CLOSING THE PROTECTION GAP: SCALING-UP MECHANISMS TO SUPPORT THE MOST VULNERABLE AFTER NATURAL DISASTERS

CARICAD
Caribbean Centre for Development Administration

CCRIF SPC
The Caribbean Catastrophe Risk Insurance Facility

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Areas of Focus and Terms to be Disussed

- The Natural Hazard Landscape in the Caribbean
- Impacts of Natural Disasters and Climate Change
- Shock Responsive Social Protection
- Examples of Initiatives Geared towards Supporting the Most Vulnerable in the Region following Natural Disasters
- Closing the Protection Gap
- Microinsurance Schemes
- Sovereign Level Insurance Schemes and their roles In reducing vulnerability

The Natural Hazard Landscape in the Caribbean

- Vulnerable to storms, cyclones, flooding and landslides, earthquakes, tsunami
- Intrinsic economic, environmental and social vulnerability, limited natural resource base, significant competition between different kinds of land use, a high level of dependence of major economic sectors that rely on the natural environment, fragile ecosystems, limited institutional capacity and low levels of insurance coverage
- High concentration of people and infrastructure located in the coastal zones, further increasing vulnerabilities to hydro-meteorological events and climate change

The Impact of Natural Hazards in the Caribbean

- According to Moody's, the average annual damage from natural disasters over 1980-2015 was 1.5% of GDP in emerging markets vs. 0.3% of GDP in developed economies. The average share of affected population over the same period was 3.0% in emerging markets vs. 0.4% in developed economies.

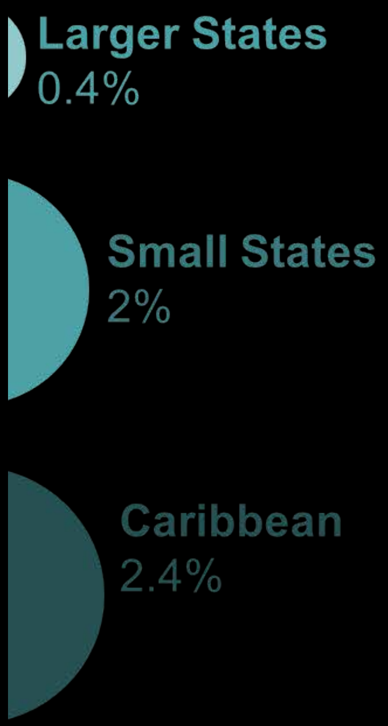
- Among the 20 most vulnerable countries globally, more than half represent small island states across the Caribbean and Pacific Regions. These 20 countries bear average losses between 20.1% and 2.1% of their respective GDP every year. The countries in the Caribbean that are referenced include Belize, Jamaica, The Bahamas, St. Vincent and the Grenadines.

- Immediate access to liquidity is critical for governments and individuals post disaster is critical

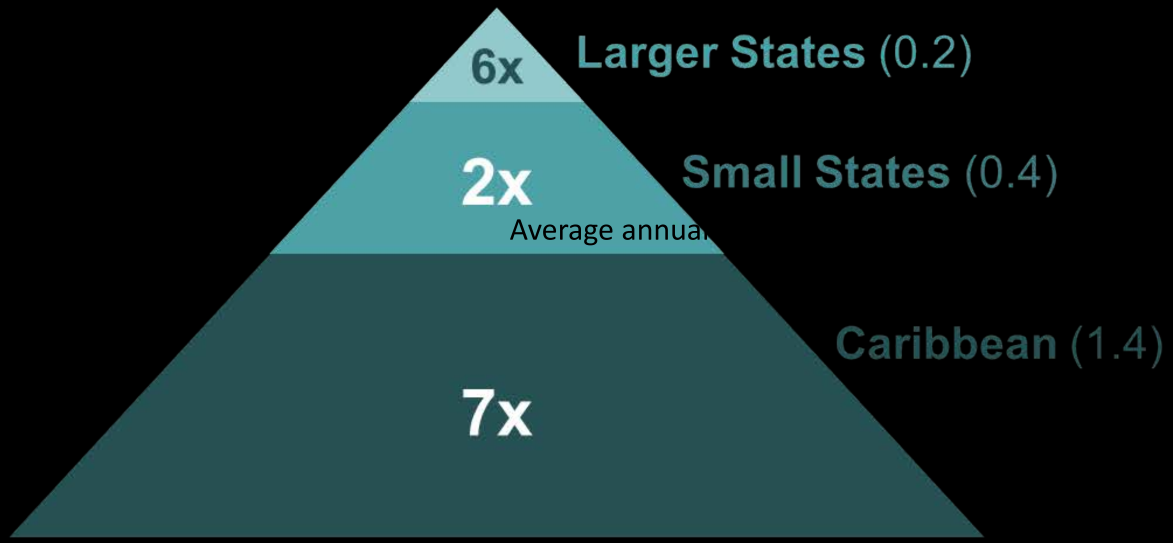
Economic costs of natural disasters for Latin America and the Caribbean have increased dramatically over the past century…

- **The frequency of hazards and disasters is increasing**
- **The Caribbean region is one of the most disaster-prone regions in the world**
- **Small developing states are disproportionately vulnerable to natural disasters**
- **Mortality resulting from disasters seems to be decreasing; Economic costs of disasters are rising precipitously**

