



For Individuals: The Livelihood Protection Policy

CHALLENGE The Caribbean is prone to extreme weather events, making it a challenge for people to cope with the damaging effects of weather-related risks and the threats such risks pose to their lives and livelihoods. The expected increase in the frequency and intensity of extreme weather events brought on by climate change will further exacerbate the plight of vulnerable individuals in the Caribbean, many of whom are employed in climate vulnerable sectors such as agriculture and tourism. *Continual exposure to weather-related risk reduces economic opportunity, exhausts financial resources and erodes the overall coping capacity of low-income individuals, leading to lost livelihoods and poverty in the long-term.* Protecting the livelihoods of low-income, vulnerable individuals by improving their ability to cope with weather-related risks can make a positive contribution to socio-economic development in the Caribbean.

SOLUTION Appropriately designed weather risk insurance solutions can help people respond better to weather-related threats. *The Livelihood Protection Policy (LPP) is a weather-index based insurance policy designed specifically to help vulnerable, low-income individuals recover from the damage caused by strong winds and/or heavy rainfall during hurricanes and tropical storms.* Targeted at all individuals irrespective of income level, the LPP provides timely cash payouts soon after a weather event, enabling policy holders to start rebuilding their lives in the wake of a natural disaster.

OUTCOME The LPP stabilizes the financial situation of vulnerable, low-income individuals after a disaster and allows them to avoid adopting coping strategies that could lead them deeper into poverty. *The simplicity and flexibility of the LPP makes it easier for people to get the level of coverage they need. In addition, the SMS-based warning system will mitigate future losses by informing clients of approaching events so they can employ risk reduction strategies.* Finally, insurance coverage will improve the credit worthiness of individuals in the long-term, giving them access to financial services that they previously may not have had access to. *Access to credit can create a space of certainty for people to make investments, allowing them to safeguard their livelihoods.*

Extreme weather events have affected 1.5 million people over the last thirty years in the eastern Caribbean region.

Lashley, J. 2012. *Weather-related insurance and risk management. A demand study in the Caribbean.* Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Munich Climate Insurance Initiative (MCII) e.V. Eschborn, Bonn

THE LIVELIHOOD PROTECTION POLICY AT A GLANCE

GOAL:

To stabilize the financial situation and livelihoods of vulnerable individuals

WHO IS COVERED:

All individuals regardless of annual income (no eligibility criteria)

PERILS COVERED:

High wind speed and excessive rainfall (triggers)

TYPE:

Trigger-based parametric index insurance (based on observed values of wind, rain)

HOW IT IS DISTRIBUTED:

- 1) Group policy model: Sold to financial institutions (i.e. cooperative banks, credit unions, associations, etc.).
- 2) Individual policy model: Purchased by individual clients directly with the primary insurer.

HOW IT WORKS:

The policy pays out when threshold values for wind and/or rainfall are exceeded, without any claims assessment procedure

BENEFITS:

Quick cash payouts enable affected households to rebuild their lives soon after a weather event; SMS-based notifications alert policy holders to approaching weather events, allowing them to take precautionary measures and reduce exposure; training and education module to help communities better understand the insurance tool and improve insurance literacy

WEATHER DATA MONITORING:

Rain and wind are monitored by the DHI (formerly Danish Hydraulic Institute)

LIVELIHOOD PROTECTION POLICY MAKES A DIFFERENCE

Antoine is a farmer whose family depends on his small plot of land for food and income. In hopes of providing a better life for his family, Antoine took out a loan and bought three greenhouses to grow vegetables. The following year, in 2007, hurricane Dean struck ...

WHAT ANTOINE EXPERIENCED

Before the hurricane Antoine did not know a hurricane was approaching and did not secure his greenhouses or other assets in time.

Immediately after Two out of three greenhouses were lost, along with his sugarcane crop and livestock. He and his family barely escaped with their lives.

Medium-term Antoine spent all of his savings on food and medicine for his family. He could not pay back his loan for the greenhouses and must resort to selling other assets and asking relatives for money.

Long-term Antoine and his family ended up deeply in debt. The lost greenhouses were not replaced, making the family more vulnerable to subsequent hurricanes. These are likely to destroy more of their assets and lead them deeper into poverty.

HOW LPP COULD HAVE HELPED ANTOINE

Before the hurricane Antoine receives an SMS warning of an approaching hurricane. He secures his property and leads his family to a safe location.

Immediately after As he was able to secure his property only one greenhouse is lost. The hurricane exceeded the rainfall/wind speed threshold, so Antoine gets an SMS telling him he will receive a payout within 14 days.

Medium-term With the payout deposited in his bank account Antoine can repay his loan and start rebuilding his livelihood without resorting to more desperate coping measures.

Long-term Antoine is able to both repay his loan and rebuild the lost greenhouses with the payout he receives from his policy. This puts him and his family in a better position for when another hurricane inevitably strikes.