

Minimizing the Risks for the Poor

Microinsurance as a tool to
adapt to climate change

Dirk Reinhard
Vice Chairman

dreinhard@munichre-foundation.org

**Munich Re
Foundation**
From Knowledge
to Action

20.08.2009

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to Action

Munich Re Foundation Background

Going public 7 April 2005

Capital € 50 million

Purpose

Munich Re concerns itself with the great challenges facing the world today – population growth, globalization, diminishing resources, environmental pollution, climate change

The foundation's role is to concentrate specifically on the interaction between population development and the medium of water as elixir of life, resource, and risk factor

Microinsurance activities of the Munich Re Foundation 2005-2009

2005 Europe

1st International Microinsurance Conference
Munich, Germany



2006 Africa

2nd International Microinsurance Conference
Cape Town, South Africa



November 2006

Release of the "Protecting the poor"
A microinsurance compendium
www.microinsurancecompendium.org

2007 Asia

3rd International Microinsurance Conference
Mumbai, India



2008 Latin America

4th International Microinsurance Conference
Cartagena, Colombia



2009 Africa

5th International Microinsurance Conference
3-5 November, Dakar, Senegal
www.microinsuranceconference2009.org



Demand and definition

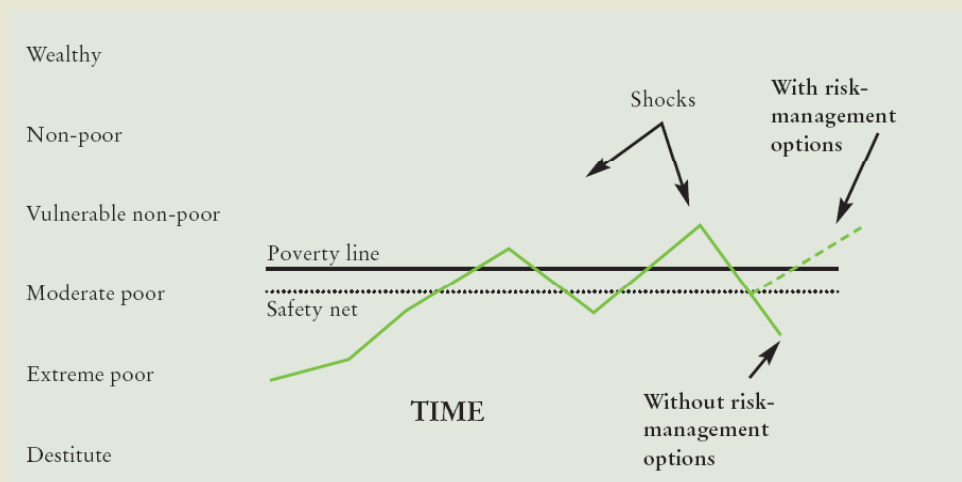
Demand for Microinsurance

Microinsurance is the provision of insurance to low-income households that otherwise do not have access to insurance.

Poor households are especially vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents.

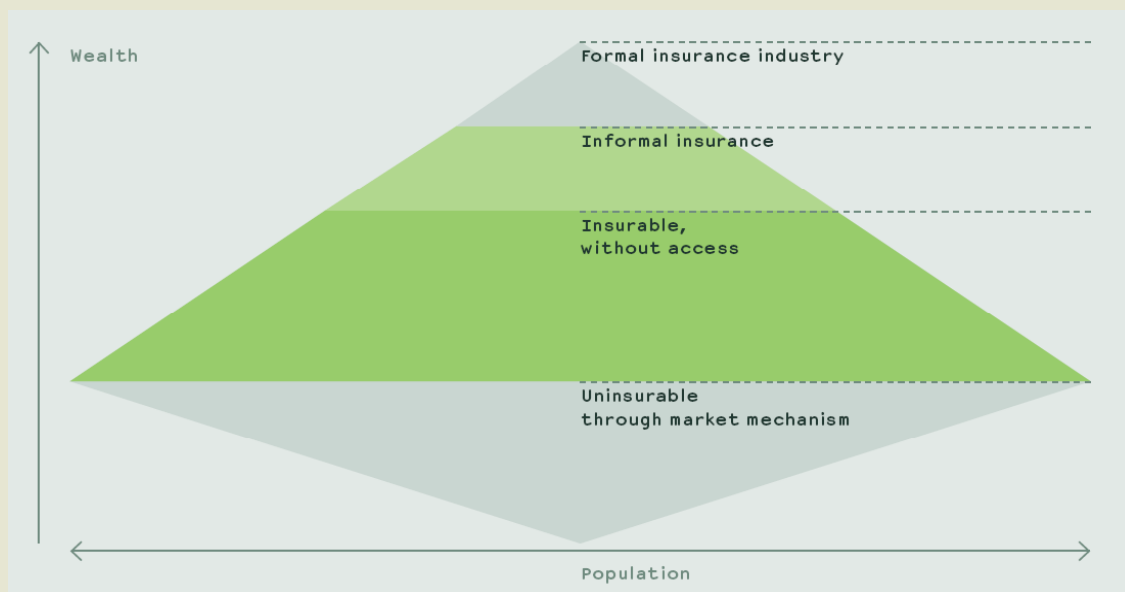
- Less than 80 million people in the 100 poorest countries do have access to insurance (or 3% of the poor people) Source: MicroInsurance Centre
- In India only, 200 million people would need Microinsurance
- Most important: Life, health, crop/livestock

