



CASE STUDY IN DISASTER RISK REDUCTION

HABITAT FOR HUMANITY INDIA'S DISASTER RISK REDUCTION INSURANCE



Habitat for Humanity India's, Disaster Risk Reduction Insurance

Organizational Information

Anchored by the conviction that housing provides a critical foundation for breaking the cycle of poverty, **Habitat for Humanity India** works with low-income, marginalized families to build homes, to provide housing-related services and to raise awareness for adequate housing and sanitation. Since its inception in 1983, HFH India has touched the lives of 1,34,893 families across 20 states. **Habitat for Humanity India's** long term strategic goal for 2015-19 is to impact the lives of 5,00,000 families in their dream of living in a safe and a decent home.

Habitat for Humanity India is part of Habitat for Humanity International - a global non-governmental organization - that seeks to eliminate poverty housing and to make adequate shelter a matter of conscience and action. Habitat for Humanity works with people of all backgrounds, races and religions to build houses together in partnership with families in need.

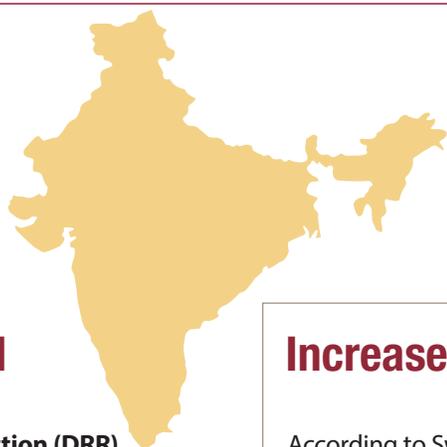
Microinsurance— is the protection of low-income people (those living on between approximately \$1 and \$4 per day) against specific perils, in exchange for regular premium payments proportionate to the likelihood and cost of the risks involved. Microinsurance for disaster risk mitigation—is an important component of financial inclusion for communities vulnerable to various natural or man-made disasters like earthquakes, floods, fires and riots, among others. Yet, there is much evidence from recent disasters (particularly in Asia) that microinsurance products are not reaching vulnerable communities at risk for the most significant losses resulting from disasters.

As part of its disaster risk reduction solutions, **Habitat for Humanity India (HFHI)** is piloting a disaster insurance product to complement and enhance social security measures within its beneficiary communities. The goal of

this comprehensive insurance policy is to provide asset and property coverage against a wide range of natural and man-made perils and extend coverage to both the beneficiary and their family members. The product is delivered in partnership with the Indian insurance carrier HDFC Ergo General Insurance, Ltd. (acting as the service provider) and K. M. Dastur & Company (KMD) as the private Bombay-based insurance broker and reinsurer. Multiple NGO partners in various geographies serve as insurance agents who assist with selling the product, filing claims and coordinating the payments. HFHI facilitates the process through capacity building, fundraising and assistance with product development in partnership with KMD. The goal of the pilot is to enroll 5,000 families in three Indian states (Odisha, Andhra Pradesh and Tamil Nadu). To date, 4,000 applications have been received, 200 applications have been processed, but no claims have yet been made.



Instead of insurance, the poor often rely on savings, depleting or mortgaging their land and assets, emergency loans from microcredit institutions, or money lenders.



Background

Disaster Risk Reduction (DRR)

efforts have evolved significantly over the past ten years. Initially, governments and international disaster management organizations adopted reactive approaches for disaster mitigation, centered around humanitarian aid and emergency response. Today, approaches are more proactive. Public and private organizations, including financial service providers, are creating products and services to equip low-income households in disaster-prone areas with easily accessible and affordable insurance products that can be used for repair or reconstruction of homes, to recover losses to their businesses, or to re-acquire small-scale assets and livestock in the event of a natural disaster and emergency situations. This has led to an increased interest in the potential of insurance as a core tool for DRR. Increased interest in disaster insurance stems from the fact that it offers a dignified means for communities to cope with disaster as opposed to relying on donors or money lenders. Disaster insurance is gaining global recognition as an effective mitigation tool.

