A Global Learning Network

Markets that provide opportunities for all people to engage and prosper.

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Increasing the Resiliency of Vulnerable Populations through Index-Insurance Products

March 15, 2016 10:00 – 11:00 am (EST)

Paula Pagniez
Swiss Re

Andrea Camargo,
MiCRO

William Martin,
Catholic Relief Services
1. Welcome - SEEP and the DRR Project
2. Panel Introductions
3. Swiss Re: Index Insurance Solutions for Emerging Consumers
4. MiCRO: MiCRO’s Expansion into Central America
5. Catholic Relief Services: Replica Insurance in Senegal
6. Wrap up and Closing Q&A
Our Mission

Markets that provide opportunities for **all** people to engage and prosper
Goals

To improve the resiliency of financial service providers serving vulnerable populations as well as the communities they serve.

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.

To strengthen the capacities of financial service providers and their clients to anticipate, cope, and recover from the negative impacts of disasters.
Meet the Panelists

Paula Pagniez
Swiss Re

Andrea Camargo,
MiCRO

William Martin,
Catholic Relief Services
1. Welcome - SEEP and the DRR Project
2. Agenda and Introductions
3. AKAM: Client-Centric Model
4. AKAM: First Microfinance Institution Syria (FMFI-S)
5. AKAM: The First Microfinance Bank – Afghanistan (FMFB-A)
6. Wrap up and Closing Q&A
VISION:
We make the world more resilient.

MISSION:
Together, we apply fresh perspectives, knowledge and capital to anticipate and manage risk. That’s how we create smarter solutions for our clients, helping the world rebuild, renew, and move forward.
"By the year 2020, Swiss Re commits to have advised 50 sovereigns and sub-sovereigns on climate risk resilience and to have offered them protection of USD 10bn against this risk."

Swiss Re CEO
Michel Liès
23 September 2014
We **structure** the solutions connecting global reinsurers to microinsurance beneficiaries.

We **underwrite** the programs taking the insurance risk on our balance sheet.

We **bring the best partners** to the table.
Examples of innovative risk transfer solutions

- **Alabama**: Hurricane risk
- **Caribbean**: Hurricane and earthquake risk
- **Turkey**: Earthquake pool
- **Bangladesh**: Meso flood insurance
- **Beijing**: Agricultural risk
- **Pacific Islands**: Earthquake and tropical cyclone risk
- **Mexico**: Earthquake/hurricane and livestock risk
- **Uruguay**: Energy production shortfalls due to drought
- **African Risk Capacity**: Government drought insurance pool (Mauritania, Senegal, Kenya, Niger Mozambique)
- **Kenya**: Drought insurance for seed growers
- **Ethiopia/Senegal**: Crop insurance for small scale farmers
- **India**: Weather insurance for farmers
- **Vietnam**: Agriculture yield cover
Parametric solutions

Parametric or index covers enable governments, microfinance institutions and other organizations pooling risks of a vulnerable population, to transfer some of their natural catastrophe exposure to the international insurance and capital markets:

- **Tailor-made approach** to deal with the economic costs of disasters
- The received funds can be used by the insured to provide relief to the affected population and/or to rebuild infrastructure. The *payout protects the insured's revenue gap* and thus ensures budget planning certainty
- This protection pays out a *pre-determined amount* in case of a natural disaster exceeding certain thresholds (e.g. magnitude of earthquake or windspeed)
- Trigger mechanism can be defined as a function of population affected by disaster
- **Claims are paid shortly after the event**, once official parameters of the event (e.g. magnitude, windspeed) are available
- Unlike insurance/reinsurance, there is *no need to evidence claims or prove losses*
- Innovative instrument sends positive *signal to the stakeholders and investors*
Advantages of (re)insurance and capital market solutions

• Efficient way to cope with the financial consequences of natural catastrophes and an unpredictable climate
• Guaranteed access to required funds for recovery, up to agreed cover limits
• Speedy delivery, especially with innovative instruments such as parametric solutions
• Pre-determined premium allows for budget planning certainty, particularly in multi-year contracts
• No payback obligation (in contrast to loans)
• Limits the pressure to divert own funds from other projects to affected areas
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6. Wrap up and Closing Q&A

SEEP Webinar

“Increasing the Resiliency of Vulnerable Populations through Index-Insurance Products”

MiCRO’s expansion in Central America

Andrea Camargo

Director of Regulation and Consumer Protection, MiCRO
Overview of MiCRO

- Barbados domiciled specialty reinsurer founded in 2011 after Haiti earthquake
- Focus on the offer of risk transfer solutions against natural catastrophes for the low income segments of population
- Insured individuals in Haiti from 2011-2013 with mixed success, meso-insurance products since 2013
- Expanding in Central America since 2014
MiCRO’s Business Model in CA

MiCRO

Swiss Re

Primary Insurer

Aggregator (MFI, Coop, etc)

Australian Aid

Multilateral Investment Fund
Member of the Oxfam Group

MiCRO
MiCRO’s Hollistic Risk Management Strategy

The MiCRO-insurance product + MiCRO’s added value program = MiCRO’s Risk Management Strategy

