

Index based insurance as a tool for Disaster management

A study in South and South East Asia



Study by *MicroSave* in collaboration
with CDKN

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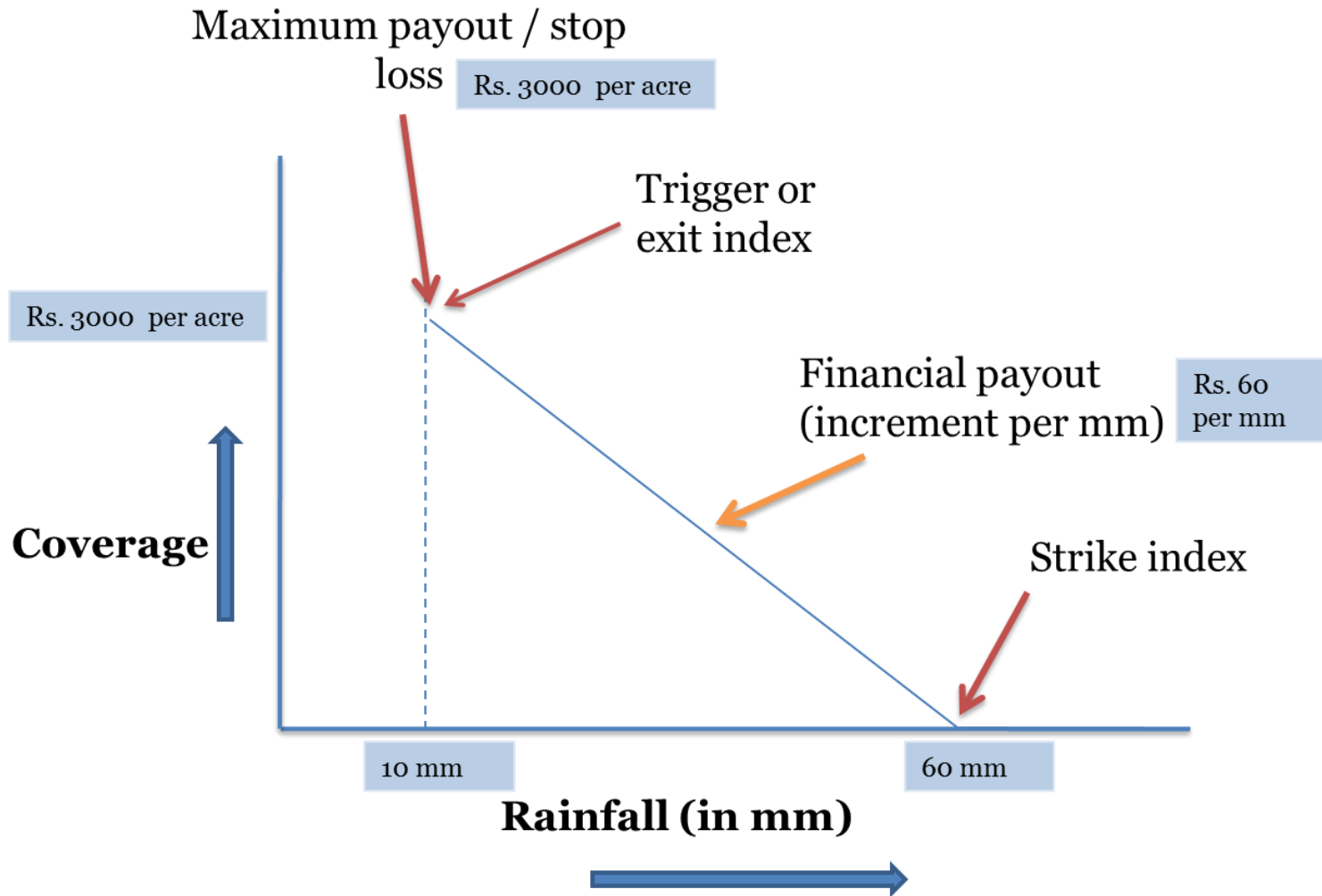
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Microinsurance products

- Traditional crop insurance
 - Yield-based crop insurance or Multiple Peril Crop Insurance (MPCI)
 - Damage-based indemnity insurance or Named Peril Crop Insurance
 - Area-yield index insurance
- Traditional disaster insurance policies such as policies against earthquakes, storms etc.
- Traditional livestock insurance
- Weather-based index insurance policies
- Livestock index insurance policies

Index Insurance Product



Traditional Insurance vs Index Insurance

	Traditional Insurance	Index Insurance
Assessment	Actual assessment	Proxy
Timeliness of payout	Slow	Faster
Financial sustainability	Unsustainable (historically)	Sustainable
Pricing	Non-actuarial	Actuarial
Cost	Cheaper	Expensive
Vintage	Longer	Relatively shorter

