings. Microinsurance facilities access is more relevant for the vulnerable poor and humanitarian sector. The aim is to compensate or adequately help the victims to be protected against natural hazards and to recover from their losses. Relief and compensation efforts are useful, but not enough; they do not fully compensate or adequately help the poor to recover from all the incurred losses[3]

These kind of financial insurance services enable the victims to leverage their initiatives and accelerate the process of rebuilding their lives and livelihoods. In the case of AIDMI, livelihood support work reached 15000 small businesses after the Gujarat earthquake in 2001. Microinsurance can help the poor in moving out of poverty and the vulnerable in moving out of risk. Similarly, the promotion of microinsurance as a risk reduction investment can significantly reduce the total cost of financing post disaster relief and reconstruction; and it can work as an adaptator to climate change. Microinsurance and other microfinance services have helped victims of disasters by accelerating their recovery and diversifying their livelihoods with more productive sources of income.

In the Indian context, the use of disaster insurance is still pretty new. The overriding theme is the convergence of micromitigation and microinsurances as precondition for effective local and low-cost risk transfer. This has led to the development of *Afat Vimo* (Gujarati word for Disaster Insurance). Disaster-affected and poor communities are protected under the *Afat Vimo*. Despite the high exposure to natural hazards and high human vulnerability, the current level of insurance penetration is less than 1 per cent for non-life insurance in India.[4] India's unplanned and slow development in addressing the issue of climate change is becoming a grave threat worldwide. In future, infrastructure and human losses are expected to increase due to the lack of protection mechanisms, affecting mostly poor population. The insurance use in life, non-life and industry is 4.40, 0.71 and 5.10 respectively in India.[5]

Insurance and non-insurance financial instruments can, reduce the long-term economic and human damages of disasters by providing timely capital flow during extreme events. Insurance-related instruments have the additional advantage of setting a “price” on risk, and in so doing creating incentives for far-reaching behavioural and institutional changes to further reduce disaster exposure and vulnerability. Indeed financial instruments can provide safety nets, remove risks from balance sheets, enable poor households and farmers to take higher risk and higher-return activities, promote development, and offer to the most vulnerable ways of escapingf rom disaster-related poverty traps. International frameworks recognise this, and insurance features in both PSP and R!SE thematic areas (visions and activities streams) are currently aligned.[6]

Disaster insurance for climate change:
Interactions between climate change and financial risk transfer can be complex. Based on regional models of climate change, researchers have estimated the near- and long-term potential climate impacts on the Malawi micro-insurance scheme (Hochrainer et al 2008). It was demonstrated that over the next ten years, climate-change induced stress will likely decrease the financial robustness of the Malawian insurance pool, with even more dramatic negative effects in the following decade. Without external assistance, either the premium hikes or the additional back-up capital required to render the program for Malawi's and other schemes operating at the margin of financial viability. Heightened premiums also restrict farmers in obtaining needed farm inputs,

Key Words
Disaster Risk Reduction; Developing Countries; Risk Transfer; Disaster Insurance; Preparedness; Financial Mechanisms; Microinsurance; Investment; Transaction costs; Preventive Measures; Policy and Strategic Framework; Leadership and Management; Advocacy and Information Sharing; South Asia-Pacific; Women leaders; Low-income populations; Public and Private Investment; Relief Compensation and Business Development Services.

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encouraging them to adapt to climate change by seeking non-farming livelihoods.[7]

2. CONTEXT AND IMPORTANCE OF THE PROBLEM

The severity of disasters in both the Asia-Pacific and South Asian contexts should not be understated. In 2015, Asia-Pacific continued to be the world's most disaster prone region.[8] On average, 232 million people are affected by different types of disasters every year.[9] Losses from disaster have risen over the past decade affecting millions of people in the area, bringing adverse consequences to people and their livelihoods. However efforts and progress have been made in the field of risk transfer insurance for disasters.

In the Asian context, the word insurance has a negative connotation since many people do not actually understand the meaning or benefits of it. Therefore, new strategies of explaining and communicating the meanings and the benefits of insurance to vulnerable people must be developed. It has been proven that where people have a positive experience in microinsurance they will continue to purchase it. Looking at it from the perspective of a poor policyholder with a very limited budget, it is easy to understand why other urgent needs are given priority. Paying the premium may mean they cannot afford basic needs, so that this has to be covered before a person is able to get an insurance.

Nowadays, giving access to microinsurance facilities is relevant for the vulnerable poor and the humanitarian sector. Relief and compensation efforts are useful, but not enough; they do not fully compensate or adequately help the poor to recover from its incurred losses. The contribution from women particularly in building knowledge on concept and importance of disaster insurance is very high Women are key actors in selling disaster insurance since it is considered they are more financially literate and responsible.

