Insuring for a changing climate

A review and reflection on CARE's experience with microinsurance

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Acknowledgements

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Special thanks to Alix Wadeson (who did initial background work) and to the CARE staff who generously gave of their time for interviews, including Phyllis Kariuki, Mwende Kusewa, Gifty Blekpe, Ahmad Sadequl Amin (Fahim), R Devabalan, Bharati Joshi, Bal Krishna Jamarkattle, and Blandina Karoma. In addition, valuable feedback and input was provided by Sheri Lim, Sven Harmeling, Vtumbiko Chinoko, and Matthew Pickard.

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Executive summary

In many parts of the world, the impact of climate change is already having devastating effects on lives, livelihoods, and assets. An increase in the frequency and intensity of extreme weather events is not only disrupting and threatening development gains but also has costly implications for humanitarian response and creates significant financial risk for countries, communities, and households. As a result, planning and programming to strengthen climate resilience is now commonplace in development interventions. Governments and donors are prioritising integrated disaster risk management (DRM) approaches that shift support away from reactionary crisis management towards prevention and early action aimed at addressing the drivers of risk. As the profile for and importance of DRM rises, so do the strategies and processes for financing these new priorities. In turn, as part of a set of disaster risk financing tools, insurance schemes are being championed as a way to finance the mitigation of negative effects that extreme weather events can have on individuals, households, communities, and countries.

As a rather new risk mitigation mechanism in the developing world, rigorous assessments surrounding the impact and success of climate risk insurance, particularly for the poor, are relatively weak. However, there is a great deal of literature available that review individual schemes and/or provide insights into the considerations and challenges of implementing such schemes. For young insurance markets, *insufficient financial infrastructure, regulatory frameworks, and high-quality risk* data pose a major hurdle to employing insurance as do the technical issues surrounding basis risk attached to index-based insurance schemes. The target population for products are often low-income and may have little to no exposure to insurance products. *Low awareness* of products is further compounded by *low levels of financial and climate literacy*. Fostering *trust and reliability* in products and the actors providing them presents yet another challenge to uptake. Attention must be given to how insurance products are designed; the way in which people learn of and register for a product, the speed at which claim payouts are made, the accuracy in valuing risk and/or damage, and how contracts are enforced are all vital to microinsurance's success. Further, insurance schemes need to reflect on the *cultural context* in which they exist and ensure they are complimentary to any informal safety net mechanisms that may already exist in a community. As men are often those that control resources and decision-making in a household, *gender* considerations must be made to ensure women are benefitting from schemes.

Understanding the *opportunity-cost* of using insurance is vital to understanding its appropriateness. Within DRM, there are many approaches to managing risk that include Disaster Risk Reduction, livelihood diversification, and adaptation measures; investments in insurance may reduce investment in these alternatives. Ideally, insurance schemes sit within *a larger package of risk management interventions*. In cases where insurance provided positive results and unlocked opportunities, it is often not insurance alone but the interplay of insurance with other risk management activities and social protection tools that targeted layers of risk.

Within the context of this existing research and discussion, the report reviews CARE's experience with microinsurance through seven case study examples across its global programmes. Case studies presented cover climate risk insurance, such as livestock and crop insurance, but also other social microinsurance products that, whilst not categorised as "climate insurance," provide relevant lessons. Case studies include: (1) CARE Kenya – micro health insurance; (2) CARE Kenya – index based livestock insurance; (3) CARE Ghana – micro funeral insurance; (4) CARE Bangladesh – health insurance; CARE India – a bundled insurance product for multiple risks; (6) CARE Nepal – crop, livestock and health insurance; and (7) CARE Tanzania – multi-peril crop insurance. Each case study presents an overview of the scheme, the project successes, challenges, lessons learned, and 'big picture' reflections.

CARE's experience with insurance covers varying risks, ecologies, and contexts. The case studies provide examples of schemes addressing climate and social risks, that have been stand alone projects or part of a larger intervention, that have worked with both government and private sector schemes, and that have supported the design of new products or increased access to existing products.

Before summarising the findings and recommendations from these case studies, the report briefly highlights the Munich Climate Insurance Initiative's Pro Poor Principles for Climate Risk Insurance. Although these principles are in relation to climate risk insurance, they are also relevant to other microinsurance schemes discussed in the report. The seven principles covered are: (1) comprehensive needs-based solutions, (2) client value, (3) affordability, (4) accessibility, (5) participation, transparency, and accountability, (6) sustainability, and (7) enabling environment.

Recommendations

1. INSURANCE SHOULD SIT WITHIN A COMPREHENSIVE RISK MANAGEMENT PLAN

Undertaking risk and vulnerability assessments supports understanding the multiple layers of risk that an individual, household, community, or a demographic may face. When a risk profile is accurately understood, the opportunity cost of employing insurance can be evaluated to see if and how best it can compliment a risk layering approach that poses a set of solutions for prevention, preparedness, adaptation, response and recovery.

