



Global Index Insurance Facility

Expanding Access to Index-Based Insurance
in Developing Countries

October 2013 Newsletter (Issue #7)

Global Facility for Disaster Reduction and Recovery Organizes Fifth Resilience Dialogue Series during 2013 WBG-IMF Annual Meetings



Deputy Prime Minister from Thailand, Kittiratt Na-Ranong, and European Commissioner for Humanitarian Aid, Kristalina Georgieva, discuss disaster resilience

The Global Facility for Disaster Reduction and Recovery of the World Bank Group launched the fifth round of the Resilience Dialogue Series "Poverty Reduction in a Time of Extremes: Shared Prosperity through Resilience" during the 2013 WBG-IMF Annual Meetings. Participants included the Deputy Prime Minister of Thailand, Minister of Finance from Columbia, EU Commissioner for Humanitarian Aid, and the World Bank Vice President for Sustainable Development, with opening remarks by Japan's Vice Minister of Finance for International Affairs. The event was hosted by the European Union, Government of Japan, USAID and the World Bank.

The fifth round of the Resilience Dialogue Series focused on the impacts of disasters on poverty dynamics, as well as the opportunities to build prosperity through resilience. **All of the invited guest speakers highlighted the need to invest in managing disaster and climate**

risks to achieve poverty reduction and shared prosperity goals.

In his opening remarks, Mitsuhiro Furusawa, Vice Minister of Finance for International Affairs for Japan emphasized that disaster risk management must be a part of the overall development agenda. Eighty countries - most of them poor - are seriously vulnerable to natural disasters. He also highlighted the important role to be played by communities who must be informed and prepared before disasters strike because they are critical for maintaining social order. Japan has led global efforts on disaster resilience following the earthquake and tsunami which devastated Japan in 2011. (See <http://www.preventionweb.net/english/professional/publications/v.php?id=29162>) for an overview of Japan's Lessons Learned after the 2011 disaster.)

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Guerda Pierre, Haiti

Part of a continuing series of profiles highlighting index insurance successes and challenges: this story features the impact insurance can have in the lives of struggling entrepreneurs in disaster-prone countries

Guerda Pierre was one of the victims of Hurricane Sandy in 2011. The home she shares with her three children and mother was completely flooded, and all her merchandise was destroyed. In addition the plantain trees and beans in her garden could not be harvested. Guerda had paid \$5.30 for her insurance policy with Fonkoze when she received her 6-month loan of \$176. That was 3 percent of her loan value paid one time at the start of the loan for 8 months of coverage. Following the storm, she received a cash payment of about \$59, the cancellation of her debt with Fonkoze, and a new loan, which she received before Christmas, the busiest season of the year for her. As you can imagine, she and many others like her in Haiti are now big fans of the insurance program.

(For the full story about the challenges of providing insurance to microentrepreneurs like Guerda in Haiti, see Fonkoze Director Anne Hastings' blog on CGAP discussing their new reinsurance company MiCRO: <http://www.cgap.org/blog/standing-firm-clients-when-catastrophe-hits>)



Guerda Pierre and her children

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News

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Philippines: IFC, CARD and Pioneer Insurance to design typhoon insurance for Filipino farmers

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Mozambique / Guy Carpenter: Drought triggered claims totaling over US\$200,000 in payouts

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GIIF's objective is to expand the use of index insurance as a risk management tool in agriculture, food security and disaster risk reduction. According to a recent UN Officer for Disaster Risk Reduction report, natural disasters have cost the global economy \$2.5 trillion since 2000 and affected millions of people.

About the GIIF Initiative

Launched in 2009, the Global Index Insurance Facility is a multi-donor trust fund financed by the European Union, Japan and the Netherlands and implemented by IFC and the World Bank.



Fifth Resilience Dialogue Series

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The ministers from Thailand and Columbia share a common history of frequent disasters and high public and private economic costs following disasters. **Kittiratt Na-Ranong, Deputy Prime Minister and Minister of Finance, Thailand** referred to the economic cost of the 2011 floods in Thailand which accounted for half of the government budget - \$40 billion. The government of Thailand is trying to set up an investment fund of \$11 billion for disaster mitigation and prevention investments; to date only \$1.1 billion has been raised. **Mauricio Cardenas, Minister of Finance and Public Credit, Columbia** coined the discussion group's key phrase which described the overall mood "Extreme is the new norm". Since 1979, Columbia has suffered the

onslaught of a tsunami, earthquakes, volcanic eruptions, mudslides and in 2011 \$6 billion in economic costs from the recurring sea warming phenomenon El Niño. **Kristalina Georgieva, European Commissioner for Humanitarian Aid, EU**, spoke passionately about the disproportionate impact of disasters on the poor, and fragile and conflict-affected countries. The poor represent eighty percent of the victims of natural disasters. She emphasized that poverty reduction will not be possible without disaster resilience, and the **role to be played by financial instruments like insurance** which can help communities, banks and governments mitigate the risks from natural disasters. Communities can also engage in risk mitigation; for instance,

communities affected by droughts can invest in rainwater harvesting and when droughts begin cull their herds to prevent widespread livestock losses due to vanishing grasslands.

