Statement on Success Criteria for G7 InsuResilience by the Munich Climate Insurance Initiative (MCII)

Focus insurance on needs of poor & vulnerable people, securing development goals

Exposure to climate risks causes significant financial losses for the poor. These households also face high uncertainty about whether and when losses might happen. Insurance approaches for the poor should address the most pressing needs – uncertainty to livelihoods, food security and development aspirations – that get in the way of opportunities to reduce poverty. To safeguard that existing risk management approaches are enhanced, locally driven and owned schemes will help ensure that local needs and capacities are taken into account. Partnerships that link traditional risk management approaches and social cohesion with new ways of providing financial risk transfer (cooperatives, microfinance, and bundling with cell phone services) can add value to locally driven and owned schemes.

Provide smart support for insurance related instruments for the poor

We actively encourage InsuResilience to explore and provide smart support for insurance for the poor and most vulnerable. Based on lessons learned from current experience and expert interviews MCII defines smart support as including:

Providing targeted premium support: Experts assert that few if any insurance related approaches worldwide specifically targeted towards the poor have been started and sustained without public private cooperation, often in a way of premium support. G7 countries could:
- Directly cover the mark up part of the premium while the risk based part is covered by the beneficiary (see box), thereby incentivizing risk reducing behavior through the price signal.
- Directly cover premiums for the poorest of the poor: We documented cases where premiums for the poorest of the poor have been covered by third parties and designed in such a way that beneficiaries contribute to risk reduction in other ways. Examples of this include the R4 Initiative, and innovative insurance funds linked to income support programs and other safety nets currently being developed.
- Provide capital reserves or reinsurance-like capacity which drive down the costs of climate risk insurance products. ARC and CCRIF estimate that premiums for member countries are half that of commercially available insurance for weather-related extreme cover.

Provide sustainable, credible delivery channels: To reach the target group, experts recommend using aggregators like regional rural banks, mutual, refinancing banks, microfinance institutions, social protection pools of governments. Awareness building, marketing, and claims assistance need face-to-face interaction (e.g. by civil society organizations). A national identification system through which people can be identified and reached and mobile phone networks in remote areas can facilitate effective insurance enrollment. If regulators permit, premiums can also be collected through technology (e.g. mobile banking).

Enhance capacity: Reaching poor and vulnerable people with climate risk insurance requires significant capacity building measures, often involving actors not yet familiar with the tools or principles of insurance. For beneficiaries: Measures to improve financial literacy include knowledge of personal

1 See e.g. Mecheler, R. /Linneroth-Bayer, J. 2006: Disaster Insurance for the Poor? A review of micro insurance for natural disaster risks in developing countries.
financial issues, skills to manage personal finances, and confidence to make sound financial decisions including building up savings, protecting themselves against risk, and investing prudently. Beneficiaries need specific understanding of index insurance, trust and transparency with insurance providers, and comprehensive knowledge of links between disaster risk reduction and insurance. For local primary insurers: Build capacity in catastrophe risk modeling to price risk adequate premiums, train financial services experts with skills to access and market to new beneficiary groups and financial institutions that serve them (microfinance, credit unions, etc.), as well as capacity to manage claims and payments. For distribution channels: Build capacity of value chains, safety net programs, etc. to manage financial services such as hiring trained financial experts, building incentives to reduce risks, building capacity for marketing, enrollment, and claims management assistance. For governments: Building capacity in producing data that is required (socio-economic, losses, exposure, etc.), modeling weather risk, operational capacity and expertise, financial protection strategies, and systematically integrating contingency plans into policies (e.g. NAP, agricultural strategy plans, construction policies, etc.).

Embed in regulatory frameworks and risk management policies: An insurance supervisor maintains trust and ensures consumer protection by overseeing all insurance activities. Reputable insurers will not engage without regulatory frameworks and guidelines for insurance licensing and operations. Governments can incentivize industry sector participation through tax exemptions on products for poor people. Furthermore, policies and measures for risk reduction and adaptation reduce the exposure to risks and can indirectly reduce premiums. Governments can strengthen provision of relevant data including hazard, asset exposure, agricultural production, and market demand assessments.

Incentivize climate adaptation and disaster risk reduction: Prevention and insurance should be closely linked with an ex ante climate risk management strategy that prioritizes reducing human and economic losses. Such activities include: Mapping risks and avoiding settlements in high-risk zones; Building hazard-resistant infrastructures and houses; Protecting and developing hazard buffers (forests, reefs, mangroves, etc.); Improving early warning and response systems; Mainstreaming risk reduction in National Adaptation Plans (NAPs).

Foster financial inclusion: Poor people need access to tools like savings, loans, remittances, and insurance that helps them smooth household consumption and break the cycle of poverty. Financial inclusion could be improved by identity cards, financial or bank accounts to make and receive insurance payments, and processes to establish a financial history. Insurance schemes need to be designed to receive premium payments in appropriate time intervals that are linked to the financial cycles of poor households. Similarly, schemes must make timely payouts after an insured event.

Apply a participatory approach and foster public private partnership

Successful insurance schemes are based on the effective involvement of all relevant actors, providing the basis for a meaningful long-term partnership. Facilitating stakeholder dialogue is a first step in this process. It is crucial to include beneficiaries in the co-design and implementation of insurance solutions to assure products truly match needs. Target group ownership is essential for effective use of insurance as a risk management tool. Civil society can help engage the target group, build capacity through training, builds trust with financial intermediaries, and monitor and evaluate scheme governance and implementation. Development cooperation partners can support risk and needs assessments, product design, and other forms of technical support. To harness the strength of all those partners, the most effective way to set up such insurance schemes is to strive for innovative and effective public private partnerships. The risk management expertise of the private sector must be utilized to assess risks, design viable insurance products, and reach beneficiaries through effective distribution channels. The involvement of governments is key to political buy-in, ownership and integration of the insurance approaches in national planning, policies, and regulations (such as consumer protection). Governments can set incentives that facilitate insurance provision across a range of programs, including social protection and risk management, education, and agriculture.

Design for sustainability and viability

To effectively chart climate resilient pathways, InsuResilience activities need to be sustainable and viable, both in economic and social terms. Planning beyond a 5 year timescale is crucial. Applying risk
adequate premiums are one of the central elements for ensuring the viability of approaches and incentivisation of risk reduction measures.