2. UNDERSTAND THE LOCAL AND NATIONAL INSURANCE MARKET

It is necessary to have a robust understanding of the insurance sector that includes the products on offer at local and national levels as well as the private sector companies, financial institutions, and government actors that provide insurance products, if any, and relevant regulatory authorities.

3. ENSURE THERE IS ENOUGH TIME AND CAPACITY FOR A ROBUST DESIGN PHASE

How policy holders learn about a policy, register for it, report claims, receive payments, and provide feedback are all factors integral to the uptake and success of a product. If supporting schemes that design a new product, actors should ensure there is ample capacity, in terms of time, human resource, and budget, to support a robust design phase.

4. INCLUDE POTENTIAL POLICYHOLDERS IN THE DESIGN OF THE SCHEME

Any design phase for a new product should aim to facilitate a participatory process with the demographic that the product will target. Including potential policyholders in the design will help create a product that is tailored to their risks, reflects their risk appetite, and ensures inclusivity of product development.

5. CAREFULLY CONSIDER CULTURAL CONTEXT IN DESIGN

Cultural context varies and this influences risk profiles and the types of insurance products needed. The main risks faced and how they contribute to vulnerability will inform what insurance should target and can impact on a product's design, as is the case with the need for Sharia compliant products for Muslim populations.

6. PURPOSEFULLY ADDRESS GENDER DYNAMICS

Understanding gender dynamics is vital to the success of a scheme and ensuring that we are doing no harm by further entrenching inequality. Insurance products should in no way further distance women from influencing decision making and control of resources in their home, and should also be designed to address the different needs and risks of women and men.

7. REFLECT ON THE COMMITMENT AND SUSTAINABILITY OF PARTNERS

Where we are approaching the private sector to design new products, it is imperative that we are able to present a solid business case that considers various business models and modalities to support researching, designing, piloting, and rolling out, etc. a scheme. Importantly, the will and skill of a company must be considered for sustainability. When supporting and collaborating with government partners and public bodies, their ability to continue providing time and resources to a scheme should be evaluated.

8. PLAN SUBSIDIES CAREFULLY

If subsidies are offered, it is essential to consider how they will be sustained and/or phased out. When subsidies are thoughtfully planned for, they can be a useful tool in supporting the uptake of the product, especially in areas where insurance is a new concept.

9. PLAN AND PREPARE FOR ROBUST AND CONTINUOUS SENSITISATION

The target population's literacy, financial literacy, climate literacy, and previous experience with insurance will influence how to educate and the level of awareness-raising needed. Sensitisation will be central to ensuring that policyholders clearly understand the concept of insurance, its process, and the terms of their contract. Sufficient time, resources, and strategy are needed to undertake sensitisation (and sometimes continuous sensitisation throughout), as this is a vital step when working with new and young insurance markets.

10. ENSURE CLIENT'S RISK PROFILE IS AT THE CENTRE OF POLICY MARKETING AND SALES

When insurance products are marketed, it is crucial that the potential policyholder's risk profile is at the heart of purchasing decisions. Some models for marketing products incentivise the agent for each policy sold. In such cases there is a risk of an agent mis-selling products to bolster their numbers and the rewards they receive. Ensuring that the marketing agent is trained in how to help individuals/household's assess their risk to choose an appropriate policy can mitigate this risk.

11. PLAN TO MONITOR, EVALUATE, AND MEASURE IMPACT

Strong monitoring and evaluation systems should be developed to track the impact of insurance on resilience capacities and outcomes as well as how the scheme is gender inclusive, what level of poverty the participants have, and what sensitisation techniques are most successful in influencing uptake.

12. WHERE NGOs ARE NOT DIRECTLY INSURANCE PROVIDERS OR PROVIDERS OF FINANCIAL SERVICES, THEY CAN PLAY A FACILITATIVE ROLE IN THE PROCESS

For sustainability, organisations should try to position themselves as only a facilitator of the insurance scheme as opposed to being a system primary actor. Civil society organisations have excellent entry points in communities (Village Savings and Loan Associations, self-help groups, farmer groups, etc.) and existing relationships with communities and local governments, position us to leverage these relationships.

Final considerations

The report concludes by framing two larger conceptual issues that require further exploration by NGOs and practitioners considering insurance. First, literature surrounding climate microinsurance has documented and argued that insurance may not be the best strategy to mitigate risk for the most vulnerable or poorest of the poor. Reasons for this are attributed to the weak asset base and financial position that the poorest tend to be in: they may be unable to pay insurance premiums. If considering insurance, actors need to be cognisant of the discussion surrounding who is best suited for insurance. Secondly, for schemes targeting climate risk, a debate surrounding climate justice questions if having low-income people pay for their insurance is a fair solution, when they have had negligible contribution to the climate change that is causing the risks they are having to insure. For schemes supporting health insurance for user fee systems, these are at odds with advocacy positions that support universal health care by governments. In supporting these health schemes, actors may be unknowingly taking a side in that debate.