(i) DRR and CCA component
(ii) Component to promote the productivity and competitiveness of end consumers
(iii) Component to promote consumer empowerment
MiCRO’s Goals in Central America

- Achieve sustainable scale (at least 39,000 active policyholders by 2018)
- Focus on Guatemala, El Salvador, Honduras and Nicaragua

Challenges:
- Low income
- Insurance ranks low in priority list of individuals
- Lack of awareness about insurance
- Distribution in remote areas
- Cultural and language barriers
- Novelty of index-insurance products for clients, local partners and supervisory authorities
- Regulatory framework
- Weather station networks of moderate quality and access to data
The six premises of MiCRO to overcome the challenges

1. Insurance products should be affordable, transparent and provide quick payouts for catastrophic events to build trust.
   - Index-insurance product: Where the client receives a SMS when a payout is done

2. Perils to be covered should be perceived as priority by the clients and data to model products should be available.
   - Drought
   - Excess Rain
   - Earthquake

3. Consumers should be aggregated through distribution channels and should be empowered.
   - Clients of financial institutions who know what they are buying

4. Products should reach scale and are financially sustainable.
   - Wide insurable interest
   - Affordable
   - Linked to credit

5. Products should offer value added services that provide tangibility and promote Disaster Risk Reduction.
   - Low cost value added services leveraged by national and international partners

6. Local partners, supervisory authorities and regulators should be active participants of the initiative.
   - Capacity building of local partners and dialogue platforms with supervisors
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<th><strong>Our solution</strong></th>
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<td>1.</td>
<td><strong>Policyholder</strong></td>
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<td>5.</td>
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<td><strong>Benefit</strong></td>
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Building a “Minimum Viable Product” which Leads to a Real Breakthrough
Our solution

- **Empowered consumer**: Supporting informed purchases through the Financial Education Program + simple and catchy marketing materials and contractual documents.
- **Resilient consumer and aggregator**: Value added program providing DRR training for consumers and staff of aggregator, and transmission of weather warnings through SMS to clients.
- **Tangible product**: Appealing product with tangible benefits such as the 72-hour emergency kit.
Start Network and CRS experience with Replica Insurance in Senegal

SEEP Webinar on “Increasing the Resiliency of Vulnerable Populations through Index-Insurance Products”

William Martin, Technical Advisor Cash and Markets
Humanitarian Response Department, CRS
What is the Start Network?

Leading for change in humanitarian aid

We are

42 AGENCIES

from across

5 CONTINENTS

AND WE ARE NOT JUST DREAMING
OF A BETTER FUTURE...
WE ARE BEGINNING
TO DELIVER IT

Leading for change in humanitarian aid
Objectives of the Replica/Drought Financing Facility

**HOW DO WE GET FROM THIS...**
- We receive a warning
- We don't react
- People suffer
- And it is expensive

**TO THIS...**
- We receive a warning
- We act early
- Lives are saved
- And it saves costs
Approaches to Disaster Risk Financing

- **Securities**
  - Cat/Pandemic Facility

- **Insurance Products**
  - For severe, slow-onset crises like drought or floods

- **Credit Facilities**
  - For early response and early intervention

- **Start Fund with Anticipation Window**
  - For small/medium scale off the radar emergencies
Disaster Risk Financing Approach

- Science-based risk modelling that allows us to understand and quantify the risks of drought in our areas of operation.

- Scenario Based Response Planning that outlines what drought mitigation activities will be carried out when and by whom under different crisis scenarios.

- Pre-positioned financing to deliver response plans, including insurance mechanisms that automatically release funding based on pre-defined triggers of emerging major drought.
Catholic Relief Services
Catholic Relief Services

MACRO-LEVEL PARAMETRIC DROUGHT INSURANCE FOR EARLY, PRE-PLANNED AND COLLABORATIVE GOVERNMENT AND NGO RESPONSES TO EMERGING FOOD CRISIS

Joint contingency planning

African Governments

Start INGOs and in-country partners

Donors

Matching premiums paid by donor partners

Early warning information via ARV risk model

African Risk Capacity

Payouts received by Sovereign if triggered

Matching payouts received by the START Network if triggered

Coordinated anticipatory response by governments and NGOs to protect communities at risk
• Acting early saves lives, save cost and help with resilience of vulnerable population by intervening timely and at scale

• Risk financing is changing humanitarian landscape (financing scheme but also partnership with public and private sector)

• Risk pooling such as the ARC Replica scheme is different from micro-insurance (the payouts flow to the NGOs not directly to the individual)

• Risk financing schemes can potentially bring NGOs, governments and other stakeholders together to plan and prepare in advance of crisis

• The innovation is not the insurance but the careful risk management approach

• Steep learning curve for the insurance aspect, but NGO have critical skills for response on the field (particularly qualitative approach to balance scientific model) and very aligned with emergency preparedness work

• Need of funding for premium
Q & A

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