



Risk Transfer and Insurance for the Poor and Vulnerable



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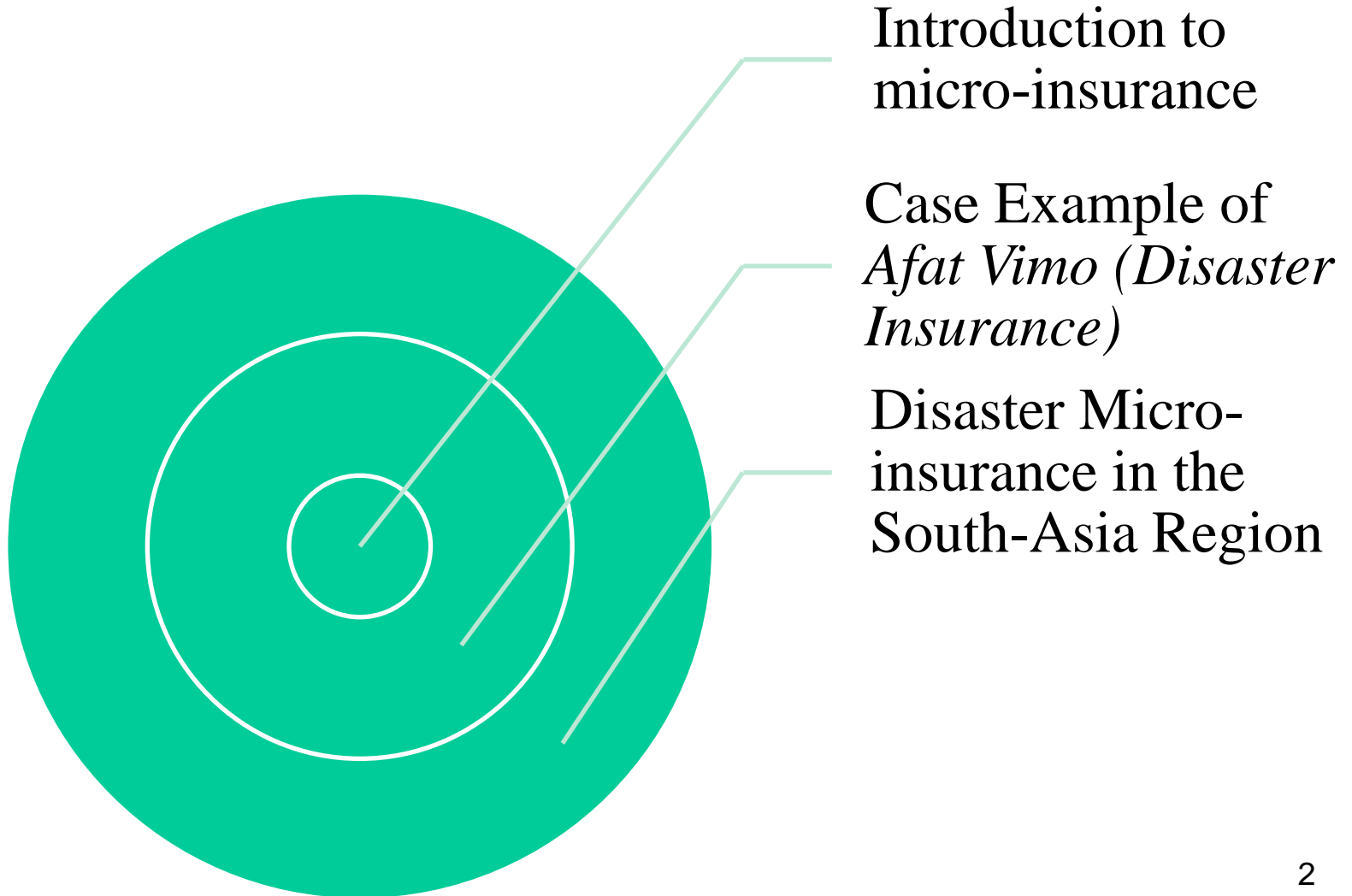
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**Global Development Learning Network, September 16,
2010**



Overview





Introduction to Micro-insurance

- Working definition: “the **protection of low-income people** against specific perils **in exchange for regular premium payments** proportionate to the likelihood and cost of the risk involved”
- There is growing interest in this topic: many believe that insurance can form a critical part of a comprehensive disaster risk management strategy
- Often current mechanisms do not reach the poor. Humanitarian actors initially provide relief and leave to provide relief to someone else. Therefore, after this relief, communities are still exposed to risk.



Some Useful Facts....