In India, the regulatory authority's pro-poor insurance regulation now requires formal insurance providers to service the low-income segment of society. Currently, only 1% of households and 3% of businesses in low- and middle-income countries have insurance coverage for catastrophic risks compared to 30% in high-income countries¹. Instead of insurance, the poor often rely on savings, depleting or mortgaging their land and assets, emergency loans from microcredit institutions, or money lenders. Many struggle to recover from these financial shocks, trapping households in a vicious cycle of poverty. Disaster insurance provides a means to break from this cycle by providing a strategy for coping with simultaneous losses of life, health and property.

Increased Need for Disaster Insurance in Asia

According to Swiss Re's Sigma 2016 report on natural and man-made catastrophes, Asia has had the highest concentration of natural and man-made disasters for the past three years. In 2015, Asia experienced a total of 159 natural and man-made disasters, causing a loss of 18,916 lives and \$37.7 billion in economic losses; among these losses, only US\$7 billion (19%) were insured. In India alone that year, heavy monsoon rains caused severe flooding, resulting in losses of at least \$US2 billion with reported insurance covering less than \$US 0.8 billion².

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) reported that in 2014 over half of the world's 226 natural disasters occurred in the Asia-Pacific Region. This resulted in over 6,000 fatalities, while also impacting longer term livelihood and wellbeing for nearly 80 million people in addition to economic losses amounting to nearly US\$60 billion³. The most significant events include Cyclone Hudhud, which affected India with estimated property damages at US\$7 billion and less than 1% insured.

This data represents only a fraction of past and projected losses from disasters. The fact that only a small amount of economic loss is covered by insurance makes it clear that there is gap in disaster insurance services, disproportionately affecting low-income communities. As such, there is growing awareness in India about the importance of microinsurance for building resiliency. Prominent actors like SEWA and Concern India have begun experimenting with disaster insurance as a means of social protection for their clients.

¹ Munich Re, 2005. Natural Disasters According to Country Income Groups 1980-2004. Munich Re NatCatSERVICE, Munich

² Sigma, Natural Catastrophes and Man-made Disasters in 2015: Asia Suffers Substantial Losses, retrieved from http://reliefweb.int/sites/reliefweb.int/files/resources/sigma1_2016_en.pdf

³ United Nations Economic and Social Commission for Asia and the Pacific, Disasters in Asia and the Pacific: 2014 Year in Review, retrieved from <http://www.unescap.org/news/enhanced-regional-cooperation-key-building-resilience-floods-and-landslides>

Habitat for Humanity's Approach to Disaster Insurance

HFHI has years of experience providing shelter in tandem with disaster response and risk reduction services. The increasing frequency and severity of disasters has stimulated HFHI to strengthen disaster preparedness in the communities they serve. In September 2015, HFHI partnered with HDFC Ergo General Insurance, Ltd. and K. M. Dastur & Company (KMD), a Bombay-based private reinsurer and broker, to launch an initiative that would increase the availability of disaster insurance products and services in the market. The initiative seeks to provide products that respond to poor and marginalized communities living in the disaster-affected and -prone areas by covering both:

- Damages to households and assets, and
- Personal accidents

The goal is to offer a comprehensive insurance policy that not only provides asset and property coverage against a wide range of natural and man-made perils (including severe storms, typhoon, earthquakes, fire, riots, strikes and malicious damage) but that also covers the insured and their family members against accidental death and permanent disability. In the pilot phase, HFHI plans to engage 5,000 families from 3 States (Odisha, Andhra Pradesh and Tamil Nadu). Initially, the product was rolled out in 5 districts of Chennai—a site severely impacted by devastating floods in 2015. HFHI plans to roll out the product to all flood affected/prone areas, and to ultimately make the insurance compulsory for all HFHI-supported houses located in these areas.

