

Microinsurance as a Safety Net for the Poor?

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Outline

- ◆ Two examples from many
 - Malawi
 - India
- ◆ Criteria for evaluation (scaling up)
 - Affordability
 - Financial robustness
 - Governance
 - Risk reduction
- ◆ Conclusion: Need for extended partnerships



Malawi: Nasfam representative meets with groundnut farmers

Smallholder Farmers in Malawi

- ◆ 85 % of production under rain fed systems (high risk exposure to drought conditions)
- ◆ 35% Literacy levels (limited capacity to technology adoption)
- ◆ Limited access to inputs and services (low yield and quality of outputs)
- ◆ Poor access to profitable markets (emphasis on subsistence production)
- ◆ 42% of population below \$1/day (limited collateralization capacity)

Malawi scheme

- ◆ Bundled loan and insurance
- ◆ Enables farmers to buy high-yield hybrid seed
- ◆ Index insurance (trigger is precipitation)
 - reliable weather stations
- ◆ NASFAM key organizer
- ◆ Farmer associations
- ◆ World Bank provided technical support

Malawi scheme economics

32 kg seed at MK 125/kg (US\$0.90/kg) \$29.20

Interest on loan (33% p.a. for 9 months) 7.23

Insurance premium @ 7% of loan package 2.79

900 participating farmers

Insurance premium = 6 – 10 % of harvest value

Interview results

- ◆ Participating farmers optimistic
- ◆ Trust in NASFAM
- ◆ Generally understand the system

Scaling up?

Importance of World Bank support, local champion, and existing reliable data source....

Afat Vimo

AIDMI survey

“These low-income businesses are marginalized by the mainstream NGO and government relief. Compensation has hardly reached them. As a result, they have no right to relief as victims, no right to economic recovery as active economic agents, and no right to the city of Bhuj as citizens.. The poor among victims were asked to tell if they needed insurance protection, and to what extent. The result of that survey was Afat Vimo.” (Sadhu and Pandya, 2005)



Afat Vimo in Gujarat

- ◆ All Indian Disaster Mitigation Institute (AIDMI)
- ◆ Livelihood Relief – trusted NGO
- ◆ Cover against 13 types of natural disasters
- ◆ Voluntary annual payment of 133 rupees (not risk based)
- ◆ Pro-poor Indian regulation – cross subsidies
- ◆ Technical support from ProVention Consortium
- ◆ 2,000 households and businesses participate (12% of poor in Bhuj)

Evaluation criteria for scaling up

◆ **Affordability**

- Lowered transaction costs: simple products to community/farmer groups

Still,

- Existing schemes rely heavily on outside help (NGO's, MFI's), technical assistance and direct subsidies;
- Or, they reach mainly the more affluent and not "very poor"

Evaluation criteria for scaling up

◆ Financial robustness

- Partner-agent models dominating
- Co-variant risks
- Little evidence of reinsurance (e.g., Afat Vimo)
- Exceptions: World Bank backed pilot schemes; WINXROP in Caribbean
- Little risk modeling
- Problems of moral hazard and adverse selection

Evaluation criteria for scaling up

◆ Governance

- TRUST that claims will be paid, insurers will remain solvent, government will assure adequate regulation, reliable legal basis...
- early success of Afat Vimo attributed to the role of active civil society structures acting as intermediary (Aysan, 2005)
- Success of Malawi project largely due to one trusted person within NASFAM



Evaluation criteria for scaling up

◆ Contribution to risk reduction

- Little, for example, premiums not sensitive to risk reduction
- With exceptions, eg., scheme in St. Lucia explicitly couples the retrofit of homes against hurricanes with insurance;
- Experience of timely payment of claims, however, has reduced longer-term risks by expediting recovery

Conclusions

- ◆ Scaling up doubtful without extended partnerships
- ◆ Review reveals creative alliances among NGOs/community groups, MFI's, regulators, entrepreneurs, and international financial institutions and donors

PARTNERSHIPS should be supported,
Good example: Global Index Insurance Facility



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