

12th International Microinsurance Conference 2016

15.11. – 18.11.2016 in Colombo, Sri Lanka

Plenary 2 – InsuResilience: Insuring the poor against climate risks

Key takeaways from Arup Chatterjee's (ADB) speech:

1. Risk has to be addressed at the source and managed at the local level. We have to start putting price tags on risk to help everyone realize the cost of doing nothing.
Invest in gathering accurate and reliable data for catastrophe modeling in order to understand, evaluate, and manage catastrophe risk exposure, calculate probable losses and premium rates, and secure an adequate level of reinsurance.
2. We don't buy insurance to just protect ourselves from likely occurrences. We buy insurance to guard against unlikely and financially devastating events. That's why we buy life insurance: most of us don't expect our families to need it. However, not having coverage could mean a financial nightmare for our families if the unlikely should happen and a breadwinner dies prematurely.
Segment disaster risks based on a rigorous analysis of the underlying hazard based on severity and frequency and then match risk characteristics with the most cost-effective financial instrument. Insurance—should be used for less frequent but more severe disasters.
3. A common reason people avoid purchasing catastrophe insurance is because they feel the government will come to the rescue with financial assistance after a major disaster. But they don't realize that even if the government offers help to those affected, there is no guarantee it will cover everything.
 - a. Manufacturing sector, SMEs¹, agriculture² and households suffer significant economic loss from disasters, in terms of direct damages to assets, business interruptions or from damage to infrastructure or other business operations along the supply chain, crop losses etc. This can result in significant reductions in incomes and investment in human capital.
 - b. A combination of factors exacerbates credit constraints by destroying output, subsequently increasing default rates and reducing lenders' willingness to lend.

¹ SMEs comprised 98 percent of all enterprises in the Asia-Pacific, employed 66 percent of the national labor force, contributed 38 percent of GDP, and accounted for 30 percent of total export value from 2007 to 2012. 365-445 million micro, small and medium enterprises (MSMEs) in emerging markets: 25-30 million are formal SMEs

² 570 mn farms in the worldwide – 74% are located in East Asia and the Pacific or South Asia (China 35%, India 24%, Sub-Saharan Africa 9%, Europe and Central Asia 7%, MENA 3%. LAC 4%) – FAO

For stimulating early recovery post-disaster, the emphasis should be on restoring livelihoods and building back better. Insurance can strengthen the resilience of the poorest and most vulnerable by ensuring rapid, cost-effective financial compensation to finance recovery efforts.

4. Insurance regulators need to put enabling and proportionate regulatory regime in place to foster the development of the insurance sector and which in turn will expand the coverage of disaster risks

Reform of the insurance sector should include solutions wherein the insurance industry can respond effectively to the unique circumstances of their economies following disasters. For example, governments could strengthen financial resilience by enacting special regulatory regimes for parametric products, microinsurance schemes or catastrophe-linked securities; introducing tax incentives for private insurance coverage.

5. Provide smart support for insurance related instruments for the poor.
 - a. Providing targeted premium support: Eg. Directly cover the mark up part of the premium while the risk based part is covered by the beneficiary.
 - b. Provide sustainable, credible delivery channels and national id
 - c. Enhance capacity at all levels
 - d. Awareness
6. ADB assists it's developing member countries through a combination of ADB resources — loans, technical assistance, grants and equity investments, leveraging of resources through partnerships, and providing knowledge to DMC's to countries to maximize and accelerate development effectiveness. This trio of finance, partnerships, and knowledge is referred to as Finance ++. As an agent for change to catalyze private sector involvement, ADB also provides supports and advises to governments on the investment environment and supports public-private partnerships.

References to Karma dominate the Asian thought:

Some natural laws have moral causes, and some have natural causes. Those with natural causes have nothing to do with people being right or wrong. In other words, "karma" does not create natural disasters to punish people. Does this then imply "karma" is irrelevant? No. "Karma" does have implications on what we experience and how we respond to natural disasters.

Enhancing our collective understanding of the causes of natural disasters, improving hazard mapping, building more seismically resistant structures, and developing better emergency management systems than to shift the blame the tragedy on some bizarre theological cause is important. Using insurance to help mitigate the adverse effects of natural disasters is good "karma" – it is the affirmative action that leads to protecting people from the devastating effects of disasters. Any excuse for human inaction will be viewed as bad "karma".