So disaster insurance deals with risk and climate change, modifying the global risk landscape in many areas. Thus, it is logical to call insurance as one of the many adaptation tools that can be used at the local level. Insurance may not prevent climate change effects from unfolding however it can play an useful role in broader efforts to mitigate the adverse effects of climate change especially on low-income populations. Insurance against floods, droughts and storms are, if combined with preventive measures, a promising tool to manage the impact of climate change. During a consultation process organized by the UNDP, the Environment Finance Group, over thirty practitioners with substantial expertise in the field of micro-finance, cautioned strongly against expecting significant short-term development returns by investing in micro-level risk-transfer programs. It takes substantial time, perseverance, expertise and even “good luck” to build solid foundations for these initiatives.

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The barriers to scaling up index-based microinsurance and other schemes targeting the most vulnerable include:

- Financial illiteracy among the poorest of the poor
- Lack of trust in unfamiliar financial instruments
- Insufficient financial experience and institutional maturity among relevant organizations
- Lack of sufficient historical data
- Changing climate conditions
- Basis risk - lack of correlation of the index-based trigger with the loss incurred[10]

However, these problems have proven to be surmountable, by communicating better ideas about insurance. In addition, this problem has been less prevalent with international support at the government level. A case study from the Asia Pacific region highlights the effective work of the World Bank in regards to this matter. The Republic of Vanuatu benefited from a pilot scheme run by the World Bank. It consisted in transferring a portion of their tropical cyclone and earthquake risk to the international reinsurance market, by doing this it was feasible by financial assistance for premiums. Here the the World Bank act as a Treasury and intermediate at the market-based cat risk transfer transaction.

When Tropical Cyclone Pam hit Vanuatu on March 13, 2015 triggered an insurance payout of US$1.9 million for the Government of Vanuatu. This insurance payout provided by Government of Vanuatu consisted in a rapid cash injection in its budget. As a comparison, this insurance payout amount is equivalent to 8 times their emergency provision. Following the Calculation Notice sent to AIR Worldwide by WB/IDA on March 14, the Calculation Report, which includes the calculation of the insurance payout amount, was released on March 20 and the payout was received by the Government of Vanuatu on March 21, 2015. The insurance payout is consistent with the severity of the loss and the contract selected by the Government of Vanuatu. Nonetheless, this type of insurance operates at a different level to microinsurance programs which have often received less recognition and funding.[11]

3. CRITIQUE OF POLICY OPTION(S)

The outcome document of the United Nations Conference on Sustainable Development, held in 2012, entitled “The future we want”,[12] called for disaster risk reduction and the building of resilience to disasters to be addressed with a renewed sense of urgency in the context of sustainable development and poverty eradication and, as appropriate, to be integrated at all levels. The SFDRR aims to “promote mechanisms for disaster risk transfer and insurance, risk-sharing and retention and financial protection, as appropriate, for both public and private investment in order to reduce the financial impact of disasters on Governments and societies, in urban and rural areas.” It is with this in mind, that insurance becomes a crucial part of providing a safer environment for communities and better opportunities to recover from disaster.

Lack of Preventive Measures

Historically, there has not been significant interest in pre-management of disasters, even though there is proof of large returns on investments in preventive measures. The international donor community tends to focus on post-disaster relief, rather than taking pre-disaster measures. Lack of risk management planning and economic efforts to be more prepared when disasters occur makes Governments rely on a diversion of resources from other projects and international donors by spreading risk. When a person or household purchases insurance it joins a risk pool that will decrease their potential economic loss to a controllable level. The lack of access to insurance and social protection mechanisms and the general difficulty of mobilizing assets to buffer losses means that damage to housing, local infrastructure, livestock and crops feeds back into a range of disaster impacts and poverty outcomes. This becomes particularly important as continuous, repetitive disasters erode personal savings and limit the ability of communities to recover from multiple disasters.[13]

Though microinsurance is an effective tool for risk reduction and risk mitigation, the following are some important limitations to be reiterated here:

