



CLIMATE RISK ADAPTATION AND INSURANCE IN THE CARIBBEAN

REGULATORY AND INSTITUTIONAL FRAMEWORK

SUBJECT *Government institutions provide support to develop the market for innovative extreme weather insurance and adapt the regulatory and institutional frameworks, so that these kinds of insurance products can be promoted.*

Financial inclusion is a pre-requisite to sustainable growth and development. Access to financial services coupled with instruments such as insurance can help to buffer vulnerable low income populations from economic shocks, and as a result increase social resilience in the long run. Thus, strengthening financial inclusion and incorporating social protection mechanisms like microinsurance, will make a tangible contribution to sustainable growth and development. The challenge lies in overcoming barriers to their growth.

Microinsurance is characterized by small premiums to serve low income customers – a market segment that is largely unexplored and under-developed. As a consequence, there is a need for significant investments from the insurance sector to increase financial literacy and, in turn financial inclusion, among low income populations. In many countries, existing regulatory and legislative frameworks do not offer an enabling environment for the growth of microinsurance. To expand, these frameworks need to appropriately include microinsurance to strike a balance between financial inclusion and market growth, to protect the interests of consumers as well as insurers and, to reduce regulatory barriers that might hinder microinsurance growth.

CHALLENGES RELATED TO THIS OBJECTIVE ARE:

- Regulatory environment: Products such as parametric index insurance and microinsurance are new to the region; the current Insurance Acts in the target countries do not address weather-based index insurance.
- The insurance regulations do not make provisions for specific agents for microinsurance (within the Partner-Agent model paradigm). This limits the role of the Agents (distribution channel) vis-a-vis client education, marketing and product delivery.
- Previous financial market failures in the Caribbean have resulted in extra vigilance and caution being exercised by the Regulatory authorities.
- Primary insurers are obliged to organize special events to educate/market insurance solutions to target communities in collaboration with the distribution channel, as the current Insurance Regulations limit the role of the distribution channel. This is often time consuming, expensive and can negatively impact customer acquisition as a result of delays in reaching prospective customers by the insurers.

SOLUTION

Capacity Development, Awareness Raising

A number of interventions were planned that aimed at strengthening the existing capacities as well as raising awareness of the Regulatory Authorities on all three islands.

- Advocating for parametric index insurance and its contribution to the climate change – poverty nexus to create awareness.
- Facilitating the exchange of information by providing best available practices, microinsurance regulations prevalent in other countries, microinsurance specific inputs from bodies like the International Association of Insurance Regulators to insurance regulators on new developments in the field of microinsurance and regulatory aspects to create a more enabling environment for parametric index insurance and to minimize disproportionate regulation that could act as a barrier to financial inclusion.
- Participating in international conferences on microinsurance as well as climate policy events helped create greater understanding of microinsurance, climate risk insurance to create an enabling environment for index insurance.

- In addition, the project welcomed review comments by the Regulatory Authorities on different technical aspects of product design and delivery; in combination with regular status updates on the product, this resulted in greater trust and in an effective, supportive working relationship.

LESSONS LEARNED

- Close cooperation and open exchange with the Regulators allows for product delivery to be more effective and efficient.
- Steady flow of information and transparency regarding project activities developed trust and a full understanding of project scope and objectives forms the basis of a good working relationship with regulatory authorities.
- Capacity development measures (participation in conferences, dialogues, expert group meetings) resulted in a greater awareness of the development of microinsurance and the financial inclusiveness agenda.
- The exchange of experiences helped Regulatory Authorities learn from counterparts in other regions, as well as an awareness of the role of insurance in managing climate risks.

NAME:

Climate Risk Adaptation and Insurance in the Caribbean

DURATION:

2011 – 2014

NAME OF COMPONENT ACTIVITY:

Creating a suitable regulatory and institutional framework for developing extreme weather insurance

PROGRAM AREA:

Caribbean: Saint Lucia, Grenada, Jamaica

COOPERATION:

Caribbean Catastrophe Risk Insurance Facility (CCRIF)
MicroEnsure, Munich Re

LOCAL PARTNER:

CCRIF

LOCATION:

Saint Lucia, Grenada, Jamaica

TARGET GROUP:

Low-income, vulnerable communities exposed to climate change related shocks that would have a negative impact on livelihoods

Development finance/ lending institutions whose lending portfolios are exposed to climate change related shocks that would result in an erosion of the equity base of the institution and ultimately, shrinking of economic activity

DOCUMENTATION:

www.climate-insurance.org

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