Impact on GDP



Disaster Frequency



Impacts of Natural Disasters on People

Case Example: Hurricane Maria, 2017

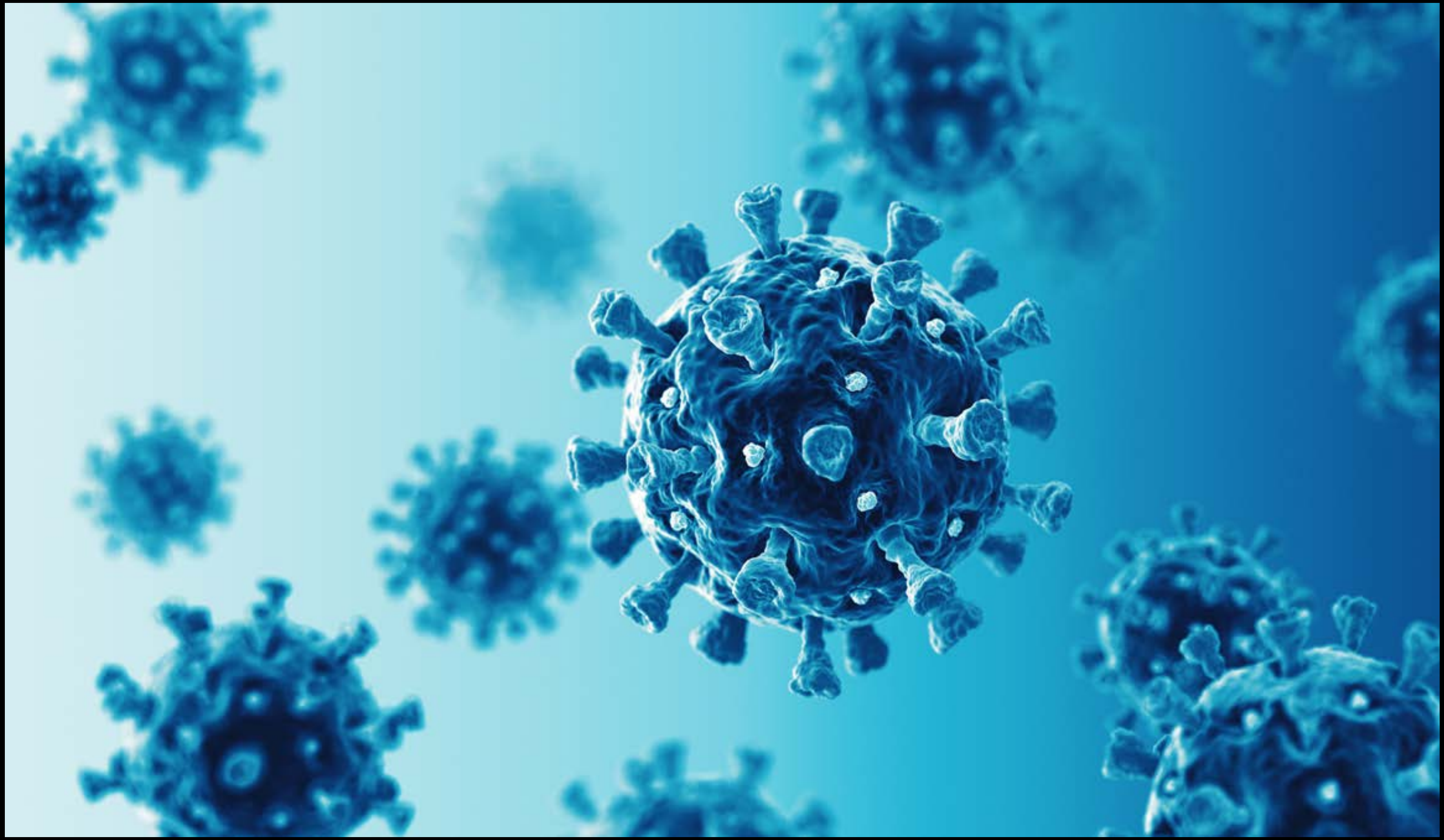
- Hurricane Mitch devastated Dominica in 2017
- Estimated damages totaled approximately US$931 million and losses another US$380 million. This amounts to almost 225% of their 2016 Gross Domestic Product (GDP)..
- But the impact is more than the US$1.31 billion in damage and loss. 93% of the population was affected including the 30 persons who lost their lives and the 34 who went missing.
- Damage to the country’s housing stock — 15% totally destroyed, 75% partially damaged — at an estimated cost of US$382million.
- Damage to critical infrastructure — roads, bridges, water systems, electricity, telecommunications.
- Impact on the agriculture and tourism sectors which are critical for supporting food security, economic activity and providing a livelihood for thousands.
- It is also the uncalculated loss of ecosystem services provided by watersheds, wetlands and coral reefs.

Identifying Vulnerable Groups – Some Examples

- Persons living in poverty – below the poverty line and immediately above the line
- Small scale farmers, fishers, seasonal workers, day labourers
- Micro and small business owners
- Women and girls
- Unattached youth
- Persons with Disabilities
- Children living in poverty, barrel children , children with disabilities, girls – including teenage girls, children in state care, unattached youth – including street children, and children living with HIV/AIDS

Climate Change and Disasters —

- **Climate Change** changes the magnitude and frequency of extreme events
- **Climate Change** changes average climatic conditions and climate variability, affecting underlying risk factors
- **Climate Change** generates new threats, which a region may have no experience in dealing with



Linking Natural Hazards and Vulnerable Persons

- We first need to understand the notion of exogenous shocks
- An exogenous shock is an event or development coming from outside of the system itself that has great effects on an economy and on people.
- Examples include wars, natural disasters, new technology, demographic events like a baby boom, pandemics such as COVID-19

How can we support the most Vulnerable to cope?