Core Product and Features

PLANS, COVERAGE AND PREMIUM PER PERSON

| PLANS | PLAN I | PLAN II | PLAN III | PLAN IV | PLAN V |
|---|----------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|
| PROPERTY DAMAGE | 50,000 (US\$750) | 100,000 (US\$1,500) | 150,000 (US\$2,245) | 200,000 (US\$2,995) | 250,000 (US\$3,740) |
| PREMIUM | 30 (\$US0.45) | 60 (\$US0.90) | 90 (\$US0.90) | 120 (\$US1.80) | 150 (\$US2.25) |
| PERSONAL ACCIDENT INSURED PERSON | 25,000 (US\$375) | 25,000 (US\$375) | 25,000 (US\$375) | 50,000 (US\$750) | 100,000 (US\$1,500) |
| NON-EARNING SPOUSE | 12,500 (US\$187) | 12,500 (US\$187) | 12,500 (US\$187) | 25,000 (US\$375) | 50,000 (US\$750) |
| CHILD (1) | 10,000 (US\$150) | 10,000 (US\$150) | 10,000 (US\$150) | 20,000 (US\$300) | 40,000 (US\$600) |
| CHILD (2) | 10,000 (US\$150) | 10,000 (US\$150) | 10,000 (US\$150) | 20,000 (US\$300) | 40,000 (US\$600) |
| INSURED PERSON | 20 (\$US0.30) | 20 (\$US0.30) | 20 (\$US0.30) | 40 (\$US0.60) | 80 (\$US1.20) |
| NON-EARNING SPOUSE | 10 (\$US0.15) | 10 (\$US0.15) | 10 (\$US0.15) | 20 (\$US0.30) | 40 (\$US0.60) |
| CHILD (1) | 10 (\$US0.15) | 10 (\$US0.15) | 10 (\$US0.15) | 15 (\$US0.22) | 30 (\$US0.45) |
| CHILD (2) | 10 (\$US0.15) | 10 (\$US0.15) | 10 (\$US0.15) | 15 (\$US0.22) | 30 (\$US0.45) |
| SERVICE TAX | 11 (\$US0.16) | 15 (\$US0.22) | 20 (\$US0.30) | 29 (US\$43) | 46 (\$US0.70) |
| PREMIUM (IN INR) | 91 (US\$1.36) | 125 (\$1.87) | 160 (\$2.40) | 239 (\$US3.58) | 376 (\$US5.63) |

Premium INR (\$US)

In 2015, HFHI, HDFC Ergo and KMD launched the pilot featuring five different insurance plans. Premiums (including government taxes) range between Rs 91 (\$US1.36) to Rs 376 (US\$5.63) annually, depending on the coverage. Clients have the option to choose between plans based upon their capacity to pay, risk perception and number of family members insured.

Scope of Coverage

PROPERTY DAMAGE INSURANCE

- Fire
- Lightning
- Explosion/implosion excluding loss, destruction of or damage caused by centrifugal forces
- Aircraft damage – loss, destruction or damage caused by aircraft, other aerial or space devices and articles dropped there from
- Riot, strike and malicious damage– loss of or visible physical damage or destruction by external violent means directly caused to the property insured
- Storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation – loss, destruction or damage directly caused by storm, cyclone, typhoon, tempest, hurricane, tornado, flood or inundation
- Impact damage – loss of or visible physical damage or destruction caused to the property insured due to impact by any rail/ road vehicle or animal by direct contact
- Subsidence and landslide including rock slide
- Bursting and/or overflowing of water tanks, apparatus and pipes
- Missile testing operations
- Bush fire including loss, destruction or damage caused by forest fire
- Earthquake – fire & shock
- Burglary, housebreaking including theft

PERSONAL ACCIDENT INSURANCE – COVER FOR FAMILY ONLY

This section covers insured and their family members against accidental death and permanent disablement

THE DISABLEMENT

COMPENSATION EXPRESSED AS A PERCENTAGE OF TOTALS

| | |
|--|------|
| • Permanent total disablement | 100% |
| • Permanent and incurable insanity | 100% |
| • Permanent total loss of two limbs | 100% |
| • Permanent total loss of sight in both eyes | 100% |
| • Permanent total loss of sight of one eye and one limb | 100% |
| • Permanent total loss of speech | 100% |
| • Complete removal of the lower jaw | 100% |
| • Permanent total loss of mastication | 100% |
| • Permanent total loss of the central nervous system or the thorax and all abdominal organs resulting in the complete inability to engage in any job & the inability to carry out daily activities essential to life | 100% |
| • Permanent total loss of hearing in both ears | 75% |
| • Permanent total loss of one limb | 50% |