As for the role to be played by the World Bank in disaster resilience, **Rachel Kyte, VP for Sustainable Development, World Bank** declared that disaster risk resilience is a growth business for the Bank. Echoing the concerns of the European Commissioner for Humanitarian Aid, she also emphasized that the poor are the least resilient and the most vulnerable and the importance of considering short-term and long-term consequences, e.g. GDP impact (short-term); malnutrition and interrupted schooling for children (long-term).

Rachel Freeman Enthusiastic about New Disaster Insurance Projects

Regional Manager, IFC Access to Finance Advisory in East Asia and the Pacific, under whose guidance and supervision Advisory Services programs, including GIIF, are implemented in her region.

Q: Is there good growth potential for index insurance in Asia?

A: There is strong growth potential for the index insurance market in Asia. The growth in access to finance in Asia for farmers and SMEs will be adversely impacted without disaster insurance as the region is increasingly prone to disasters with the impact from climate change. **Sixty percent of the global losses from disasters was sustained by the East Asia Pacific region over the past 20 years**, and economic losses from natural disasters in 2011 alone in this region were over \$250 billion.

Q: Are the right type of index insurance products being developed for Asian markets?

A: Yes – I am particularly pleased to see the Global Index Insurance Facility supporting the development of typhoon index insurance for farmers in the Philippines and earthquake index insurance for banks and microfinance institutions in Indonesia. The Philippines is the third most disaster-prone country in the world, with an average 20 typhoons per year. Typhoon-related losses in the Philippines have surpassed \$2.5 billion since 2009. The hardest hit are farmers, and since agriculture accounts for 11 percent of GDP in the Philippines and one-third of all jobs it is important that

IFC offers risk mitigation products that safeguard farmer assets and cover bank risks so banks can increase loans to farmers. The Center for Agriculture and Rural Development Insurance Agency (CARD), one of IFC's partners in the Philippines, plans to offer typhoon insurance to hundreds of thousands of its farmer clients over the next few years.

In Indonesia, the GIIF Team will work closely with reinsurer PT Asuransi MAIPARK Indonesia to develop a new index insurance product to help protect banks and MFI clients that provide loans to individuals and micro, small and medium enterprises from losses following earthquakes and other disasters. More than 12 million Indonesians live and work in earthquake-prone zones, with economic exposure reaching an estimated \$79 billion. These risks are especially high in areas such as Yogyakarta and Padang, where the worst-hit banks lost between 15 and 35 percent of income following recent earthquakes. The project hopes to facilitate \$50 million in additional financing for the working poor and micro and small, medium enterprises by 2019.

Q: How can index insurance be incorporated into an overall IFC risk management strategy to address climate change and natural disasters in Asia?



Ms Rachel Freeman

A: Index insurance is a great vehicle to take risk mitigation in Asia to the next level. We have a huge program in energy efficiency in Asia which focuses on reducing carbon emissions and the adverse effects of climate change. That's an important strategy but the World Bank Group also has to realize that we cannot prevent climate change, and we need risk mitigation strategies to address the negative impact of climate change.

GIIF Groundnut Index Insurance Pilot in Senegal: Interview with Pape Ndiaye Executive Director, National Agriculture Insurance Company, Senegal

Mr Pape Ndiaye, Executive Director of the National Agriculture Insurance Company of Senegal, reflects on the achievements of the second pilot for groundnut index-insurance in Senegal and how to scale up. PlaNet Guarantee, the private sector partner implementing the pilot, hopes to sell index insurance to 7,000 farmers in 2014.

Q: The second pilot for index-insurance for groundnut farmers in Senegal has just been completed. What were the results?

A: We have not yet completed the evaluation of this second pilot. However what we can say as of now is that our results are still in the pilot phase but much above last year's results. We have sold index-insurance to about 1,700 farmers (compared to a target of 7,000) and reached 4,500 farmers in awareness-raising training (compared to a target of 10,000). It seems that the reasons for this performance are the late start of the awareness-raising campaign; its overlap with cropping season activities; the lack of awareness-raising tools; the participation of only one MFI as a delivery channel compared to an initial target of two; and the insufficient coverage of one of the target areas due to the lack of weather data.

Q: What was done differently between the first pilot launched last year and this pilot in order improve take-up?

A: The encouraging fact is that, compared to the first pilot, we have made significant

progress. We modified the design of the product according to farmers' preferences (revised payout triggers, two types of products "groundnut 90 days" and "groundnut 110 days"). Also, we conducted the awareness-raising campaign for a longer period, starting a month before the June sales window.

Q: Do you think these results can be scaled up, and what are the key next steps to reach this goal?