- Making Social Protection Systems Shock Responsive Social Protection and Adaptive
- Closing the Protection Gap – the Role of Insurance
- Introduction of Microinsurance Mechanisms
- Sovereign Level Insurance Mechanisms that target the most vulnerable

Social Protection Systems

- Social protection is a set of policies and programmes aimed at at preventing or protecting all people against poverty, vulnerability and social exclusion throughout their lifecycle, with a particular emphasis towards vulnerable groups. (UNICEF)
- It encompasses a wide range of interventions – both contributory and non-contributory – serving different functions and objectives
- Social protection policies and programmes are most often designed to address typical risks faced by individuals and households along their lifecycle.

Shock Responsive Social Protection

- Shock responsive social projection is about improving the shock responsiveness of social protection systems
- ‘Shock responsive’ social protection aims to extend the types of risks covered to include additional, challenges which often impact many households at once such as natural hazards, economic crises, health crises (COVID-19) and conflict that also play a critical role in determining life outcomes.
- When shocks are recurrent, protracted or severe, they destabilize household economies, making a return to normal life very challenging
- Shock responsive social protection also is about building resilience – taking action before an exogenous event – focusing on preparedness and also looking at how to financially protect oneself and family
- Shock responsive is different from emergency response that uses social protection systems
- Creating strategies across all aspects of the SP system to scale up the response to shocks – to anticipate risks and put mechanisms in place before it happens

Making Social Protection Systems More Responsive to Shocks

- Social protection systems are usually good at dealing with crises
- The “shock” in shock responsive usually refers to covariate shocks – affecting many people at once – more people needing help at the same time; loss of income, effects to infrastructure reducing access to safe places, work etc; lack of access to certain services including schools; inability to work etc.
- Find opportunities for social protection systems and programmes to play a bigger role in responding to shocks, given their objectives of reducing vulnerabilities and building resilience.
- Social protection entities can be key to preparing for, responding to, and mitigating the impact of shocks

Closing the Protection Gap… The Role of Inclusive Insurance for Vulnerable Groups… Shock Responsive SP Strategy

- The protection gap – Insured losses - uninsured losses (-) – getting wider due to varying exogenous shocks
- "Inclusive insurance" encompasses many different approaches to reaching the unserved, underserved, vulnerable, or low-income populations in emerging markets with appropriate and affordable insurance products.
- These range from microinsurance for people with very little disposable income to new products and services for an emerging middle class around the globe who have not been served by traditional insurance (e.g for housing).
- Most are parametric based as opposed to being indemnity based insurance products

Linking Insurance & Social Protection

- **Risk Layering**

- **Target different groups**
  - Safety net for most vulnerable
  - Insurance for those who can afford it

- **Faster Cash Transfers**
  - Index-based insurance
  - (Forecast based financing)

- **Contingency financing mechanism for governments to temporarily scale up shock-responsive social protection in anticipation or response to a shock.**
  - Increase either the value or the duration of benefits (vertical expansion)
  - Increase the number of beneficiaries flexibly to include people affected by a crisis (horizontal expansion)

- **Hybrid products**
  - Combining macro-insurance solutions
  - Government pays all or a partial premium with social safety nets
  - May be appropriate when trying to target the 'bottom of the pyramid' poor

Microinsurance – A Risk Management and Social Protection Mechanism

- Microinsurance is the protection of low-income people against specific perils/risks in exchange for premium payments proportionate to the likelihood and cost of the risk involved
- Factors such as financial illiteracy, lack of education, poverty prevent many from properly mitigating this risk – making them perpetually poor.
- Microinsurance helps to shield vulnerable people with inadequate earnings against certain risks such as death of family members, accidents, diseases and natural disasters.
- Today, microinsurance is recognized as a means of providing financial security and enable lower income families to access insurance against natural disasters and other exogenous shocks

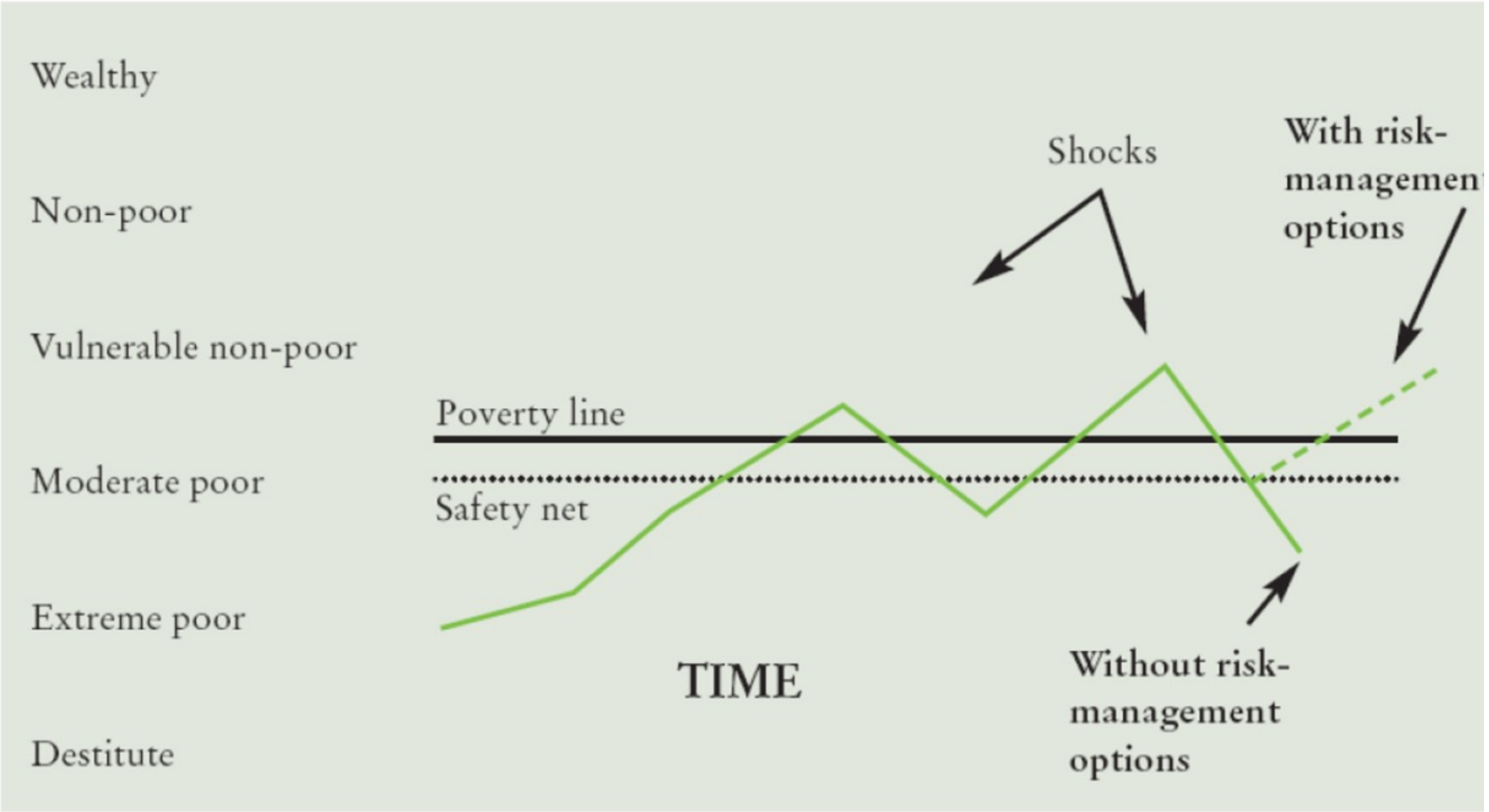
How does Microinsurance Help Vulnerable People

