

# **Regional Risk Transfer Initiative: Financing Disaster Risks off the Poor**



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## **Key Objectives**

- Discuss micro-insurance as a disaster risk transfer instrument;
- Highlight RRTI activities and achievements; and
- Explore risk transfer possibilities for future.

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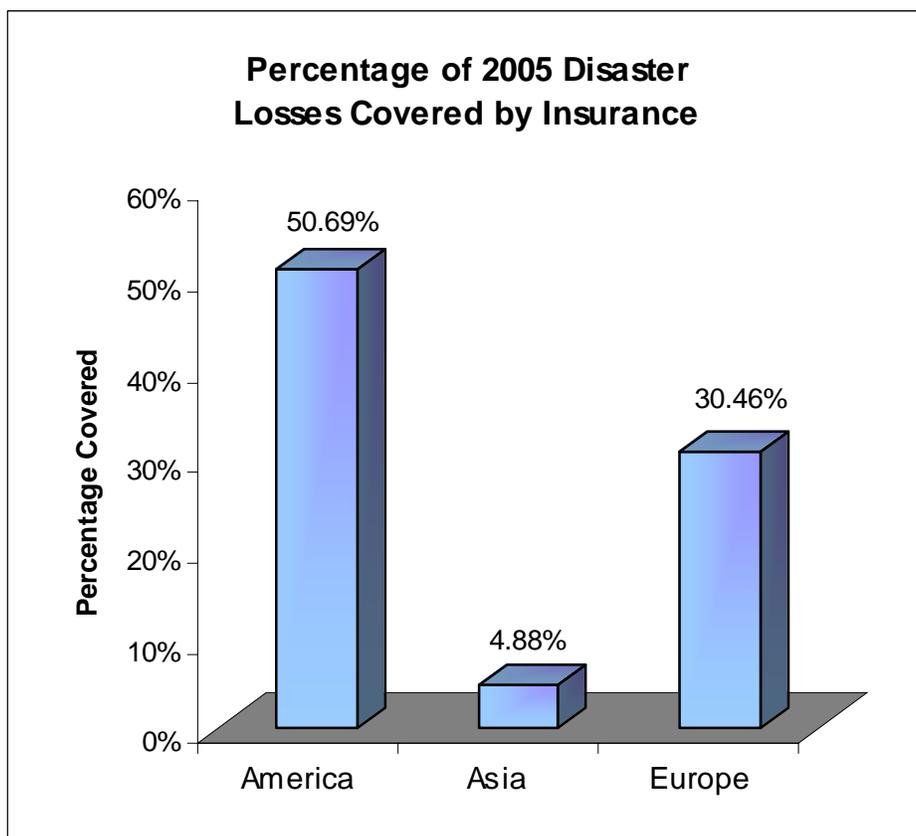
## Disaster Losses in India

- Within Asia, 24% of deaths due to disasters occurred in India because of its size, population, and vulnerability. (Government of India, “Tenth Five Year Plan 2002-2007”.)
- Each year, India suffers disaster losses of US\$1 billion, according to World Bank studies.
- And on average, direct natural disaster losses amount to 2% of India’s GDP and up to 12% of central government revenues. (World Bank Report No. 26844-IN. (Lester and Gurenko 2003).

# Disaster Losses in India

- The Calamity Relief Fund of the Government of India spends US\$ 286 million towards providing relief to the victims of disasters.
- Over the past 35 years, India has suffered direct losses of US\$30 billion; losses are also increasing, US\$9 billion in direct losses were suffered between 1996 and 2000 alone (Lester and Gurenko 2003).
- The price tag of the tsunami and South Asia earthquake are surely enormous but are yet to be seen.
- Assuming that the impact of natural disasters remains so high, and many estimates expect them to increase, how will India be able to cope?

## Are we Funding Losses?



*Financial losses to disasters in Asia have significantly less coverage than losses experienced in America and Europe.*

# AIDMI Experience

- The humanitarian acts are packed into a 'project' with a clear cut beginning and a perfect end.
- Humanitarian actors initially provide relief and leave to provide relief to someone else. Fly in fly out approach prevails.
- The humanitarian actors know much less about what happens to victims beyond relief and rehabilitation.
- Recovery is not perceived as an opportunity to promote structural changes in development planning and governance.
- Recovery is viewed as a separate humanitarian agenda and not perceived as an integral part of development.
- Investments in relief often neglect recovery needs or the investments are far too small.