Scenario in South and South East Asia

India

Started by Private Players, Government Schemes Are Now Dominant

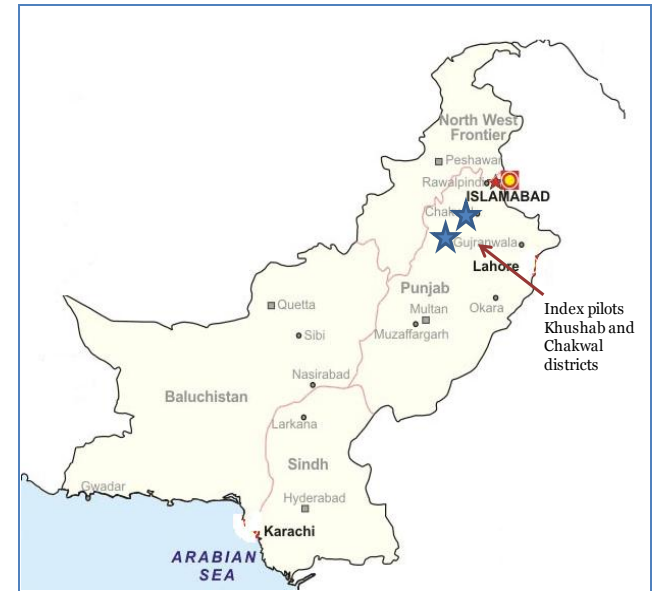
- Started 2003
- WBCIS is the most prominent scheme in India
- 14 states in Kharif 2011, 13 states in Rabi 2011-12; 35 different crops
- Public player AIC of India and 13 different private insurers



Pakistan

Donor Driven, Government is yet to Catch Up

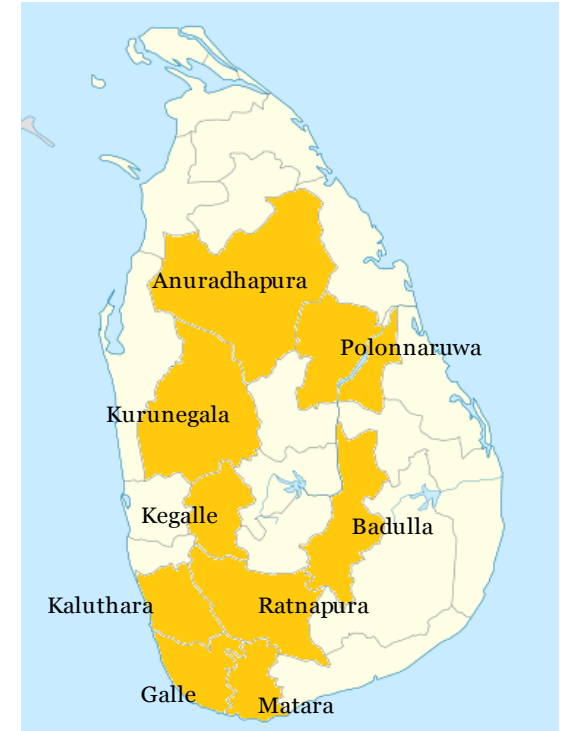
- Started 2012
- Pilot by PPAF and IFAD
- In Soon Valley and Talagang
- Insurance companies:
Alfalah and United Insurance



Sri Lanka

Entirely Donor Driven

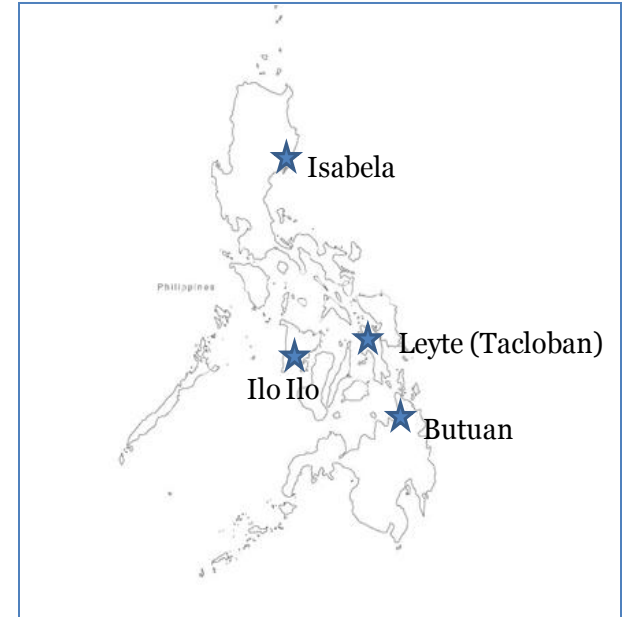
- Started 2008
- Pilot by ILO, DID and SICL in 2008
- In 2011, IFC's Global Index Insurance Facility (GIIF)
- Insurance company:
Sanasa Insurance Company Limited