- Microinsurance is intended to provide some stability to the financial situation of vulnerable, low-income individuals after a disaster through the injection of quick liquidity, thereby allowing then to avoid adopting coping strategies that could lead them deeper into poverty.
- It will help people whose livelihoods are affected, without them having to wait for help from “external” sources like the Government. It would enable farmers for example to have a source of immediate funding to undertake activities such as replanting, draining fields and reconstructing irrigation systems
- Could improve the credit worthiness of individuals in the long term, giving them access to financial services that they previously may not have had access to
- Microinsurance is a clear example of proactive planning for DRM at the individual level

Role of Insurance for Low Income Groups

Role of Microinsurance (inclusive insurance)

Impacts of shocks on household income and assets



Source: Protecting the poor – A mircoinsurance compendium, edited by Craig Churchill, Munich, Geneva, 2006, page 25

Microinsurance can be effective in shielding the poor against financial hardships resulting from medical emergencies and natural disasters. Not having adequate insurance coverage not only increases the vulnerability of the poor households to financial loses but also causes them mental anxiety. Thus microinsurance gives them greater confidence in facing such exigencies. Given the high proportion of people living below the poverty line in the Caribbean, microinsurance holds a much potential. Microinsurance schemes are meant to enable the poor and marginalized population to buy insurance at affordable rates.

Importance of Microinsurance and Key Benefits

Often the only option available to protect against setbacks

- Example: Farmer has crop losses, smooth consumption, prevent the sale of productive assets

Opens up investment opportunities

- Insured entrepreneurs are able to better manage their financial situation and can take riskier productive decisions
- Example: Tourist operators can expand their business via a loan knowing that if something unexpected were to occur and impact their income, the insurance will provide a safety net

Importantly – it helps avoid the poverty trap

Two Examples of Linking Social Protection and Insurance in the Caribbean

Two main products supported and/or developed by CCRIF:

- Sovereign Product with microinsurance features developed for fishers under COAST Project with support from governments
- Key partner in the Climate Risk Adaptation and Insurance in the Caribbean (CRAIC) Project (Livelihood Protection Policy - LPP)

CCRIF 101

- CCRIF is the world's first multi-country multi-peril risk pool based on parametric insurance and provides parametric catastrophe insurance for Caribbean and Central American governments.

- CCRIF operates as a not-for-profit organization and currently provides its products and services to 19 Caribbean governments and 3 Central American governments – and one electric utility company.

CCRIF 101

- Unlike indemnity insurance, CCRIF's parametric insurance products are insurance contracts that make payments based on the intensity of an event and the amount of loss calculated in a pre-agreed model caused by these events.

- CCRIF represents a cost-effective way to pre-finance short-term liquidity to begin recovery efforts for an individual government after a catastrophic event, thereby filling the gap between immediate response aid and long-term redevelopment.

Microinsurance - Climate Risk Adaptation and Insurance in the Caribbean project

The Livelihood Protection Policy

- Targeted at individuals, the LPP is designed to help protect the livelihoods of vulnerable low-income individuals such as small farmers, tourism workers, fishers, market vendors and day labourers, by providing quick cash payouts following extreme weather events (specifically, high winds and heavy rainfall).
- Essentially, the livelihood protection policy is designed to reduce vulnerability and sustain the livelihoods of low-income communities… towards closing the protection gap

International Labour Organization's Impact Insurance Facility, DHI with support from the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Pilot countries: Belize, Grenada, Jamaica, Saint Lucia, and Trinidad & Tobago

The LPP

It is a parametric weather index-based insurance product

It combines risk reduction and insurance for low-income groups

It covers high rainfall and high winds

It is intended to provide policy holders with funds within a short period of time – 10 to 14 days

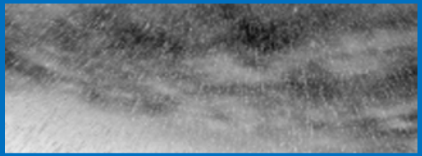
It provides individual payouts that are tied to a series of thresholds for wind speed and rainfall

It uses an information system that uses mobile text messages to inform clients quickly if a policy is triggered

What is the Livelihood Protection Policy (LPP)?