- Each year, India suffers disaster losses of US\$1 billion according to World Bank studies.
- And on average, direct natural disaster losses amount to 2% of India's GDP and up to 12% of central government revenues. (Lester and Gurenko 2003).
- *Financial losses to disasters in Asia have significantly less coverage than losses experienced in America and Europe.*
- *It is estimated that globally 80% of disaster-related losses are uninsured (Dlugolecki and Hoekstra 2008)*



Case Example of *Afat Vimo* (Disaster Insurance)



Afat Vimo: The Scheme

- *Afat Vimo* (Disaster Insurance).
- Covers life (Life Insurance Corporation of India) and non-life losses (United India Insurance Co. Ltd).
- One-time upfront premium. The annual premium is approximately three days' wage for the client.
- The scheme covers losses or damages to house, stock-in-trade, loss of work due to accident and death of earning family member up to Rs. 75,000 (\$1900).
- The scheme spreads risks across disaster events, communities, occupational groups and geographical areas. More than 3700 clients in Gujarat.



Client Profile

- Mostly disaster affected.
- All low-income families.
- All in low-income areas.
- Men and women both.
- Mostly micro businesses.
- Assets worth Rs.13000 on average.
- Annual incomes Rs.16000 to Rs.24000.
- Family involvement.



Coverage

Maximum liability for lost life	Rs. 20,000 (\$416)
Maximum liability for damage to house	Rs 10,000 (\$208)
Maximum liability for damage to house contents	Rs 10,000 (\$208)
Maximum liability for stock-in-trade	Rs. 10,000 (\$208)
Maximum liability for personal accident	Rs. 25,000 (\$520)
Total Coverage	Rs. 75,000 (\$1560)



Relevance to DRM

- Client is a disaster victim.
- Intermediary is disaster mitigation agency.
- Coverage is for 19 types of disasters (includes fire, riots, strike, storm, cyclone, flood, tornado, landslide, earthquake, aircraft damage, typhoon, lightening to name a few).
- Includes micro-mitigation measures such as revolving fund in Bhuj, fire safety in schools, and capacity building inputs to clients.



Main Challenges

- Low levels of private sector player interest. Focus on high premium and low volume.
- Setting up operational systems for collection and settlement.
- It is a great struggle to do such projects as pilot, even more difficult to upscale
- Caution about all marketing no service experience.
- Insurance is one of the most difficult financial services to provide as it involves issues of accurate risk pricing, fraud, moral hazard and adverse selection (Barbin et al.)



Scheme Performance

- Disputed claims: 65 claims have been rejected since the start of the program due to incomplete documentation.
- The scheme is clearly welcomed by client and there is pressure to extend it. The renewal rate is around 80%.
- The insurance companies have proved to be quick in resolving claims (average about 20days).
- The main value of micro-insurance lies in limiting the indebtedness that can quickly arise around an event such as death, accident or disaster. It does not so much take people forward as prevent them from slipping back.

Disaster Micro-insurance in the South Asia Region

*Emerging Findings from Client Impact
Evaluations*



ProVention/IIASA study (2006)

Disaster Insurance for the Poor?

A review of microinsurance
for natural disaster risks
in developing countries



A ProVention/IIASA Study

Reinhard Mechler and Joanne Linnerooth-Bayer with David Peppiatt

July 2006



Key challenges...

1. Making it affordable: many schemes require subsidies
2. Questions whether we are really reducing long-term disaster risks?
3. Do the organizations providing micro-insurance scheme have financial backup? i.e. Reinsurance

Client Impact Evaluations

1. To test empirically whether and how disaster micro-insurance works or does not
2. Does it work to reduce long-term risks?
Alleviate the poverty trap?
3. What are the costs for all players?
Organization, clients, reinsurance?

Partner Organization Snapshot

	Basix	DMI	Yasiru	Proshika	SEWA
Country	India	India	Sri Lanka	Bangladesh	India
Scheme	Crop insurance	Disaster insurance	Crop insurance	Savings scheme with disaster coverage	Crop insurance
Clients	50,000+	3,700	7,000 families 25,000 individuals	100,000+	900
Reinsurance	Yes	Yes	Yes	No	No
Premium	\$1.60 to \$6.40 annually	\$4.30 annually	\$1-\$24 (Rs. 10/unit)	\$0.40-\$1.75/week or month	\$3/unit
Disaster Coverage	Crops; entrepreneurial assets	Assets, home, life, illness	Crops; illness, death, disability	Savings for illness, death, property	Crops 14

Methodology

Partner Selection

- Organizations in the South Asia Region
- Providing micro-insurance schemes for disaster losses
- 3-5 years experience administering disaster micro-insurance product

Client evaluation process

- Surveying for **each** organization
 - 300 clients and 100 non-clients (control)
- Random sampling of clients with distribution across sex, age, geographic area, profession, urban/rural etc.
- Each survey takes 20-40 minutes
- Total 2000 surveys completed

Findings from Empirical Analysis

Are the insured any different?