## Overview of RRTI

- Access to risk transfer is correlated with sustainable economic recovery of disaster victims.
- Regional Risk Transfer Initiative (RRTI) was established in 2004 in partnership with ProVention Consortium.
- RRTI promotes and implements disaster micro-insurance for the poor.
- It runs three different types of insurance schemes in Gujarat, Tamil Nadu, and Jammu and Kashmir.
  - Afat Vimo: Covers disaster-stricken poor communities in general;
  - School insurance: Targeted at school students and staffs;
  - Weather insurance: Covers small and marginal farmers;
  - Total coverage of over 23,000 individuals.
- Policy dialogues are held with national and international agencies.

# *Afat Vimo*: The Scheme

- *Afat Vimo* is a Gujarati word for disaster insurance.
- It covers life and non-life losses.
- It integrates insurance with revolving fund and mitigation measures.
- The *Afat Vimo* scheme covers losses or damages to house, stock-in-trade, loss of work due to accident and death of earning family member up to Rs. 95,000 (\$2112).
- It spreads risks across disaster events, communities, occupational groups and geographical areas.
- It covers about 4,500 individuals in the states of Gujarat, Tamil Nadu, and Jammu and Kashmir.

## A Sad Reality



*The poor face disasters on a day-to-day basis. Afat Vimo covers risks that have impact on a small and large scale.*