- Parametric insurance product

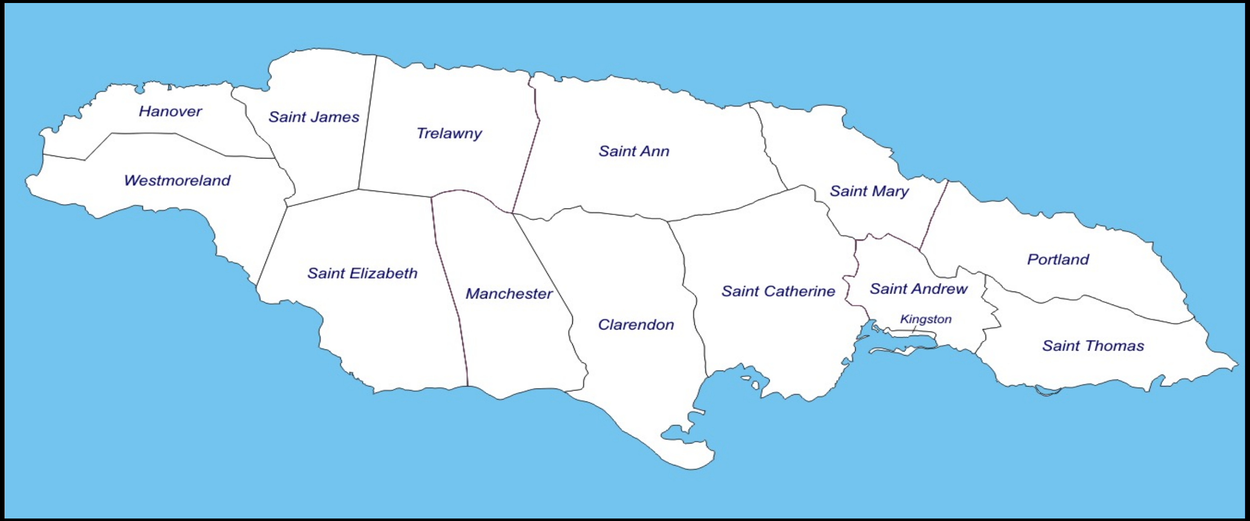
- Triggers are based on Excess rainfall & Strong wind speed (future: drought)



- **<u>Not</u> linked to a specific asset**
- Covers both actual and related losses

Microinsurance: providing market-based protection in exchange for premium payments proportionate to the likelihood and cost of specific perils involved.

How the LPP Works



Policies are triggered based on the values of wind speeds and rainfall levels. These “trigger values” are based on actual weather conditions in various areas and are different for policyholders depending on where they live. The insurance payout amount is calculated as a percentage of the amount of coverage that was purchased. The more extreme the event, the larger the payout.

Premium vs Payout Table

Annual Premium	Trigger 1 (Mild)	Trigger 2 (Moderate)	Trigger 3 (Severe)
6,600	7,500	17,500	50,000
13,200	15,000	35,000	100,000
26,400	30,000	70,000	200,000
66,000	75,000	175,000	500,000

Windspeed Triggers Per Parish
Avg. Wind (mph)

Parish	Trigger 1 (Mild)	Trigger 2 (Moderate)	Trigger 3 (Severe)
Hanover	51	77	89
St. Elizabeth	63	109	131
St. James	49	65	72
Trelawny	51	64	70
Westmoreland	61	88	101

Rainfall Triggers Per Parish
(mm within 24 hours)

Parish	Trigger 1 (Mild)	Trigger 2 (Moderate)	Trigger 3 (Severe)
Hanover	157	201	232
St. Elizabeth	212	274	318
St. James	180	233	269
Trelawny	173	224	259

Key Features of the LPP

Premium	Paid by the **individual**.
Claims	A pay-out (claim) requires no documentation or proof of loss and is made **within 10-days**
Flexible	**ANYONE** can buy the LPP regardless of occupation. Coverage is available for individuals **and groups**
Affordable	Polices sold in units where persons can **purchase their required amount** of coverage up to 10 policies/units
Coverage	A 10-day waiting period once the premium is paid, after which the insured party receives **protection for 12 months**
Basis Risk	There is a chance that the **pay-out calculated does not match** damages experience on the ground

LPP – Payouts

Payouts to policyholders

- Saint Lucia: First payouts made in January 2014, following a trough in December 2013 – ‘Christmas rains”.
- Saint Lucia: In 2016, small farmers and other individuals received payouts due to TC Matthew - 31 policyholders received payouts totalling US$102,000 - an average of US$3,290 per policyholder
- Jamaica: Policyholders received a payout following an excess rainfall event in May 2017 and in April 2018

The LPP and CCRIF are expected to support the Climate Risk Insurance in Developing Countries initiative of the G-7, which aims to increase the number of people with access to direct or indirect climate risk insurance coverage by up to 400 million by 2020

Role of Stakeholders in Microinsurance

Governments

- Incorporate microinsurance as part of social protection strategy or within local government departments purchasing group policies and using payouts to assist the most affected individuals or communities (purchase blocks of policies)
- Provide subsidies for policy premiums or waive the premium taxes or GCT/VAT
- Incorporate microinsurance/LPP into existing government rebates and subsidies for the fisheries sector or agriculture sector
- Require purchase of LPP as part of registration process for farmers, MSMEs etc.
- Include insurance requirements in fisheries policies, agriculture policies or in MSME policies
- Sensitize vulnerable persons/low-income persons to the importance of insurance and these new microinsurance products in general

Cooperatives and NGOs

- Could purchase group policies on behalf of members and could use shares to pay for premiums
- Support the idea of microinsurance and sensitize members and communities

Role of Private Sector and NGOs

Local Insurance Companies

- Bringing the concept to market
- Collecting and using data for risk assessments
- Social Impact by increasing access to insurance which helps beneficiaries avoid the poverty trap

Other Private Sector Partners

- Supporting distribution frameworks to reach widest range of customers often located in remote areas (example partnerships with MNOs)
- Maximizing position within the value chain (e.g. a milk production company connection to farmers)

Role of the Regulator

- Microinsurance products focus on the poor, and thus may need special consideration as compared to traditional insurance regulations.