1. Introduction

In many parts of the world, the impact of climate change is already having devastating effects on lives, livelihoods, and assets. An increase in the frequency and intensity of extreme weather events is not only disrupting and threatening development gains but also has costly implications for humanitarian response and creates significant financial risk for countries, communities, and households. As a result, planning and programming to strengthen climate resilience is now commonplace in development interventions. Governments and donors are prioritising integrated disaster risk management (DRM) approaches that support prevention and early action aimed at addressing the drivers of risk. As the profile for and importance of DRM rises, so do the strategies and processes for financing these new priorities.

Disaster risk management: the application of disaster risk reduction policies and strategies to prevent new disaster risk, reduce existing disaster risk and manage residual risk, contributing to the strengthening of resilience and reduction of disaster losses.

Risk financing: the process of managing risk and the consequences of residual risk through financial products such as contingency funds, insurance, catastrophe bonds, etc.

In turn, as part of a set of disaster risk financing tools, insurance schemes are being championed to finance the mitigation of or response to negative effects that extreme weather events can have on individuals, households, communities, and countries. Climate risk insurance schemes are a mechanism of risk transfer designed to pay out to the policyholder when defined climate related events take place, thus transferring risk from the policyholder to the insurer. Especially in developing countries, this often takes the form of 'index' or 'parametric' insurance that pays out when specific conditions – such as the amount of rainfall, wind speed, or the greenness of vegetation in a specific geographic area – fall outside of pre-defined parameters. Climate risk insurance can be implemented at several levels including: (1) directly, at the micro-level, where individuals such as farmers hold policies and receive payouts directly; (2) indirectly at the meso-level, where policies are held by 'risk aggregator' organisations that provide services to individuals, such as financial institutions, cooperatives, credit unions or NGOs; and (3) at the macro-level, where policies are held by governments or other agencies working at national levels, in order to provide emergency funding without cutting into regular budgets (RESULTS UK, 2016).[1]

The rise of insurance as a disaster risk financing tool has been supported by the World Bank and OECD who offer financial and technical assistance to countries seeking to build financial resilience to natural disasters; since 2010, the World Banks's Disaster Risk Financing and Insurance Program (DRFIP) has supported over 50 countries to access this support (Oxfam, 2018). In 2017, DFID established the Centre for Global Disaster Protection as their flagship disaster risk finance technical assistance programme, aiming to support developing countries to strengthen their pre-disaster planning and financial arrangements so they can respond more rapidly and effectively when a natural disaster strikes. Globally, the Sendai Framework for Disaster Risk Reduction highlights insurance as an important mechanism for disaster risk transfer and as an area where private sector can contribute to disaster resilience (UNISDR, 2017). Further support for insurance schemes, and importantly political will, was cemented in 2015 through the G7 InsuResilience Initiative that set an ambitious goal of expanding direct or indirect insurance coverage against climate change impacts to 400 million people in the most vulnerable developing countries by 2020 (InsuResilience, 2017).

As momentum for insurance increases so has concern that it may take valuable, yet limited, resources away from other DRM strategies such as risk reduction and adaptation. Furthermore, there is not a long-standing, diverse body of empirical evidence surrounding the success and failure of insurance schemes, their impact on building resilience, the cost benefit of using insurance over other DRM strategies, and the influence of schemes on structural financial and gender inequalities. Critiques and reviews of schemes highlight that there may be an over statement of the benefits of insurance as a risk management approach, that insurance may not necessarily be the best tool to reach the most poor and vulnerable, that the reality of nascent insurance markets in developing countries provides immense challenges to its success, that outstanding technical issues such as basis risk (further explored in Section 2) present real barriers to uptake, and that the high cost makes affordability and scaling of schemes difficult.

Despite the many questions that remain, there are examples of successful insurance schemes globally,[2] and where they have been less successful, important lessons and learning have been collected. Across its global programming, CARE has significant experience with a range of insurance schemes that have been implemented to strengthen the resilience of households and communities. This aim of this review is to share lessons to NGOs and development practitioners on insurance schemes by reviewing microinsurance schemes across seven CARE case studies globally. The report covers climate risk insurance, such as crop and livestock insurance, but also includes other Microinsurance products that, whilst not categorised as "climate insurance," still provide relevant lessons for consideration.

Section 2 highlights the role of insurance in DRM and resilience building, considerations for assessing schemes, and considerations to implementing successful schemes for the poor and vulnerable. Section 3 then reviews case study examples where CARE has supported insurance schemes across its global programmes. Section 4 presents insurance pro-poor principles that have been suggested in leading reviews on microinsurance while the final section, 5, consolidates learnings from the case studies and provides recommendations to NGOs and development practitioners/actors considering insurance options in their programming.

2. The role of insurance in disaster risk management and resilience building

Disaster risk management (DRM) aims to integrate approaches to comprehensively address the multiple dimensions of risk emergence, risk management, and the impact of disasters. At the centre of DRM is understanding a country (or community, household, or individual's) risk profile,[3] as this provides for a more holistic understanding of the layers of risk and the drivers of risk and vulnerability. Figure 1 provides a framework for how integrated DRM is conceptualised.