Role of Microinsurance: Impacts of shocks on household income and assets



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

The bottom of the access to insurance



Source: Churchill, Craig. Presentation 'An introduction to microinsurance'. Microinsurance Conference 2007.

Key challenges

- Low premium and high transaction costs per client
- Lack of infrastructure
- Lack of insurance knowledge
- Insurance illiteracy: significant investment in customer-education is necessary
- Low and irregular income: volume is a basis for returns on investment
- Lack of data

Index-based insurance

- Index-based insurance does not cover losses on an individual loss-adjustment basis, but according to whether they reach certain predetermined thresholds. Index-based insurance is a relatively new product in developing countries
- Index-based insurances can be distinguished according to the different kind of triggers they use:
 - meteorological triggers
 - area yield triggers
 - vegetation indexes.

Key problem: Basis risk

Examples Flood insurance, Indonesia

November 26, 2007



Source: Munich Re, November 2008

What are the main problems people face in Jakarta?

Some statements from our focus group discussions:

Evacuation is stressful!
Interruption of
social life!

Extreme floods are our
biggest threat!

Rising food prices!

Damage to our
property/house!

Sudden health
expenditure!
(Malaria, Dengue)

Loss of valuable items!
(motor bike, TV, radio)

Can not pay the
school fee!

Dependant on
external help!
(not guaranteed)

Borrow money from
e.g. from relatives

Loss of food stock!
(e.g. rice)

Mutual help is not
possible, as everybody
is affected!

No or less income!
(no or little paid work)

Source: Munich Re, November 2008

Requirements

- The pilot target group demands a “cash” product
- Transparent product (easy to understand)
- Acceptable mode/schedule of premium payment
- Quick payment of compensation (< 5days)
- Affordable (Low administration, transaction and development costs)
- Low moral hazard, adverse selection and avoidance of bribery
- Claims occurrence has to be independently verifiable
- Assessment is easy and cost of assessment is very low (Claims)
- (Customized product for each location and affected risk)

Source: Munich Re, November 2008

Flood protection card

Client buys Flood Protection Card (until Oct. 2008)

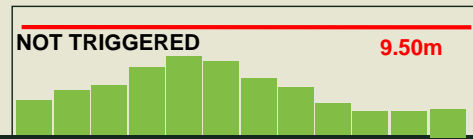
Wet season

Case I:
Not triggered



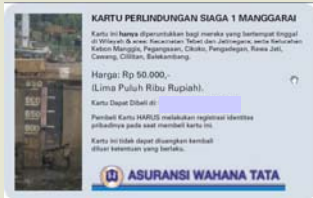
Price Rp. 50,000

Not triggered: flood water did not reach 9.50m at Manggarai Flood Gate



Not triggered:
No payout

Case II:
Triggered

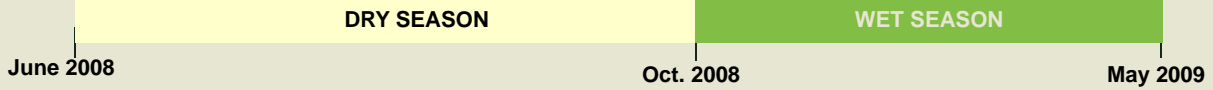


Price Rp. 50,000

Triggered: flood water reached/ exceeded 9.50m at Manggarai Flood Gate



Pay out
Rp. 250,000



Source: Munich Re, November 2008

Trigger Development Water Level Measurement at Manggarai Gate



Source: Munich Re, November 2008

Examples

Flood insurance as part of credit insurance, Uganda

The Owino-Market

- East Africa's biggest market
- 50,000 merchants
- 10,000 market stands
- 200,000 visitors daily



The product



Loans provided by the Ugandan Microfinance Organisation „Faulu“, member of the Opportunity International network

Total number of clients/loans in Kampala: 20,000

Total number of loans at the Owino-market: 2,000

- Credit period: 4-12 months
- Loan amount: 100 to 1,000 USD
- Interest rate: 3% per month (flat)
equals up to 70% per year