- Addressed in some markets by creating microinsurance-specific regulation or the granting of special exemptions to established standards.

(1) Creating Enabling Frameworks

- Tax exemptions or reductions in fees
- Lower capital requirements
- Revision of sales agent and/or distribution channel requirements

(2) Consumer Protection

- Supervision of stakeholders and product distribution practices
- Acceptable basis risk levels & basis risk management protocols
- Establishing protocols for dealing with complaints

Challenges of Offering Index-based Microinsurance

- **Pricing the product**
  - Providing affordable risk-transfer for individuals and commercially viable to insurers
  - High frequency events such as excessive rainfall result in disproportionately high insurance premiums
- **Limits to insurance as a tool to manage climate risk**
  - Lowest income groups often unable to access market-based insurance, unless premiums are subsidized or other supporting measures are provided
  - Non-weather related risks are not covered
- **Education is needed on insurance**
  - Need to explain the premium/trigger/payout mechanism and the basis risk.
  - Frequent payouts vs. meaningful payouts & cost
- **Distribution and Scaling up**
  - Relatively small populations
  - Reaching target market in rural areas and who do not participate in financial systems
  - Requires commitment by private, local insurers to increase risk awareness and overcome the reluctance to buy insurance

✓ **Governments can play a key role –**

  ✓ Link to reducing poverty and vulnerability and social protection strategy

COAST INSURANCE

- A parametric insurance product providing quick payouts
- Supports the livelihoods of fishers
- Designed to support governments' efforts to rapidly put money into the hands of those impacted by extreme weather, providing them with **immediate** economic relief.
- Policy includes mechanism for disseminating payout to beneficiaries in the fisheries sector
- Promotes a culture of building back better to enhance coastal community resilience after an extreme weather event
- The insurance policy and payouts are based on full transparency and accountability

C|O|A|S|T

NEW

In force since July 1st, 2019

In Grenada and Saint Lucia

Some C|O|A|S|T Highlights

First ever climate risk parametric insurance developed for the fisheries sector spearheaded by the Caribbean. Caribbean is the first region globally to develop and implement a parametric climate risk insurance products for the fisheries sector. For the first time, vulnerable fishing communities will have access to insurance developed specifically for their needs.

First time insurance coverage of "bad weather" events, in addition to covering tropical cyclones. COAST innovates in covering losses attributed to fisherfolk due to "bad weather" events, defined as high waves and occurrence of heavy rainfall throughout the policy year. The "bad weather" model will be considered for the first tier, while the tropical cyclone model for the second and third tiers of the insurance.

First time tracking of parametric insurance payouts at the scale of individual beneficiaries. Through the predefined procedures for payout transfers, COAST allows for tracking the flow of funds down to the level of the beneficiaries, with a financial management and auditing system in place.

COAST – a catalyst for promoting resilience in the fisheries sector, leading to a stronger blue economy in the region. COAST will reduce the risk that climate change poses to food security in the fisheries sector, and incentivize policy reforms for the uptake of climate smart fisheries practices as well as coastal resilience. This will build a stronger foundation for the blue economy, while supporting the livelihoods of those who depend on this valuable marine natural capital.

COAST encourages inclusiveness and participation of women. COAST is intended to be inclusive and benefits all participants in the fisheries sector, including crew members, captains and/or boat owners, and especially fish vendors and processors who are mostly women. The list of beneficiaries was predefined by the governments as per COAST Operational Manual.

Rapid transfer of payouts to fisherfolk. CCRIF SPC payouts will be channeled through the Ministry of Finance of the participating countries within 14 days of the covered event, followed by a rapid transfer to the fisherfolk.

New partnerships developed to support COAST. CCRIF SPC and the Caribbean Regional Fisheries Mechanism (CRFM) have signed a MOU to support COAST and develop climate-resilient fisheries and aquaculture industries in the region.