Figure 1: MCII/GIZ/ACRI+ framework for integrated disaster and climate risk management

Source: Le Quesne, et. al., 2017

Within this framework, the outer circle represents the five phases of disaster risk management, while the middle circle shows the main inputs of the DRM cycle, and resilience is represented in the middle as a crosscutting factor that contributes to and benefits from integrated DRM (Le Quesne, et. al., 2017). As a risk transfer approach, insurance options are considered an ex-ante mechanism, or a measure that is implemented prior to a disaster occurring. Traditionally, the role of risk transfer and insurance was focused on response and recovery, but now more attention is being paid to the potential role these can play in risk prevention and preparedness (Le Quesne, et. al., 2017).

DRR programming and adaptation programming are also ex ante mechanisms, applied prior to a disaster taking place. Concern that insurance will reduce the funding and support towards DRR and adaptation activities is growing. Oxfam (2018) argues that as it stands, risk reduction and adaptation are proven to be effective and cost-effective yet remain critically underfunded; of every $100 spent in development assistance, only $0.40 is spent on DRR (Kellet, et al., 2013). While for adaptation funding needs, it is estimated that $140-$300 billion are needed per year by 2025/30 and this annual figure will rise to $280-500 billion per year by 2050, increasing in cost over time (UNEP, 2016). In comparison, the InsuResilience Global Partnership has raised around $715 million, a figure that is about the same as international donors contribute to DRR every year (Oxfam, 2018). Innovative approaches such as insurance are surely part of the solution, however this raises questions if it will lead to reduced investment in other proven approaches that lower and mitigate risk.

The opportunity cost of using insurance over other ex ante mechanisms is further called into question when considered against the success of the schemes to manage risk and build resilience. Being a relatively new strategy employed in DRM across the developing world, assessments surrounding the impact and success of climate risk insurance, particularly for the poor, are relatively weak. There is not a global body of empirical evidence that is based on a systematic framework of indicators, showing the impact of these schemes. Lack of impact assessment coupled with the recent intensified push for insurance has brought many practitioners and organisations to think critically about the power of insurance to manage risk and build resilience.

2.1 Considerations for assessing schemes

In an attempt to take stock of evidence and make recommendations for future schemes, the Munich Climate Insurance Initiative (MCII) and the Overseas Development Institute (ODI) have published studies respectively that review past climate risk insurance schemes. Both studies acknowledge that insurance has historically been well-recognised for its role in response and recovery by providing predictable payouts that can help reduce the negative impacts of a shock after it takes place. Yet, increasingly, there is a question on whether and how insurance can contribute to the management of residual risk, risk preparedness, and risk prevention (Le Quesne, 2017).

Figure 2: The contribution of climate risk insurance in comprehensive disaster risk management to resilience building

CONTRIBUTION OF CLIMATE RISK INSURANCE		DETERMINANTS OF RESILIENCE
CATALYSING	• Risk assessment	*ANTICIPATE*
PROTECTING	• Improving financial liquidity after a disaster • Reducing distress asset sale • Increasing food security • Enabling rapid recovery	*ABSORB*
PROMOTING	• Increasing savings • Increasing productivity & investment in higher return activities • Improving credit worthiness	*ADAPT*
SPURRING TRANSFORMATION	• Incentivising risk reduction behaviour • Fostering a culture of prevention-focused risk management	

Source: MCII, 2016

When looking at how an integrated DRM approach contributes to resilience, the focus centres on how and if insurance strengthens anticipatory, absorptive, and adaptive capacities. In a 2016 study, MCII analysed 18 climate risk insurance schemes, including some CARE participated in that are featured in this report, and found that insurance has the *potential* to contribute to increasing these key resilience capacities in four ways:

1. Catalysing other elements in the process of comprehensive risk management that are necessary to build resilience.
2. Protecting against climate shocks.
3. Promoting people by unlocking opportunities.
4. Spurring transformation by incentivising risk reduction behaviour and fostering a culture of prevention-focused risk management (MCII, 2016).

To understand how insurance contributes to resilience building of its beneficiaries, MCII assessed the 18 schemes against the framework above (in Figure 2, each bullet point represents an indicator assessed) and found that there has been little comprehensive monitoring and evaluation of insurance against such indicators. In fact, for the majority of projects, there was not sufficient data that could answer whether these schemes had a positive effect on most of these indicators and therefore contributed to resilience building.

In 2017, the Overseas Development Institute (ODI) reviewed insurance schemes for their impact through the lens of the Resilience Triple Dividend framework.[4] The Resilience Triple Dividend framework seeks to improve the business case for investing in disaster risk management (DRM) and suggests that such investments could yield significant and tangible benefits, even in the absence of a disaster (Tanner et al., 2015). The framework focuses on three types of dividends (i.e. benefits):

1. Avoiding losses when disasters strike;
2. Stimulating economic activity by reducing disaster risk; and
3. Social, environmental and economic benefits associated with specific DRM investments.