The Philippines

Government and Donor Working Together

- Started 2011
- Philippines Crop Insurance Corporation (PCIC) collaboration with ILO, World Bank and GIZ
- Insurance company:
Public insurer Philippines Crop Insurance Corporation
- Private player MicroEnsure also offers index products



Dominance of Private Players

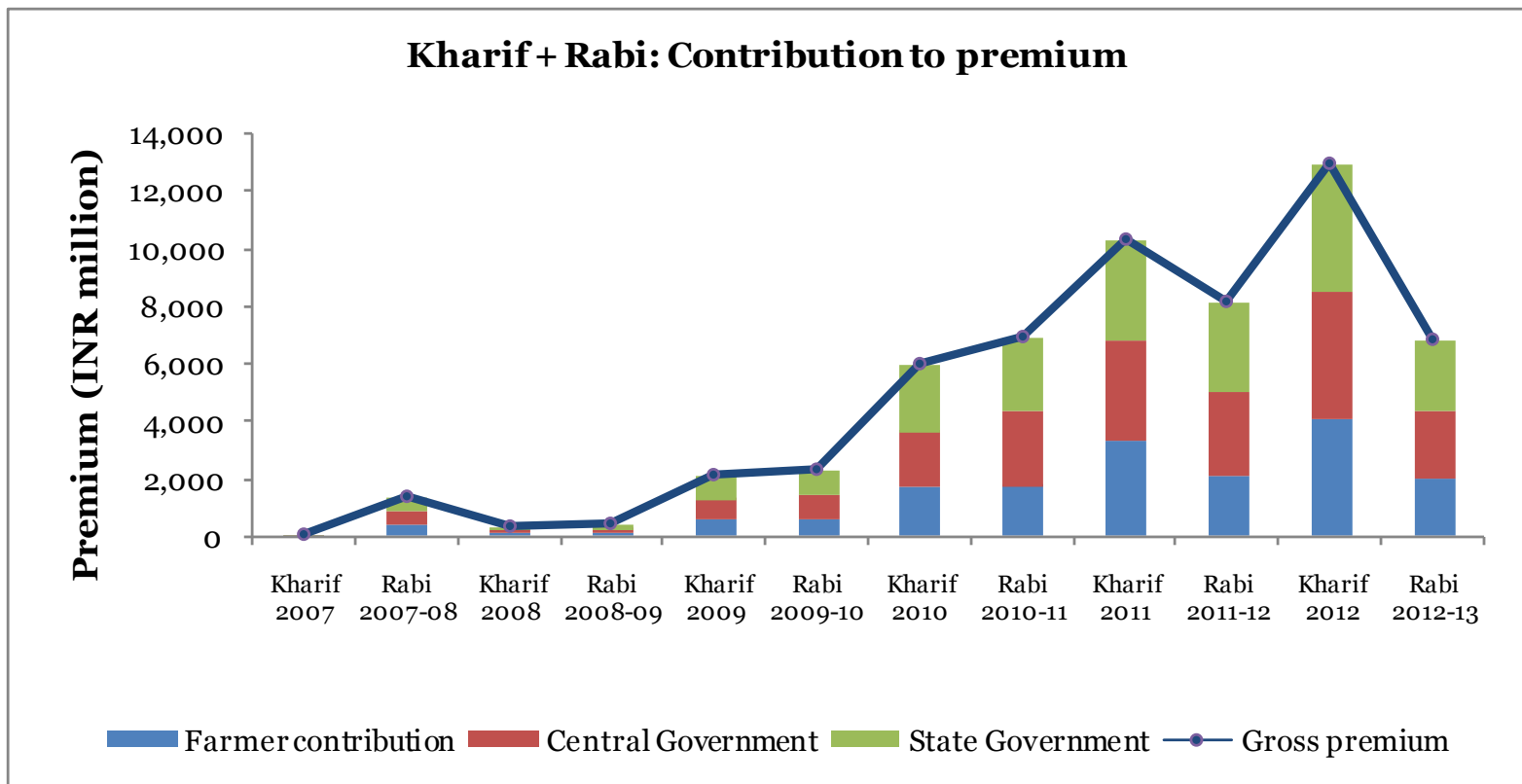
- No index product
- ACA Asuransi offers disaster products for dengue and earthquake
- MAIPARK and GlobalAgRisk planning to offer an earthquake based index product
- Failed product: PT Wahana Tata flood index insurance (GIZ and Munich Re)