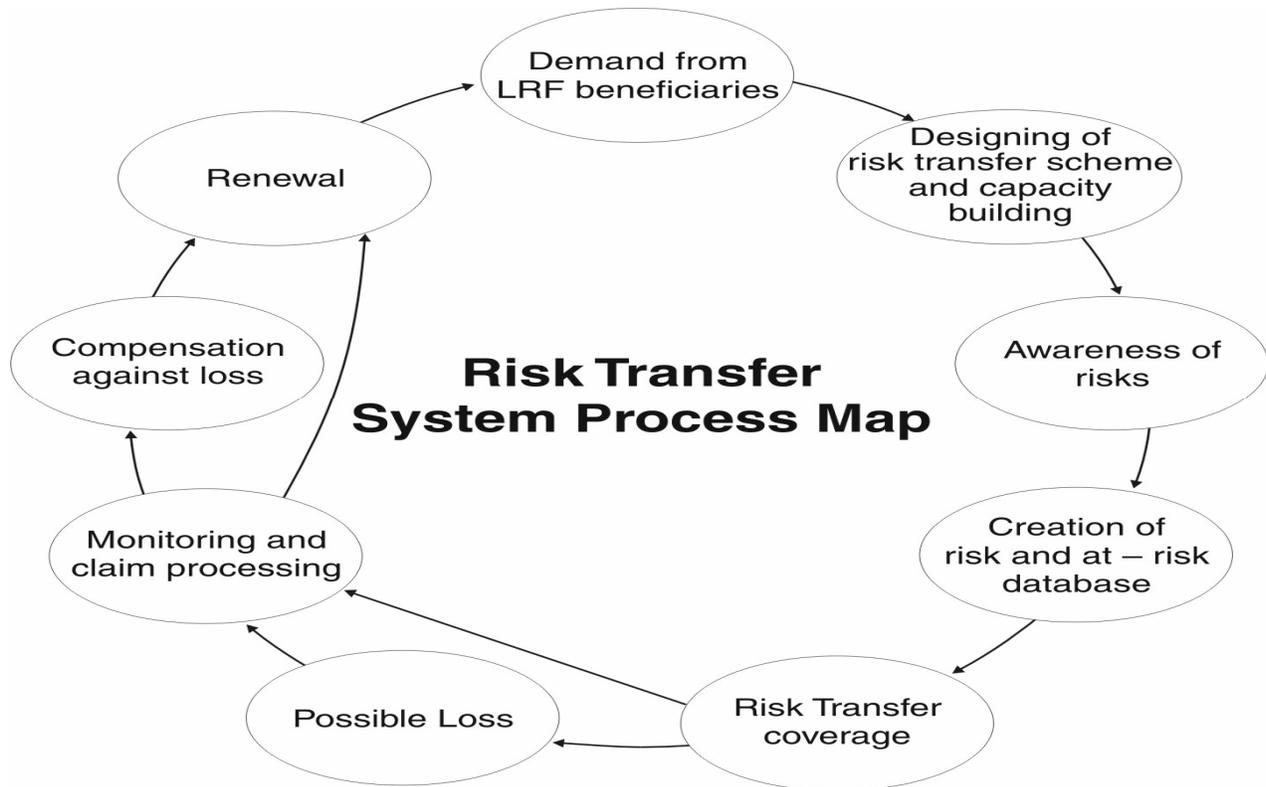
# *Afat Vimo*: The Scheme

- Client is a disaster victim.
- Intermediary is disaster mitigation agency.
- Coverage is for 19 types of disasters (includes fire, riots, strike, storm, cyclone, flood, tornado, landslide, earthquake, aircraft damage, typhoon, and lightening, to name a few).
- Promotes micro-mitigation measures such as revolving fund in Bhuj, fire safety in schools, and capacity building inputs to clients.
- The annual premium is approximately three days' wage for the client.
- Key Partnerships
  - Development: AIDMI, CCISB, and ProVention Consortium
  - Implementation: AIDMI, CCISB, LIC, UIICL, HUMAN, and PPI

## Client Profile

- All disaster affected.
- All low-income families.
- All in low-income areas.
- Men and women both.
- Mostly micro businesses.
- Assets worth Rs.9000 on average.
- Annual incomes Rs.12000 to Rs.18000.

# Process Cycle



## Scheme Performance

- Premium payment is good and regular. The renewal rate is currently 88%.
- Since January 2005, AIDMI has trained 240 community leaders from small towns and villages of Gujarat on reducing their risks on microinsurance.
- Out of 336 claims made so far to insurance companies, 189 have been settled, giving a combined payout of US\$ 33,000.
- Of the claims that have been settled, 49 have been settled for life loss, 25 have been for personal accident (some resulting in fatality, others causing loss of earnings), two for house fires, and 118 for damage to property and contents as a result of monsoon flooding.

# Client is ready.



*“Victims” manage the majority of disaster recovery themselves. Microinsurance can help accelerate their efforts.*

## Key Challenges

- Low levels of private sector interest. Focus on high premium and low volume.
- Design incentives for risk reduction.
- Relief as risk reduction investment is possible. But needs models and experimentation.
- It is a great struggle to do such projects as a pilot, even more difficult to scale up action and advocacy with government and international bi-lateral institutions.

# Feedback

- From clients: expanding interest.
- From insurance: not much.
- From economic media: increasing interest.
- From Government: keenly observed.

## Key Conclusions

- The South Asia region is increasingly attracting global attention for risk reduction due to accelerating economic growth and disaster vulnerability in the region.
- The small businesses have very limited access to financial risk sharing mechanisms such as insurance.
- Mitigation matters. Risks must be reduced, not merely covered.
- Opportunities for greater risk pooling over large geographic area are neither mapped nor realized.

# Lost Opportunity!



*Tsunami recovery is a huge opportunity to transfer financial risks of the poor. Following a major disaster like the 2004 tsunami, people understand the value of insuring their assets.*

## RRTI: Way Ahead

- An evaluation in South Asian countries to understand the impact of micro-insurance schemes on their clients
  - Key possible partners: AIDMI, DP Net (Nepal), Yasiru Mutual Fund (Sri Lanka), NRSP (Pakistan), Valenzuela Development Cooperative (Philippines), Basix (India)
- Expanding *Afat Vimo*
  - Forging partnerships with micro-finance (MF) organizations and their federations and linking *Afat Vimo* with other MF services such as micro saving;
  - Covering people living in hazard-prone areas but not recently affected by a disaster.
- Designing weather-indexed insurance solutions

Thank you!