By using this framework, the report helps to understand the added value of insurance schemes by showing the nature of costs and benefits. Table 1 illustrates the negative and positive impacts of insurance against the three dividends in the framework. Additionally, it looks at where there are evidence gaps in each dividend.

Table 1: Impacts and evidence gaps of insurance schemes through the Triple Dividend lens

Dividend	Negative	Positive	Evidence Gap
Compensating losses and avoiding long-term negative impacts when disasters strike	In the case of index insurance (that pays out when conditions are met, e.g. insufficient rainfall, rather than on an assessed loss), basis risk[5] can introduce significant costs to the insured and/or the insurer that may undermine the insurance mechanism as a whole.	Payouts from agricultural insurance can help farmers and herders smooth consumption and recover after shocks, *but this effect can be undermined by inadequate or flawed insurance design.*	If a swift payout from micro- and macroinsurance schemes may also help the insured to avoid longer-term economic impacts from disasters.
Stimulating economic activity by reducing actual and perceived disaster risk	The poorest of the poor rarely benefit from this effect, as they cannot afford to pay an insurance premium.	The expectation of receiving a payout when an insured disaster or shock occurs can increase risk-taking as it reduces the financial repercussions of volatility, positively impacting a HH's ability to plan, save, and invest in more profitable livelihood opportunities. (This positive effect is generally felt by groups that are not at risk of falling into the poverty trap, helping them to stay out of it and to maintain income growth)	Assessment of longer-term behavioural change related to insurance and the sustainability of these effects in the context of climate change.
Social, environmental and economic co-benefits	The benefits can be undermined by trade-offs in investment decisions, opportunity costs, unequally distributed impacts from insurance, gender biases, costs from insurer failure and deficiencies in the reliability or efficiency of insurance schemes. There is nothing inherent to insurance that prevents it from incentivising maladaptation and entrenched vulnerability. For example, if insurance products are bundled with modern agricultural inputs, they may contribute to biodiversity and soil nutrient loss.	Insurance systems can strengthen the capacity of individuals, households, firms, organisations or states to prepare for and cope with disasters, can drive (economic) development, and can generate co-benefits even in the absence of disasters.	If there is an increase in subjective wellbeing, because coverage provides 'peace of mind'. If insurance schemes influence voter behaviour and contribute to political accountability. In general, the gendered dynamics of insurance and risk reduction.

Source: MCII, 2016; Le Quesne, 2017

2.2 Considerations for implementing successful insurance schemes

Despite the gaps in rigorous assessments on the impact of insurance schemes to manage risk and building resilience, there is literature available that reviews individual schemes and/or provide insights into the considerations and challenges of implementing such schemes. From this body of work there are lessons and recommendations that have been compiled and analysed in reference to uptake, targeting, and factors that impact on the success of a scheme.

First and foremost, at a macro level for insurance to be a viable option requires ***sufficient financial infrastructure, regulatory frameworks, and high-quality risk data***. In developing countries where these factors may be weak or inadequate, there is a risk that the benefits of insurance may be overstated and the growing enthusiasm unwarranted (Weingärtner, et al., 2017).

For these young insurance markets, ***technical issues around basis risk*** are a cause for concern. Index rather than indemnity insurance is most often used in developing countries due to the high administrative costs that indemnity insurance requires in verifying individual household losses. Index insurance has the benefit of paying out more quickly to policy holders, however, it also presents disadvantages, namely around basis risk.[6] Basis risk can be reduced through product design, but never eliminated, which means that index insurance products may not reduce financial risk and could result in more harm to the policyholder as paying the premium comes with an opportunity cost to other risk mitigation strategies (Oxfam, 2018).

In this context, two key determinants of insurance uptake are ***affordability and liquidity***. The high cost of insurance premiums can often prohibit its uptake. In 2014, a study by Karlan, et al. found that despite understanding the value of insurance, less than 20% of farmers in Northern Ghana were willing to purchase the insurance product at market price. In Kenya, a randomised control trial tested a product in which the buyer of the crop offered insurance and the premium deducted from farmer revenues at harvest. The study found that uptake was 67 percent higher than standard insurance products that require upfront payment (Casaburi and Willis, 2017), but subsidising the premium for up-front payment did not increase demand. Linked to liquidity, this means that the ***timing of payment*** is a determinant of demand, just as much or more than price (Casaburi and Willis, 2017).

Another factor to consider for uptake surrounds low ***knowledge of insurance products***, which is compounded by ***low levels of financial and climate literacy*** in many of the groups targeted for insurance products. Le Quesne, et al. (2017) notes that research has shown that weak demand for formal insurance can be attributed to the "inability of potential policyholders to understand the nature of the product and assess the most rational option for reducing their exposure." Not surprisingly, individuals with low levels of both financial and climate literacy are less likely to participate in insurance markets and studies have shown that when insurance programmes are offered in tandem with education programmes about the insurance, uptake increases (Le Quesne, et al., 2017).