Profile of insured clients in comparison to their counterparts:

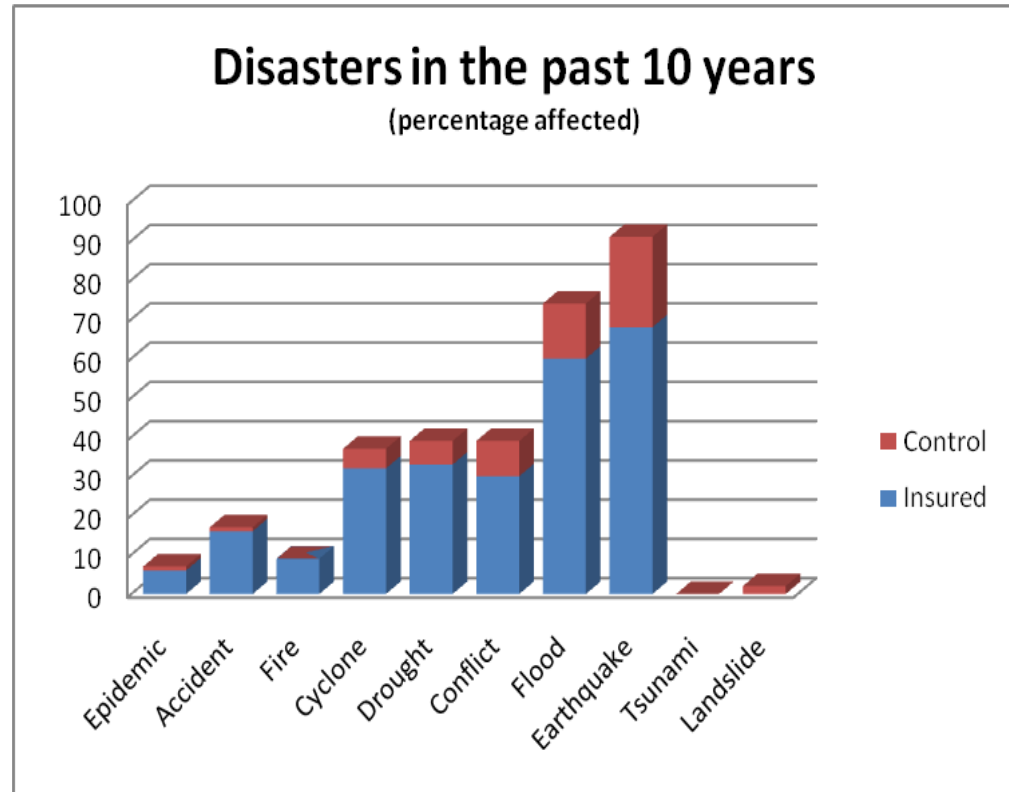
- Greater ratio of females
- Older
- Higher number of literate, but less educated
- Same income and debt levels: client population is representative of general population
- While majority of clients are above poverty line, they are hovering only marginally from it

	Insured	Control
Gender	51% female	40% female
Head of household	1% female	6% female
Age	Average age 42	Average age 40
Literacy	14% illiterate	10% illiterate
Income	Avg. HH income \$105/month Daily income of \$2.20	Avg. HH income \$126/month Daily income of \$2.87
Debt	Average debt \$301	Average debt US\$268

What are their current coping strategies?

Profile of insured clients in comparison to their counterparts:

- The insured form a population that are more frequently affected by disasters
- Post-disaster coping mechanisms include:
 - Selling land or home
 - **Borrowing money (35%)**
 - Salary advance
 - Migrating
 - Selling livelihood items
 - Selling livestock
 - Eating less
 - Changing profession
 - Borrowing food
 - Taking out money from savings
 - Taking kids out of school
 - Sending kids to work
 - Sending kids elsewhere
 - Reducing expenditure



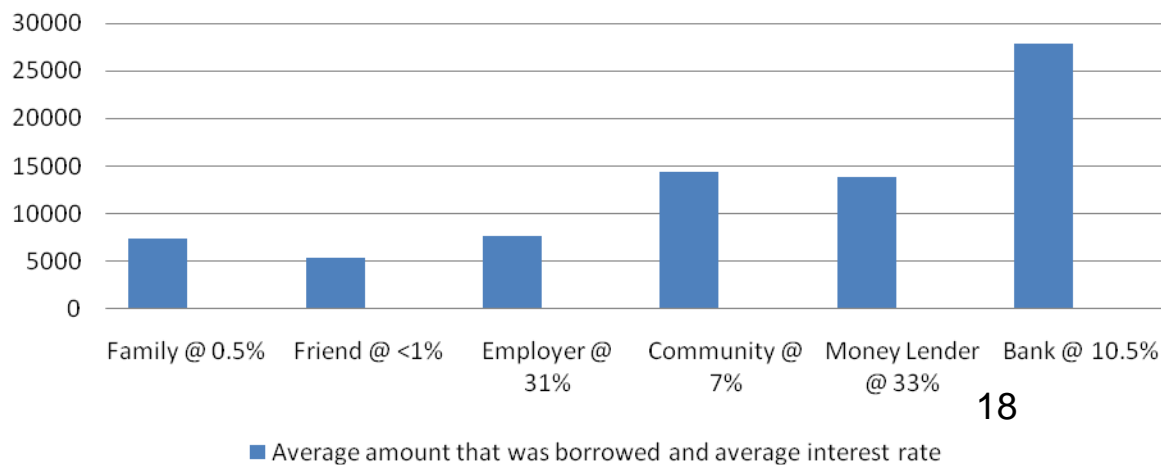
Is it easy for them to borrow money?