Firstly, microinsurance cannot provide complete protection against disaster risks resulting in a loss greater than what a household can save or repay. A majority of microinsurance programmes do not combine risk transfer or risk mitigation strategies along with other microfinance. Secondly, microinsurance service cannot immediately translate into a stand-alone enterprise for successful disaster recovery. Thus, providing a

range of other services for accessing basic amenities, relief compensation and business development services, including marketing after a disaster, are crucial for the swift recovery of the poor. Thirdly, microinsurance programmes have emerged in response to the needs of the poor affected by emergency. However, when it comes to financing disaster losses of the poor, commercial banks and microfinance institutions are unwilling to finance such losses. Thus, the poor remain marginalised. It is a common myth that disaster victims are unable to save and that they are unreliable borrowers. However, random and unreasonable flows of relief discourage savings and repayments. Fourthly, the economic losses of disasters are relatively higher for the poor. Loss estimations mostly bypass their loss of income and livelihoods. They usually suffer the longest and the most compared to other social groups. However, a vast majority of disaster victims in India have limited access to microinsurance and other microfinance services, especially after a disaster or during recovery. In addition, they do not have any word in deciding the rate of interest or other terms of financial agreements. Market penetration in the lower income strata of India is low and even lower in disaster-prone areas. The spread of SHGs and vulnerable areas do not overlap.[14]

Consequently these six priorities should always be kept in mind when initiating an insurance initiative:

1. Utilise the client community to increase awareness and grow.
2. Microinsurance is not a panacea for disasters. There is a need to promote long-term disaster risk reduction in conjunction with microinsurance.
3. Promote increased participation by women in disaster microinsurance programmes.
4. Promote the review of organisations' claims processes to ensure that money is getting to clients in the most effective and efficient way possible.
5. Look for the biggest critic. The proof of impact of disaster microinsurance must be done through the survey of people who have dropped out the programmes, were rejected claims, and who will not renew membership in the future.
6. The use of impact assessments for future product development.

Case Study:

Many sources confirm that communities have their own coping mechanisms to respond and recover from impacts of natural disasters. In the states of Odisha and West Bengal, the community coping mechanisms include: migration, borrowing money, selling of land and livestock, eating less, taking money from savings, taking kids out of school, and among others. A majority of respondents that participated in the needs assessment mentioned that they have borrowed money, migrated, and sold of assets to cope with disaster situation. The needs assessment revealed that many poor and vulnerable households from the targeted areas participate in various social protection schemes supported by state and national government when the opportunity was given. Participation in these schemes forms are an integral part of community coping mechanism. However, because of numbers of reasons the performance level of these schemes is low in terms of coverage and impact. Currently there is no system of bottom-up monitoring and tracking in place to improve governance of these schemes.[15]

Examples such as the cyclone Phailin which struck Odisha in 2013 where 165 victims faced loss and damage showed that the claims were registered to an insurance company. The insurance company is called *Afat Vimo*. In this example the clients were illiterate or had poor literacy skills and therefore they needed assistance. In this case, the *Afat Vimo* clients got a window of one month period to claim post the disaster. The first assessment process was done by insurance company where SWAD team facilitated the process with the technical support from AIDMI. The policy covered damage to shelter, household things and livelihood stock due to natural hazard. 15 In March 2014, 112 claims have been successfully settled, giving a combined payout of approximately US$6520. All of the claims were in regards to property damage and loss of contents due to cyclone Phailin and the consequent floods.

4. POLICY RECOMMENDATIONS

The national governments and their humanitarian and development partners should invest in making disaster insurance more widely known and the participants of the Asian Ministerial Conference on Disaster Risk Reduction in India are recommended to support the following key elements in order to include them in the AMCDRR declarations:

1. National governments should support the growth of financial services such as microinsurance to help the poor meet their needs after disasters.

Demand Survey for Disaster Microinsurance in Guwahati, Puri, and Cuddalore City. Photo: AIDMI.

2. National governments should recognise that microinsurance is not a panacea for disasters. There is a need to promote long-term DRR in conjunction with microinsurance.
3. National governments should promote the review of organisations' claims processes to ensure that money is getting to clients in the most effective and efficient possible way. This includes examination of services to help with claims, support for timely review of claims, and information management of decisions.
4. National governments should encourage private and international financial institutions to increase the access of the poor and vulnerable to risk transfer measures like insurance.
5. National governments should support disaster microinsurance organisation to reach an increased number of communities that require such products.
6. National governments should provide increased understanding of the use of insurance funds as well monitoring of additional borrowing after disasters.
7. National governments should promote increased participation by women in disaster microinsurance programmes.
8. National government should utilize the client community to increase awareness and grow. Microinsurance organisations should work to create innovative ways to involve the community in outreach and awareness generation of disaster microinsurance. Client satisfaction is indispensible high and an overwhelming majority is ready to refer to friends about programme.
9. National governments should ensure that all are being served, by promoting the review of products. Ensure that although 'the poor' are being served, 'poorer than the poor' are not being excluded due to costs and information barriers.