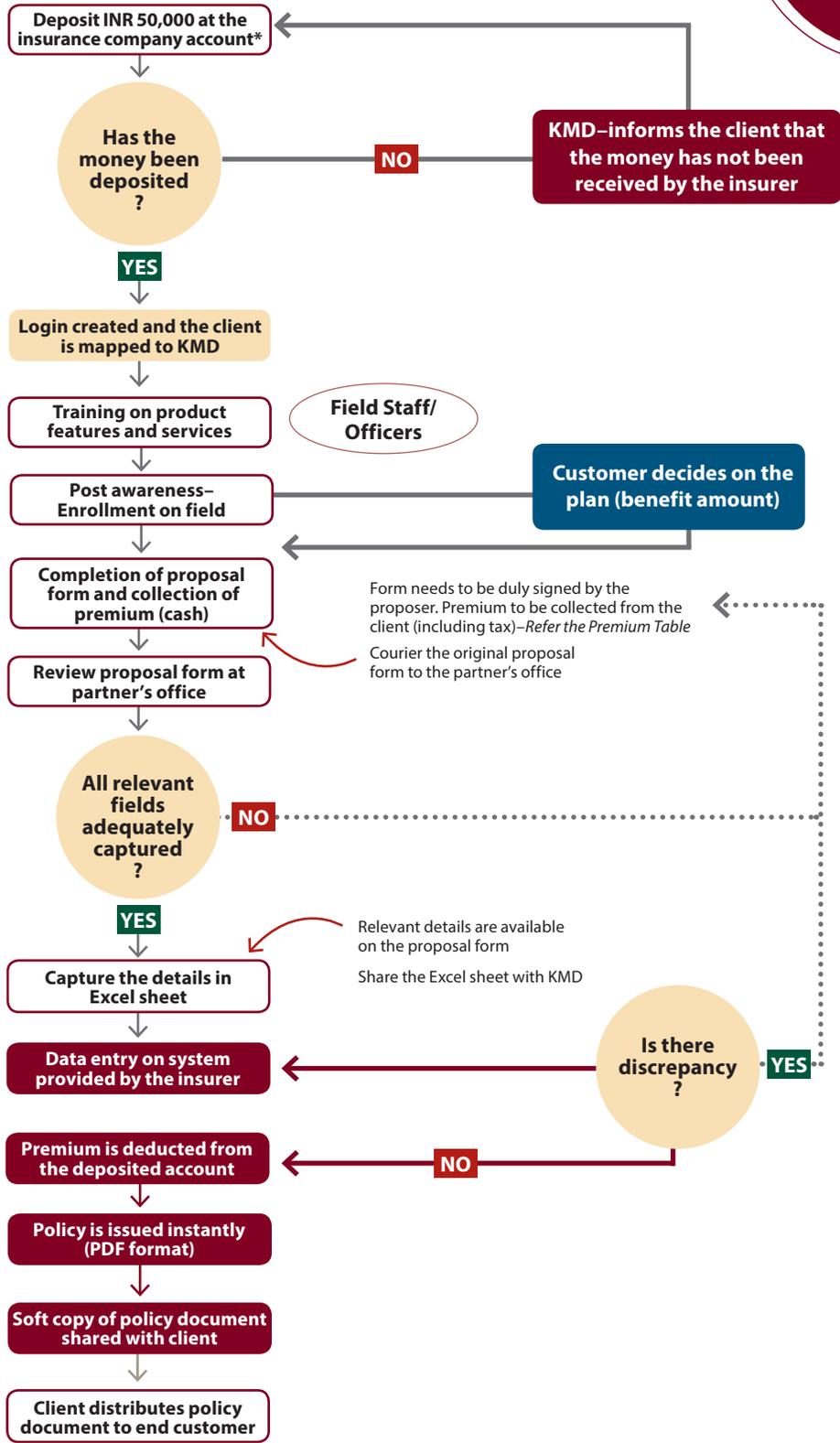
EXCLUSIONS

This Policy does not cover:

- Damage to property due to pollution and contamination
- Loss or damage due to wear and tear, gradual deterioration or slowly developing flaws
- Consequential loss
- Willful misconduct or negligence
- Glass breakage while premises is under construction or while the glass is being removed for
- Fines, penalties, punitive or exemplary damages or any other damages resulting from the multiplication of compensatory damages
- Loss and/or damage to jewelry, precious stones, money, bullion or documents of any kind unless specifically declared.
- Burglary and/or housebreaking or theft by family members
- Damages to livestock, motor vehicle and pedal cycles

Claim Settlement Process

PROCESS MAP—PROPERTY INSURANCE + PERSONAL ACCIDENT



Summary of Key Stakeholders and Roles

HFHI conceptualized the project and worked to mobilize support from the donor community and other supporting institutions in the form of technical and organizational assistance for feasibility studies, data acquisition, risk assessments, product design and public-private partnerships. HFHI acts as a facilitator—bringing together NGO partner organizations, the insurance service provider, the insurer broker and customers. HFHI provides capacity building support to NGO partners around community mobilization, financial literacy messaging about insurance products and claims process. The NGO partners in turn act as insurance agents or master policy holders—filing claims with the insurance company on behalf of beneficiaries. **HDFC Ergo** covers the risk and **KMD** is the technical partner for product design with overall facilitation from HFHI. Current NGO partners include REAL – Rural Education and Action for Liberation, Kalvikendra, BLESS, World Vision India, IRDRP - Institute of Research and Development for the Rural Poor, BWDA – Bullock cart Workers Development Association, ATSWA – Annai Theresa Social Work Association, Integrated Rural Community Development Society, and Shanti Nilayam.

In the pilot phase, HFHI's main role is to design a DRR product with the involvement of a private insurance player and set up a system for implementation in the field through field-based partners. Scale up possibilities include increasing the number of partners and end benefi-



ciaries within the HFHI system, with HFHI continuing to be a facilitator for some time until the market takes over. If experience demonstrates that there is potential to scale, this could easily be replicated by MFIs or NGOs working in vulnerable geographies who often act as certified master policy holders. The chart below provides more detail on stakeholders and their roles.

Key Stakeholders

| Stakeholder | Role in the process |
|----------------------|--|
| *Partner NGOs | Mobilize communities; communicate with Self Help Groups (SHGs); Document losses and estimate value of losses; Facilitate claims processing; Validate documentation and client signatures |
| HFHI | Product development in partnership with HDFC Ergo; Train partner institutions |
| HDFC Ergo | Insurance service provider |
| KMD | Consultant supporting HFHI in product development, market survey, inflow charts and login. KMD is also the reinsurer for HDFC Ergo. |

Emerging Outcomes

HFHI realized the importance of insurance and its necessity as a DRR strategy in the wake of the 2004 tsunami. After much research and planning, the idea was mainstreamed into HFHI's country strategy and business plan for disaster risk mitigation in 2014. HFHI initially focused on insuring livelihood tools, then subsequently incorporated household and personal accident insurance as these overlap with HFHI's housing mission.

During the pilot phase, 10 partner institutions were involved and this led to increased awareness of insurance benefits among all of their clients. To date 4,000 applications have been received, and 200 applications have been processed. As there was no disaster in the pilot locations, no claims have been filed yet.

Financial education is key to generating awareness about the importance of disaster insurance and spurring demand for this type of product. The process has generated tremendous demand. People also are realizing the benefit of restoring assets and livelihoods in the immediate wake of crisis, as they are struggling to rebuild lives and livelihoods. The financial literacy component teaches communities how to save premiums for the future. As a result, this year, most members are paying their premiums from their own savings. In cases where the beneficiary is unable to pay, HFHI is covering the premium.