A final consideration for understanding trends in (micro) insurance uptake relates to ***trust and reliability***. Several research studies aimed at exploring the demand side of insurance have found that trust in the insurance scheme and in the institution supporting it are vital (Le Quesne, et al., 2017; Weingärtner, et al., 2017). To ask individuals or business to make up-front premium payments without potentially receiving any benefit requires not only a good understanding of how insurance works, but also requires trust in the insurance provider. In contexts where there was little trust in the government as the insurance provider, research has shown that having a trusted third party endorse the policy increased the take-up of insurance policies (Le Quesne, et al., 2017).

Due to, but not limited to, the factors presented above, numerous research studies and analysis briefs have acknowledged that ***insurance schemes may not reach the most vulnerable and/or poorest of the poor*** (Weingärtner, et al., 2017; Schafer and Waters, 2016; Le Quesne, et al., 2017). In fact, Schafer and Waters (2016) noted that when premium payments have to be covered by the insured, insurance could exacerbate inequality as only the wealthier can afford the premiums (Schafer and Waters, 2016).

For index based insurance schemes, Weingärtner, et al. (2017) notes that premium prices are on average 150% higher than the actuarially fair price,[7] yet the willingness to pay for insurance often remains well below this price, as is the case in Index Based Livestock Insurance (ILBI) schemes across the world.[8] Further, basis risk[9] remains inherent to index-based insurance products and thus reduces the reliability of insurance mechanisms, representing a caveat for take-up. Currently, very few schemes have effective funds or mechanisms in place to sustainably manage basis risk (Weingärtner, et al., 2017).

In turn, for the extremely poor, the high cost of premiums is not only prohibitive, but research has shown that paying these high premiums can hinder their progress out of poverty by ***limiting their investment potential*** (Le Quesne, et al., 2017). In Kenya, an ILBI scheme benefited groups that were vulnerable,[10] but not the most poor (Chantarat, et. al, 2017). For the vulnerable group, insurance played an effective risk management strategy by providing a safety net that protects them from falling into poverty after a drought. However, for the most poor, their assets were too small to benefit from insurance which means that there is likely a critical asset threshold that must be met for insurance to be a financially sustainable option (Le Quesne, et al., 2017). For vulnerable groups, research suggests that insurance should be complimented with other measures to lift the insured above this critical threshold, such as asset accumulation programmes (Schafer and Waters, 2016; Le Quesne, et al., 2017).

When understanding the success factors of effective insurance schemes, evidence has shown that ***design matters*** (Le Quesne et al., 2017; Weingärtner, et al., 2017). Aspects in design that need to be considered include: the speed at which payouts are made, the accuracy in valuing risk and/or damage, how to enforce discipline of contracts, and how the product is designed in line with local needs and context (Le Quesne, et al., 2017). For instance, research of an IBLI scheme in Kenya found that it was more appropriate to insure lost assets rather than lost income because for herders operating near the poverty line the loss of livestock has greater consequences for future herd dynamics (and future income) than the loss of immediate income (Chantarat, et al., 2017). In a similar vein, the design of a scheme needs to take into account the ***existing local and/or informal safety net and social protection mechanisms*** (Schafer and Waters, 2016). In many communities there are already informal risk sharing schemes and the extent of these existing systems can influence demand for formal insurance (Le Quesne, et al., 2017). In some instances, formal insurance schemes may lead people to withdraw from informal schemes and leave them with less protection.

An eight-year long impact evaluation of rainfall-based index insurance in India found there was a reduction in transfers between peers caused by insurance payouts (Weingärtner, et al., 2017). Although global evidence around this impact pertains more to safety net schemes rather than insurance schemes, it is important to understand that insurance schemes do not operate in a vacuum and can have negative implications for existing informal schemes (Le Quesne, et al., 2017).

Design of schemes must also take into consideration ***gender dynamics***, as consequently, insurance tends to have a natural gender bias towards men. The reasons for this vary depending on context, but generally men are likely to own or control higher value assets that insurance is designed to protect, whereas women are often poorer and less able to afford premiums. Moreover, insurance policies tend to be taken out in a single individual's name, and some schemes require land ownership and bank accounts, of which women disproportionately lack access to (Le Quesne, et al., 2017). Another important consideration is that women face higher health risks associated with reproduction and childcare and are more likely to choose savings (which can be flexibly used to cover multiple risks) over insurance (which is designed to cover one risk) (Weingärtner, et al., 2017). Yet, we know that women play a vital role in maximising the risk reduction outcomes of insurance schemes. Specific gender targeting is needed otherwise there is a risk that insurance schemes could reinforce control of decisions making and resources towards the male head of household (Le Quesne, et al., 2017). Subsidising premiums or combining it with other social security mechanisms can be a way to counteract the potential spiral of deepening inequalities, including gender inequality and high opportunity costs of insurance premiums to the poor (Weingärtner, et al., 2017).