Trends in index insurance

- Started by Private players; taken over by Government
- Support from international donors agencies
- Sum insured = cost of cultivation or the size of the loan amount
- Premium = risk premium + administration cost + commissions
- Dependence on subsidy
- Distribution challenges
- Improving understanding levels of farmers is challenging
- Faster claim settlements
- Loanee versus non-loanee farmers

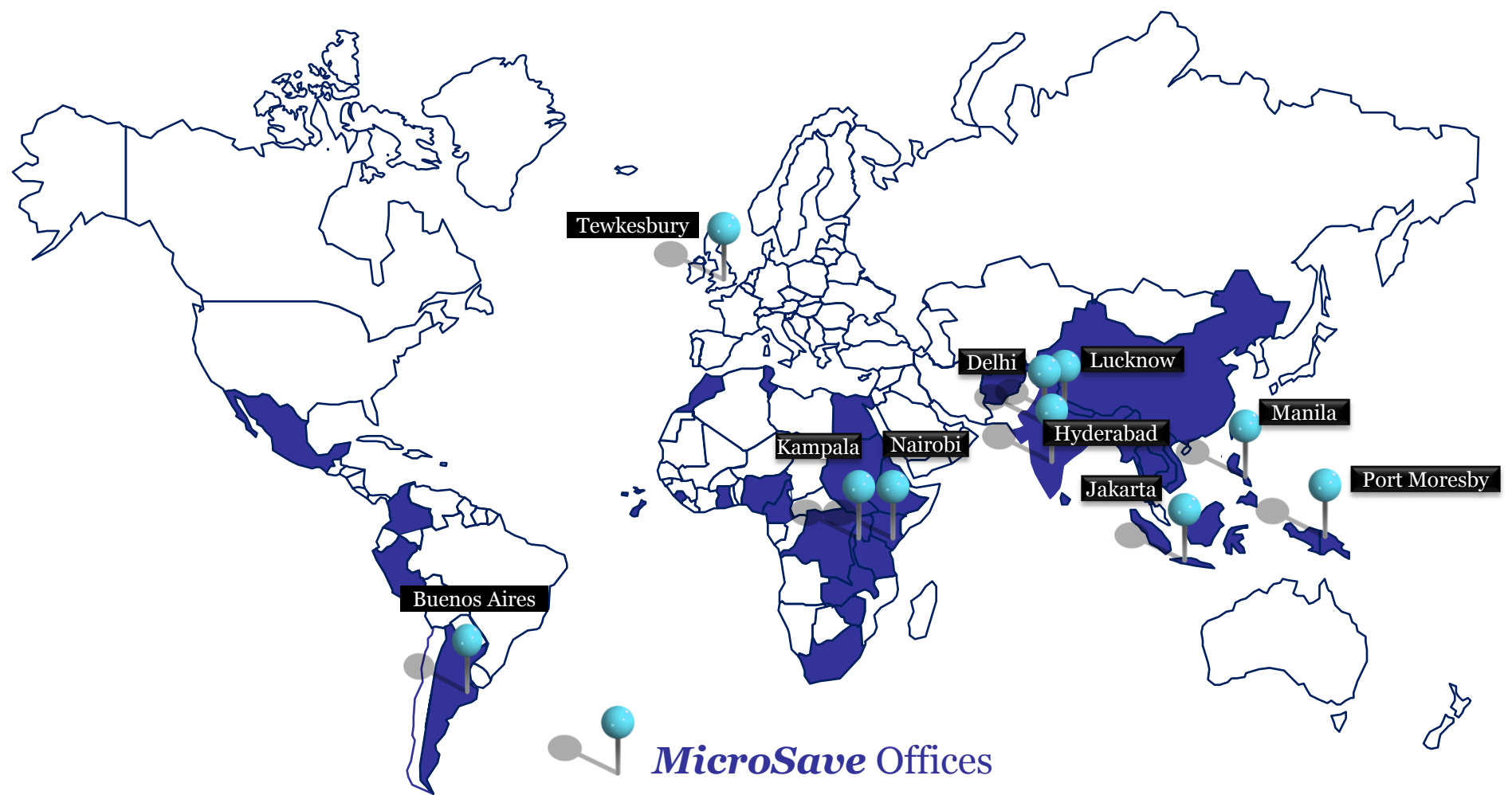
Challenges faced by Index Products

- Weather infrastructure- basis risk
- Reinsurance support
- Subsidy dependence creates doubts on sustainability



Potential for scaling up index insurance

- Identification of the right parameter is essential for successful programme
- Governments should be part of the programme
- Ensure reinsurance before piloting.
- Investment in weather infrastructure is a must
- Capacity of local stakeholders should be increased
- Bancassurance channel should be put to use
- Client literacy and education must be a priority
- Create research and development capabilities



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