Lessons Learned

- Risk premiums are expensive. The market for this product is immature and unregulated, meaning there is high risk for the insurer due to insolvency and defaults on claims in the case of extensive and repeated disasters. Therefore, the product must be priced accordingly.
- When priced to cover the higher costs associated with this particular market segment risk, the resulting product becomes very expensive and can make the collection of premiums from clients a difficult task.
- SHGs play a vital role in communication. Engaging SHGs as key market actors in the initial phase of the initiative helps to ensure community strengthening, as members came together to learn, plan, discuss and eventually file applications.
- NGOs or any responsible licensed authority must take the lead as the main point of contact for clients. While volunteers are extremely helpful in facilitating the insurance process in the initial stages, responsibility must rest with the NGO to ensure that the claim process is efficient and does not lead to unnecessary delays.
- A stable insurance product with adequate premium options is a requirement to increase uptake and reaching scale. Premium collection centers are a good option for unregulated markets. Online premium collection is not a feasible as the low income sections of the population generally does not have access to the internet.
- Working directly with clients is the best way to understand the risks.



About SEEP

SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their life.

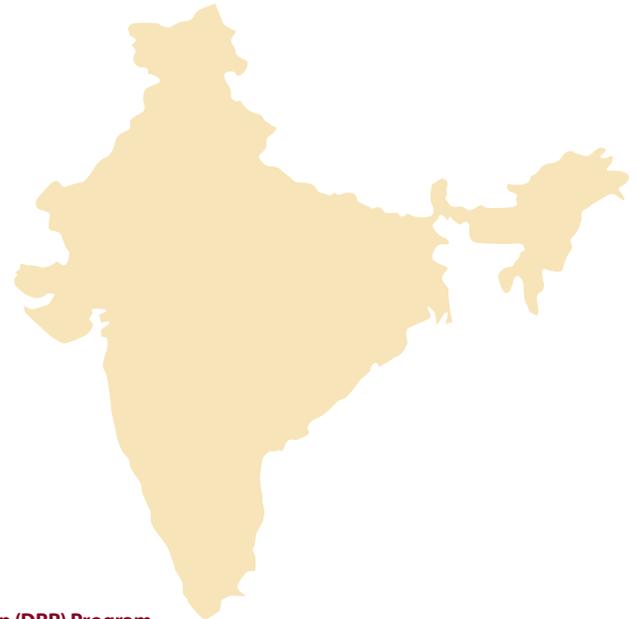
Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades, our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact. For more information, visit www.seepnetwork.org.

About Citi Foundation

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. They invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill its mission and drive thought leadership and innovation.

For more information, visit www.citifoundation.com.



About the Disaster Risk Reduction (DRR) Program

The goal of the Disaster Risk Reduction (DRR) Program is to improve the resiliency of financial service providers serving vulnerable populations, as well as that of the communities they serve. The program aims to create awareness of the need for disaster preparedness in financial services markets and to build a general consensus among key stakeholders around effective disaster risk reduction practices. As a result, the program will strengthen the capacities of financial service providers and their clients to anticipate, cope with, and recover from the negative impacts of disasters. The DRR Program has been co-designed and funded by the Citi Foundation. For more information, visit seepnetwork.org/DRR.



About the Author

Sonali Chowdhary is an economic development professional with over 16 years of experience in financial inclusion, agri-value chains, housing finance, business strategy and institutional development. She gained expertise in microfinance and livelihoods with BASIX (an Indian MFI) where she managed field operations and provided advisory support to emerging MFIs. Later she joined SEEP Network and led a large multi-country urban value chain project as enterprise development practice head. Since then, she has been associated with Habitat for Humanity International as a consultant and provides technical support to MFIs and housing finance companies in product design, strategy and market development in South and East Asia. Sonali has also consulted for FAO, World Bank, UNDP and USAID in livelihoods, skill development and agri-value chain projects. Sonali was a DFID scholar at the University of Bath UK where she received her master's degree in international development. She holds an MBA from Indian Institute of Forest Management and post graduate degree in agricultural sciences from Acharya NG Ranga Agricultural University.

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