It is also worth noting that ***climate change*** in itself is a factor that will influence the success of climate risk insurance. Weingärtner, et al. (2017) note that, paradoxically, climate change may make insurance a less viable option as it may make predicting when and how losses will manifest even more challenging – thus making insurance more difficult to design to correctly target risks faced by communities. Furthermore, climate change may drive losses to a level where they become too frequent, too costly or too unpredictable to insure (Weingärtner, et al., 2017).

Considering all the factors and as has been previously discussed above, the ***opportunity-cost*** of using insurance must be closely examined. In this regard, insurance may not always be the most appropriate and most sustainable risk management mechanism for a respective country or target group. There are alternatives approaches to insurance to manage risk that include DRR, adaptation measures, informal savings schemes, social safety nets, or cash transfer programmes (Weingärtner, et al., 2017). Investment in insurance can sometimes have the opportunity cost of reducing investment in these alternatives.

Ideally, countries have the option of employing insurance within ***a larger package of risk management interventions***. In cases where insurance provided positive results and unlocked opportunities, it was often not insurance alone but the interplay of insurance with other risk management activities and social protection tools that targeted layers of risk (Schafer and Waters, 2017).

Section 5 of this report will look at how all of the factors discussed above can be better considered to ensure that insurance benefits those that need it most, the poor.

2.3 A comment on health insurance schemes

This report includes two case studies of health insurance and although they sit outside the questions of climate risk insurance covered above, most of these considerations are still relevant to health insurance schemes. Further, an extensive report from Oxfam (2013) details significant concerns in regards to all forms of health insurance – private, community-based, and social health insurance – and advocates for universal health coverage (UHC) paid for by taxation revenue.

The main criticisms behind Community-Based Health Insurance (CBHI) are that the premiums are charged at a flat rate, making it highly regressive as poor people pay a higher proportion of their income. Whilst recognising that CBHI plays a role in providing financial risk protection in situations where more widespread prepayment and pooling arrangements do not exist, their potential to be scaled up to reach UHC is limited. Social health insurance (SHI) is criticised for only covering those in the formal sector, and taking too long to reach coverage of the whole population (127 years for Germany, and Kenya's National Hospital Insurance Fund, established 50 years ago, insures only 18% of Kenyans). Oxfam (2013) advocates for UHC funded from tax revenues as having significantly better pro-poor outcomes. Sri Lanka presents a successful example of UHC whereby their tax-financed health system resulted in better health outcomes than most other developing countries; only 7% of the government budget was spent on health and this resulted in only 0.3% of households falling back into poverty each year as a result of health-care costs. If organisations are supporting health insurance schemes, the overall role that governments should play in providing health coverage must be considered and how insurance will affect that.

3: CARE's experience with insurance

In this section, the report will explore CARE's global experience with insurance by presenting seven case studies from CARE's programming. Case studies are drawn from Kenya, Ghana, Bangladesh, India, Nepal, and Tanzania. Information from each case study was collected from interviews[11] with CARE staff and drawn from project documents.

CARE KENYA: HEALTH MICROINSURANCE, PROFIT

Project overview:

From 2016-2019 CARE is part of the Program for Rural Outreach of Financial Innovations and Technologies (PROFIT) project which aims to transition the extremely poor out of poverty by strengthening viable, sustainable livelihoods. The project supports the following outputs, which include a health Microinsurance scheme:

- Consumption stipend to meet basic needs;
- Skills development;
- Continuous coaching and mentorship;
- Income generation asset support based on capacities, training, experience (assets surrounded goat production, tailoring, vegetable irrigation, and water vending businesses); and
- Health cover from the Kenya National Hospital Insurance Fund (NHIF) delivered through government approved health clinics.

The health insurance component's objective seeks to address the high costs of health care and acknowledges that when project participants encounter health problems, they are likely to use savings and/or sell productive assets to cover health fees. The insurance provides an alternative to selling productive assets to meet family medical costs.

The project targeted 1,000 ultra-poor individuals living below the poverty line (1.25 USD a day). At least 60% of the targeted beneficiaries are youth headed households (18-34) and the majority of participants are women.

The project fully subsidised the cost of the premium payment during the pilot period, initially set at KES (Kenyan Shillings) 200 but raised to KES 500 in the middle of the project. Over the project's first two years, the health insurance component costed around 45,000 USD out of an overall 2 million USD project budget. This equates to 45 USD per participant over the project lifetime, 15 USD per participant each year, or 1.25 USD per month.

Importantly, the project considered that the target population would not understand the value of the government health insurance scheme and/or not know how to access it. In turn, through Village Savings and Loan Associations (VSLAs)[12] the project carried out sensitisation and training on the health insurance scheme, which was deemed successful by project implementers in raising awareness and understanding about insurance to project participants.