- For 70% it is difficult to borrow money after a disaster
- Findings show that friends and family are in similar situations and do not have money to lend
- For those that did take out loans, the larger loan amounts were only available through the Bank, community and money lenders at interest rates between 7-33%
- Family and friends are lending smaller amounts at nominal or no-interest and more people are resorting to this type of lending
- The Bank interest rates for loans is 10.5%, from money lenders 33%, community at 7%

Is it easy for you to borrow money after a disaster?

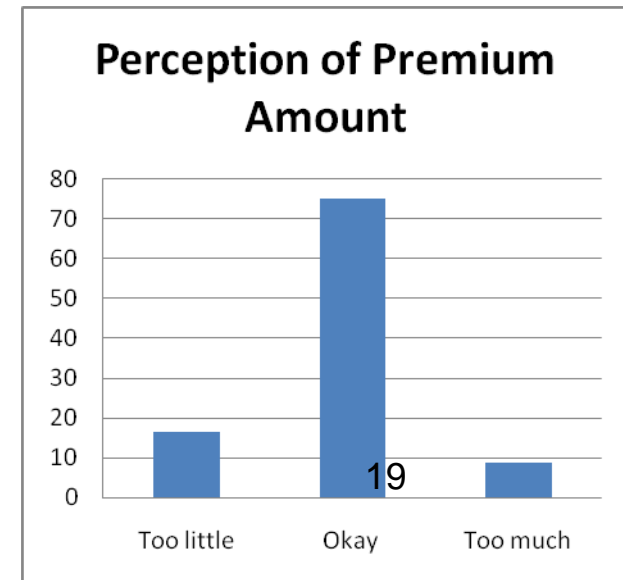
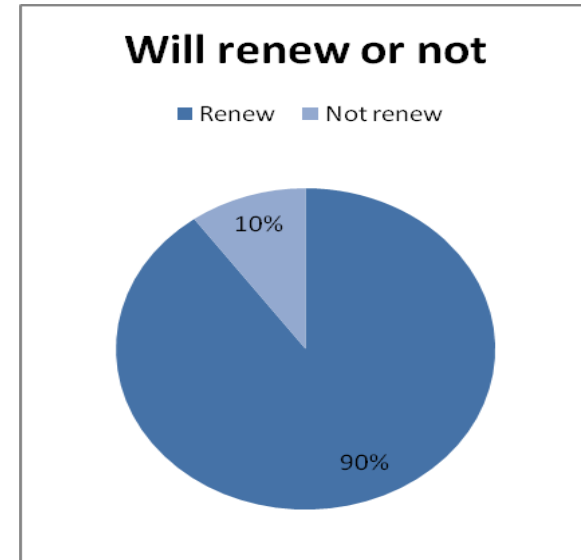


Actual borrowing after a disaster:



Are products doing their job?

1. Overall, high levels of client satisfaction
2. Less satisfaction on claims process
3. Majority (90%) will renew policy
4. 75% think premium amount is fine; 8% too much
5. Of the clients that filed a claim and received money, the majority (44%) indicated that they received it within 1 month of filing the necessary paper work. However, a large number also received it after 2 months (26%), or 3 months (30%).





Some other findings

- Does it help clients get back to work faster?
 - The number of working days lost due to a disaster event is, on average, 68 days for the insured and 66 days for the control group.
- Does it help clients building back better?
- What are the opportunity costs?
- Does it help reduce poverty?
 - Nearly 85% responded positively
 - Approximately 32% believed that it could lessen the need to borrow money after a disaster at least a little
- Are they aware of the risks that they faces?
- Do they participate more in DRR?
- Is it really working?
 - One indicator would be client referrals.
 - By far, a large number of respondents (81%) think that insurance should be promoted



Key Recommendations

- Risk comes at poor people from many angles and it is only by a combination of savings, credit, organization and so on that they can be overcome.
- Support the growth of micro-insurance to ensure that disasters do not become “debt traps” for the poor.
- Micro-insurance is not a panacea for disasters. There is a need to reduce risk.
- Promote the review of organizations’ claims processes.
- Look for the biggest critic.

Thank you.