CCRIF Payouts to Date

48 payouts totalling US$94 million made to 14 member governments

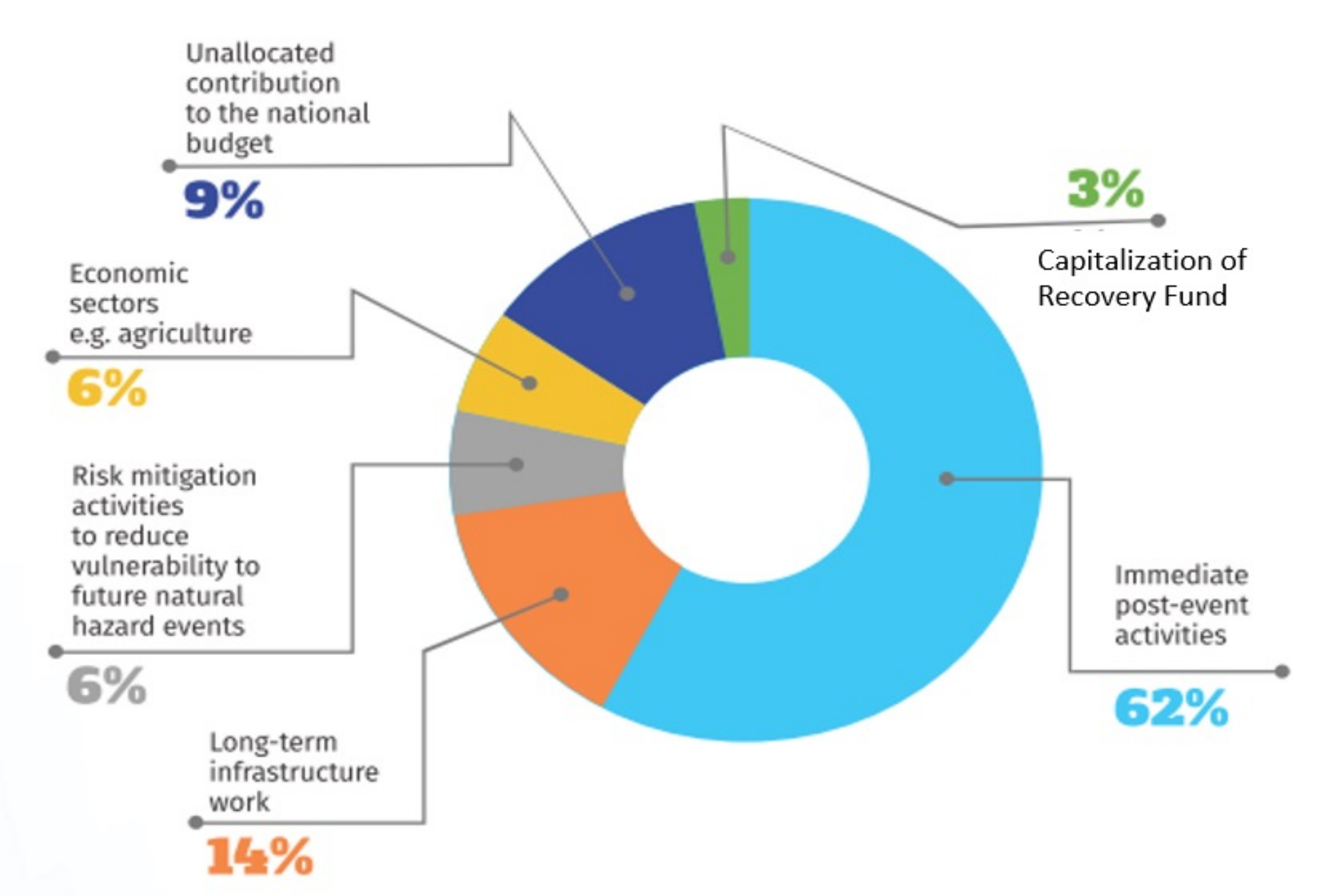
Latest Payouts

to Haiti after Tropical Cyclone Laura: US$7.45 million

Nicaragua following Eta and Iota

All payouts made within 14 days

Use of CCRIF Payouts



Approximately 2.5 million persons have benefitted from CCRIF payouts since 2007

Global Growth of Microinsurance

In India from 200 farmers to over 20 million over 10 years

This has ben supported by the government in terms of subsidy crops for a variety of crops