Group insurance, mandatory

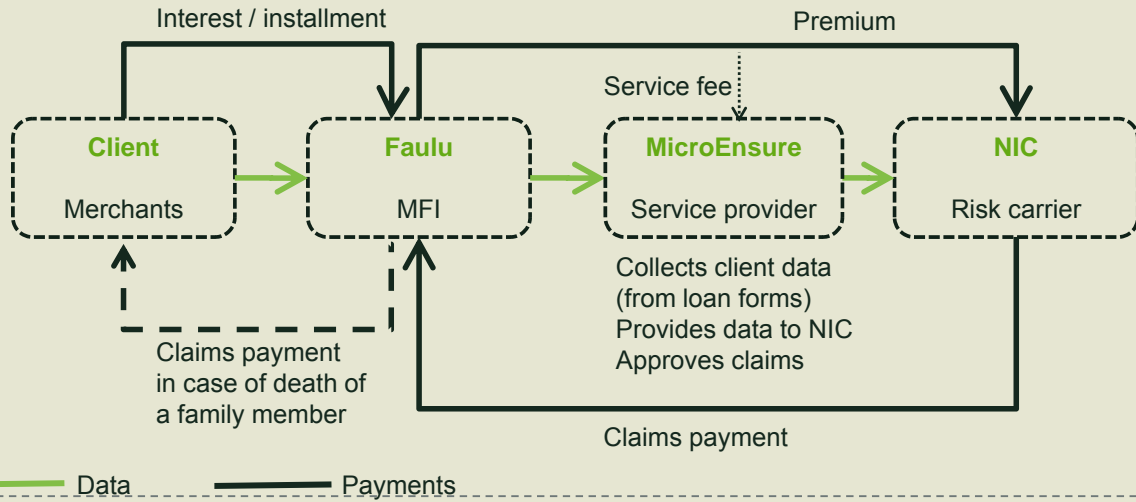
- Premium: 1% of credit sum, single payment
- Max. sum insured = loan amount

Insured risks

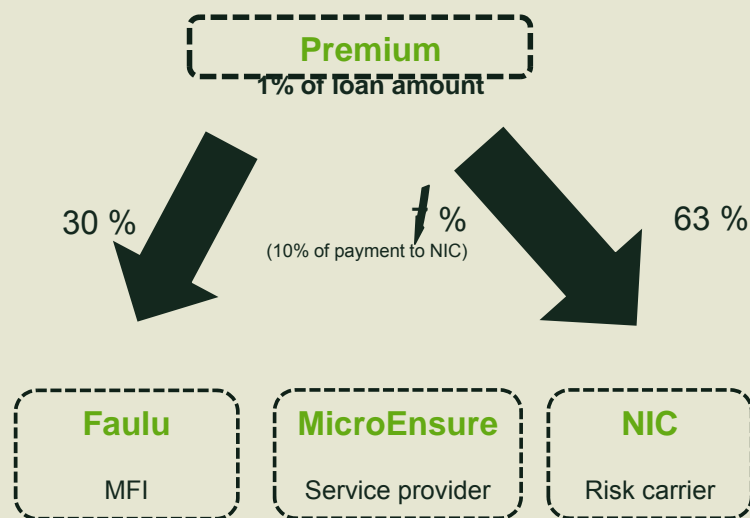
- Death
 - Borrower: *loan amount*
 - Family member: *lump sum for funeral costs*
- Disability: *loan amount*
- Property (Fire, flood, earthquake):
loan amount, not indemnity based



Faulu-MicroEnsure-NIC Microinsurance scheme Kampala, Uganda



Premium distribution



24 February 2009: Fire at the Owino-Market

- Part of the market destroyed
- About 300 claims reported to Faulu
- NIC/MicroEnsure aim at claims payment within 8 days of the receipt of documents



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Summary

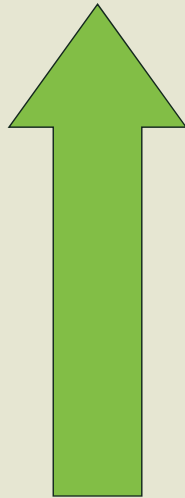
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Complexity of different insurance products

Highly complex



Simpler

- Crop insurance
- Health and disability insurance
- Annuities and endowment (retirement provision)
- Property insurance
- Term life insurance (payment to beneficiaries on death)

Lessons learned

- There is a **huge untapped market**
- The **poor are willing to pay** if they can access the right products
- Several products have proven to **be economically viable**
- **Starting with already-existing organisations** such as mutuals and cooperatives and establish strategic links with formal insurers, providers and the social security element is key
- **Strong Public-private partnerships** link experience, build a strong regulatory framework for the benefit of all parties
- Need for action: **as weather-related natural disasters increase, so does the vulnerability** of the poor
- **Don't listen to your heart, listen to your calculator!**

Thank you for your attention!

Dirk Reinhard
Vice Chairman
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