A: Yes, absolutely. Index insurance is a great opportunity for Senegal. Almost two thirds of our population work in agriculture but credit to agriculture is unfortunately still limited. Index insurance can therefore protect farmers against adverse weather events while strengthening access to credit in a sector that really needs it. The market will develop and offer a wider range of products (including area-yield products) as well as a wider range of crops (such as rice). To do so, we will first need a better data market infrastructure (weather data from rain gauges or satellites, agriculture production data) as well as a better awareness among our customers, which requires time and adaptation to local languages.

Q: The National Agricultural Insurance Company of Senegal (CNAAS) was created five years ago as a public-private institution in charge of underwriting crop and livestock insurance.



Mr Pape Ndiaye

What are the benefits of public-private partnerships in agricultural insurance?

A: The CNAAS has largely benefited from this PPP. First, from a financial point of view, agricultural insurance gets a 50 percent government subsidy and is exempt from the 10 percent insurance tax. Moreover, from an operational point of view, the CNAAS benefits from the network of government agencies for awareness-raising and risk management, even though cooperation in this area could be enhanced. But we could go further than this. For instance, it would be great to include agricultural insurance as a mandatory component of agricultural development and agricultural lending projects in the future.

NEWS FROM THE GIIF TEAM

The GIIF team participated in the Global Index Insurance Facility Technical Workshop with GIIF implementing partners in Delhi from October 7-8, including a field visit to Sonapat in Haryana to talk with Indian rice farmers about index crop insurance. **India has the largest index insurance market in the world covering close to 30 million farmers** - the majority with yield-based index insurance, 9 million with weather index insurance and several hundred thousand covered by a combined yield/weather index insurance. Strong public-private partnerships provide support for the market and ensure access to finance for farmers. It has taken 7-8 years to develop the index insurance market in India.



GIIF Team in Haryana, India with rice farmers

The findings and recommendations of the GIIF mid-term evaluation were discussed in a workshop in Brussels in September 2013. The evaluation concluded that the program has achieved good results at the macro-level.

The GIIF team is working to scale up existing projects, ensure that GIIF partners stay on a path to commercial viability and deepen their work with local communities, farmers groups, cooperatives, and agribusinesses.

Events

INTERNATIONAL CONFERENCE ON INSURANCE AND REINSURANCE FOR AGRICULTURAL RISKS

January 29-31, Marrakech Morocco [African Insurance Organization, the World Bank, the African Center for Catastrophe Risks, and the Société Centrale de Réassurance]

<http://www.african-insurance.org/newsevents-eventitem.php?intID=214>

ACP OPEN HOUSE

October 30, Brussels Belgium [GIIF will make a presentation and will have a stand].

<http://www.acp-eu-tbt.org/nc/news/news/news-detail/article/4th-acp-open-day-october-30-2013-brussels/>

INDEX INSURANCE IN THE MEDIA

MiCRO

<http://www.cgap.org/blog/standing-firm-clients-when-catastrophe-hits>

MicroEnsure

<http://www.microensure.com/news.asp?id=276&start=0>

Kilimo Salama

<http://aon.mediaroom.com/Syngenta-Foundation-wins-first-Aon-Client-Innovation-Award>

PlaNet Guarantee

<http://spore.cta.int/fr/component/content/article/18-spore/dossier/18/7479-assurance-indicelle>

<http://issuu.com/icpubs/docs/abkf-16-ednum>

<http://www.rfi.fr/emission/20130707-2-actu-environnementale-assurance-agricole-mali-le-boom-traffic-dechets-dangereux>

THE MERITS OF PORTFOLIO INSURANCE AND PUBLIC-PRIVATE PARTNERSHIPS

Guy Carpenter's index insurance is distinguished by several unique features, including its use of a "portfolio pricing" model where the sum insured in a given region forms the basis for risk calculation. Compared to the alternative where each individual plot is priced separately, this method can result in lower premium costs by including more farmers and diverse areas in a group. Guy Carpenter also implemented its product at the portfolio or "meso-level", where an aggregator (e.g. a delivery channel, association or other farmer group) purchases one insurance policy to cover its group members. The experience of other GIIF clients has shown that portfolio sales are less expensive than retail index insurance sold to individual clients.

Guy Carpenter's index insurance model is supported by close public-private collaboration which is critical when setting up new markets. Two agribusiness firms, Olam and SANAM, covered their cotton farmers with index insurance designed by Guy Carpenter and provided by two insurance companies: Hollard and EMOSE. The premiums for the insurance were paid by the Cotton Institute of Mozambique (IAM) in a successful public-private partnership. **In 2012, drought triggered claims totaling over US \$200,000 in payouts.** The payouts exceeded the premiums paid but that is expected for particularly bad years. IAM plans eventually to expand index insurance coverage to all cotton farmers in Mozambique – approximately 200,000 farmers.

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