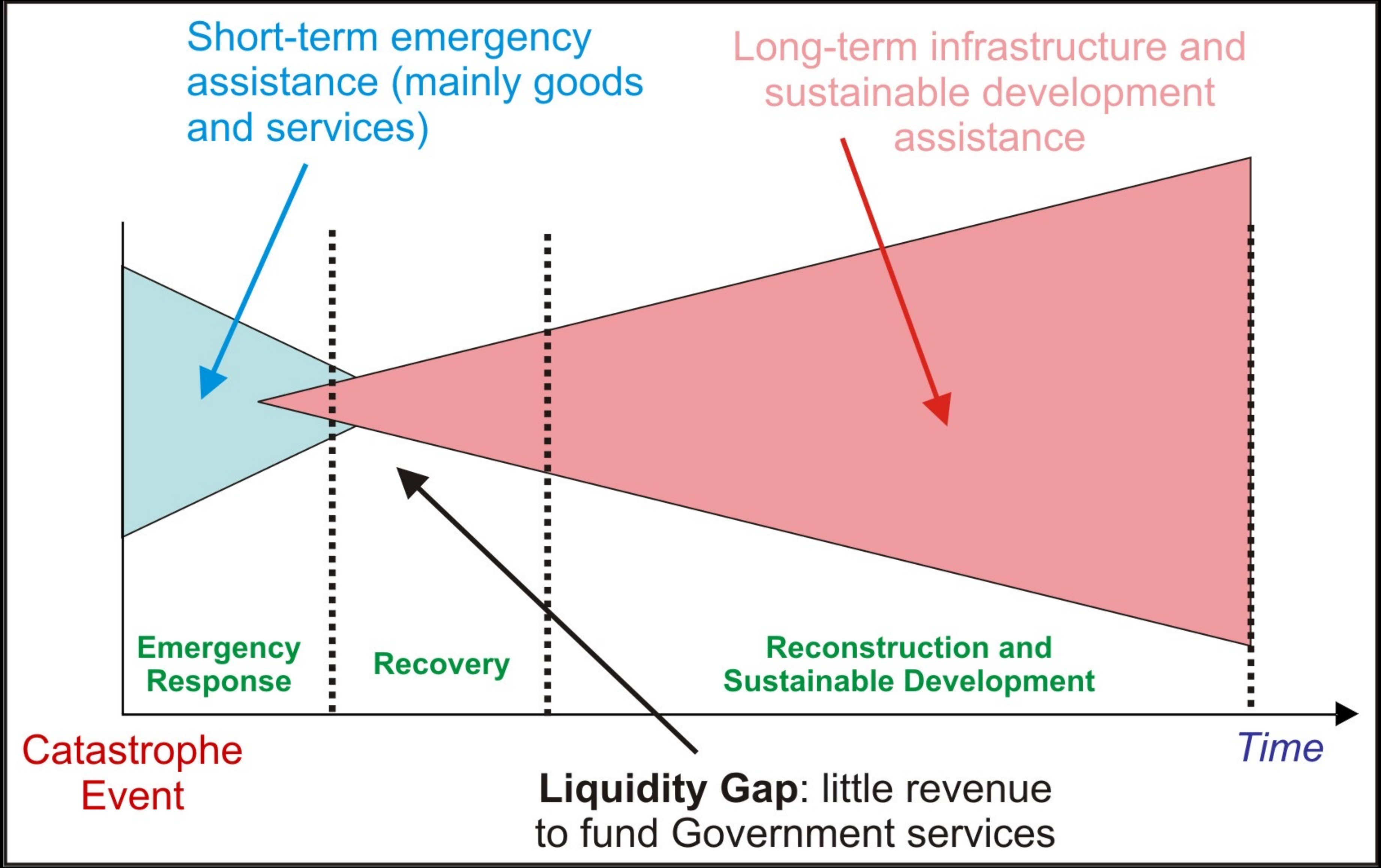
Global Growth of Microinsurance

Swiss Re covers over 2 million farmers in Africa for weather and catastrophe risks through various programmes

Global Growth of Microinsurance

The Global Index Insurance Facility (GIIF) supports over 350,000 farmers through projects across Africa and Asia

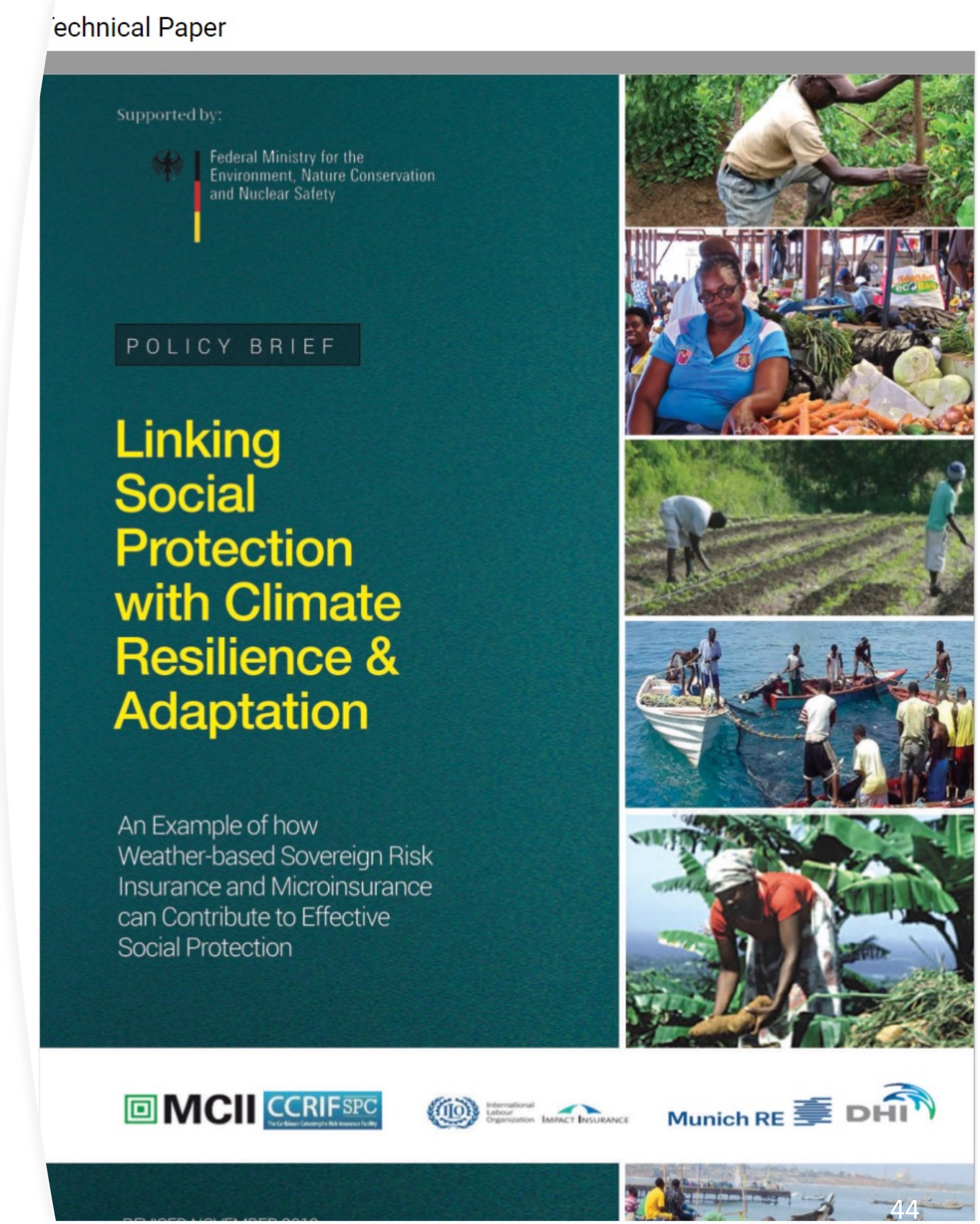
After A Disaster: Liquidity Gap



Alignment of Insurance to Agenda 2030 – Sustainable Development Goals (SDGs)

Resources on Linking Social Protection and Climate Resilience

- http://www.ccrif.org/en/publications/technical-paper/policy-brief-linking-social-protection-climate-resilience

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