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

From Knowledge 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
**From Knowledge to Action**

**Microinsurance activities of the Munich Re Foundation 2005-2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Europe</td>
<td>1st International Microinsurance Conference Munich, Germany</td>
</tr>
<tr>
<td>2006</td>
<td>Africa</td>
<td>2nd International Microinsurance Conference Cape Town, South Africa</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>November 2006 Release of the “Protecting the poor” A microinsurance compendium</td>
</tr>
<tr>
<td>2007</td>
<td>Asia</td>
<td>3rd International Microinsurance Conference Mumbai, India</td>
</tr>
<tr>
<td>2008</td>
<td>Latin America</td>
<td>4th International Microinsurance Conference Cartagena, Colombia</td>
</tr>
<tr>
<td>2009</td>
<td>Africa</td>
<td>5th International Microinsurance Conference 3-5 November, Dakar, Senegal</td>
</tr>
</tbody>
</table>

**20.08.2009 Munich Re Foundation Dirk Reinhard**

**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

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!
- Extreme floods are our biggest threat!
- Rising food prices!
- Interruption of social life!
- Extreme floods are our biggest threat!
- 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!
- Depend 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

Case I: Not triggered

Client buys Flood Protection Card (until Oct. 2008)

- Wet season
  - Not triggered: flood water did not reach 9.50m at Manggarai Flood Gate
  - Price Rp. 50,000

Case II: Triggered

- 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
From Knowledge to Action

**Faulu-MicroEnsure-NIC Microinsurance scheme**

**Kampala, Uganda**

![Diagram showing the microinsurance scheme]

**Premium distribution**

- **Premium**: 1% of loan amount
- **30%** of premium goes to **Faulu** (MFI)
- **63%** goes to **NIC** (Risk carrier)
- **10%** goes to **MicroEnsure** (Service provider)

20.08.2009
Munich Re Foundation
Dirk Reinhard
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

Summary
Complexity of different insurance products

- 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  
Munich Re Foundation  

www.munichre-foundation.org  
www.microinsuranceconference.org  
www.microinsurancecompendium.org  

dreinhard@munichre-foundation.org

Munich Re Foundation  
From Knowledge to Action  

20.08.2009