For The Asia Regional Plan, the following are a range of policy suggestions and it is aimed to call upon the participants of the Asian Ministerial Conference on Disaster Risk Reduction in India to include DRR and CCA in the Asia Regional Implementation Plan as follow:

Priorities for Action	Targets and Indicators for local governance
Policy and strategic framework	• Microinsurance services have not penetrated deeply enough into rural, isolated, and vulnerable areas. There is an urgent need to replicate, develop and expand innovative products and setup service networks that can function at breakeven, especially in areas that are vulnerable to risk related to climate change. In addition, there is a need for developing a strategic framework to monitor microinsurance in South Asia and the Asia Pacific. • Observe whether state and local governments are aware of and involved in microinsurance programmes as directed by the national government.
Leadership and management commitment and support	• There is a strong need to develop a stabilisation fund for microfinance institutions to help them to respond to the overwhelming demands for loans and services immediately after a disaster. The majority of microfinance programmes to date in India take a supply-side and grant based approach. • There is a need to help them develop a demand-driven approach and to make them self sustaining. The microinsurance policy that protect (economic) against local hazards and with combination of life and non-life coverage must be promoted and strengthened by MFI, Government and humanitarian sectors.
Institutional arrangement and capacity	• It is critical to link the poor and microfinance institutions with a formal financial system. We must strengthen links between microfinance institutions for the poor in the informal sector with formal sector institutions. • In order to ensure the sustainability of 21 investments in microfinance products, capital formation must take place at the community level, with the active participation of the poor. Poverty removal and disaster risk reduction are not two separate issues. Development cannot be achieved unless both of them are simultaneously addressed. • A clear set of values should stand behind a microinsurance programme; objectives need to be achieved; people must be reached and long term development intentions of each program must be defined.
Advocacy and Information Sharing	• Microinsurance programmes must combine the developmental and disaster recovery needs of the poor. • Careful coordination and planning in implementation of insurance with disaster risk measures should take place at the government level. The government should highlight its procedures and provide ample opportunity for local communities to get involved. • Raising awareness amongst communities about microinsurance and its procedures and sharing information about successes regionally and internationally cases.

1 Margaret Arnold, The Role of Risk Transfer and Insurance in Disaster Risk Reduction and Climate Change Adaptation, March 2008. Commission on Climate Change and Development. http://202.46.9.39:8889/attachment/book/Risk%20Transfer%20and%20DRR-CCA.pdf.

2 Reducing Underlying Risk Factors: Assessing the Effectiveness of Risk Insurance Post-cyclone Phailin in Odisha, India A case of 2013 Cyclone Phailin from Odisha

3 Resilience Through Risk Transfer: Lessons From The SSCBDA, http://www.elrha.org/hif-blog/resilience-risk-transfer-lessons-sscbda/

4 Government of India, 13th Finance Commission 2010-2015

5 Annual Report 2010-11, IRDA (Insurance Regulatory and Development Authority of India), http://www.irda.gov.in/.

6 Meeting Report 1st ISDR Asia Partnership Meeting of 2015 3-5 June 2015, Bangkok, Thailand

7 Insurance-related instruments for disaster risk reduction, UNISDR

8 World Risk Report 2015 http://www.worldriskreport.org/fileadmin/WRB/PDFs_und_Tabellen/WRR_2015_engl_online.pdf

9 CRED (2012): "Disaster Data: A Balanced Perspective" CRED CRUNCH Issue 27, Brussels, Belgium: Institute of Health and Society. www.cred.be/ sites/default/files/CredCrunch27.pdf

10 This paragraph is taken from the following report: Insurance-related instruments for disaster risk reduction Pablo Suarez Joanne Linnerooth-Bayer 2011, ISDR

11 Implementation Completion And Results Report, Pacific Catastrophe Risk Insurance Pilot Program, World Bank, 2016,

12 A/RES/66/288, annex. 7.

13 2015 Global Assessment Report by UNISDR

14 RISK TRANSFER THROUGH MICROINSURANCE: Lessons Learnt and Evidence from Phailin Cyclone Affected Community

15 Assessment of the effectiveness of micro disaster insurance in India, CDKN, 2014.

This policy brief is prepared in advance to the Asia Ministerial Conference on Disaster Risk Reduction (AMCDRR), in India, 2-5 November 2016, shows that risk transfer through disaster insurance requires a flexible national framework to allow for tailored solutions at the local level. It calls for the countries and their humanitarian and development partners to urgently ensure that governments can provide disaster insurance. A future dialogue for authorities to be informed and inform national and regional plans should feature in the Asia Regional Implementation Plans, AMCDRR declaration, and disaster management plans and policies, and collect better data to monitor the progresses.