Project successes:

- *Cost-effective way to fund a health programme:* In this example, the insurance scheme provides low-cost way for CARE to support health needs. For CARE the expense per participant is relatively small within the overall project budget, although for households the premium represents a major payment – the equivalent of twelve days of work.
- *Supporting government schemes:* This project had the benefit of supporting a government run scheme, which not only strengthens local systems but also contributes to the sustainability of the scheme.
- *Formally registering target population:* A positive externality of the project is that it provides the opportunity to assist the target population in overcoming the administrative burdens of registering for birth certificates and national identity cards in order to access government services.

Project challenges:

- *Access to health centres:* The scheme only ran in government health facilities that were not always geographically convenient for policyholders. In some counties, facilities were 6-10 Kms away.
- *Health centre operational issues:* Policyholders complained about long queues at health centres and that there were often drug shortages.
- *Health system dynamics:* There are disagreements between the national government and the county government in many of these hospitals and it is commonplace for doctors and nurses to go on strike, impacting health service delivery.
- *Prerequisites to receiving insurance:* In order to receive government insurance people have to hold a national ID card, and for children to be covered, a birth certificate is required. In this particular area, births are not always registered and without a birth certificate it is difficult to obtain a national ID card. Furthermore, cultural practices hinder women from getting ID cards if parents have not paid dowry. This required the project to undertake further sensitisation with government offices to seek national ID cards regardless of if dowry has been paid or not.
- *Working with a national level government system:* The scheme was administered at the national level yet implemented at the county level, which created some issues. For instance, even though CARE had paid premiums, cards were not activated for policyholders. In turn, CARE had to manually check that all cards were activated, a process that took valuable staff time and delayed processes.

Lessons learned:

- *Sustainability:* As the project fully subsidised the premium payments, the sustainability of the initiative is called into question. As a result, the policyholders were organised into VSLAs in order for them to start making contributions to cover payments once the project ends. There is however, uncertain evidence that this will be a successful mechanism for covering payments in future and highlights the concern that limited savings may be put towards policy payments rather than saving, which could potentially increase their vulnerability.

Reflections:

In addition to the concerns identified by Oxfam in the previous section, the WHO (2010) has identified "the continued reliance on direct payments, including user fees, as by far the greatest obstacle to progress towards universal health coverage." It is worth considering whether if supporting health insurance schemes is in opposition to advocating for the poor to receive free, and better quality, health care from the government without having to pay insurance premiums. In 2013, it was judged that Kenya, despite already rapidly increasing its tax receipts from corporate and personal tax, had significant untapped tax capacity of KSH 244bn (2.86bn USD) – enough to more than double government spending on health (Oxfam, 2013).

In addition, the insurance scheme does not address any of the *structural and systemic shortfalls* of the government health scheme, such as an insufficient amount of clinics and drugs, and health personnel dissatisfaction that is leading to conflict and strikes.

CARE KENYA: INDEX-BASED LIVESTOCK INSURANCE, MARSABIT DROUGHT RESILIENCE PROJECT

Project overview:

From 2012-2013, in partnership with the International Livestock Research Institute (ILRI) and UAP Insurance, CARE Kenya participated in the Marsabit Drought Resilience Project (MDREP). CARE was brought into the project after the pilot had already attempted to roll out the Index-based Livestock Insurance (IBLI). Due to low demand, ILRI and UAP Insurance chose CARE to help sensitise communities to ILBI due to our extensive reach into communities through VSLAs. ILBI is an indexed based insurance that measures pasture availability using a Normalised Difference Vegetation Index (NDVI) which then can be used to predict livestock mortality. As we have previously seen, one of the main criticisms of insurance schemes is that they are not effective risk mechanism for the poorest of the poor. In this case, the project focused on vulnerable pastoral households, but importantly those that were members of VSLA groups as they were more likely to have established savings and an asset base.

Government and UAP (the insurance company) extension workers sensitised VSLAs and migratory livestock herders to the value of ILBI using a pictorial booklet and other "edutainment" activities such as radio programmes, plays, and simulation games. Using extension workers to sensitise was important as communities had many questions regarding the scheme and were able to engage with extension workers to have them answered. During the pilot, a total of 165 IBLI contracts were initiated at a value of KES 191,012 (2,247 USD) from the 1,753 pastoralists reached.

The design of the scheme did not initially take into account the high Muslim population and their need for Sharia compliant products and this was identified as a barrier during the pilot project. In subsequent phases a Sharia complaint company was selected to develop a Sharia-compliant product for rolling out to other areas of the country.

Project successes:

- *Protected livestock assets:* There was a 36% reduction in the likelihood of distress livestock sales (Jensen, et al., 2015).[13] [14]
- *Reduced negative coping strategies:* There was a 25-36% reduction in likelihood of reducing meals as a coping strategy (Jensen, et al., 2015).
- *Increased investments in livestock health:* In non-drought years, households with IBLI coverage increased investments in livestock veterinary and vaccination services (Jensen, et al., 2015).
- *Less dependence on assistance:* Households were 42-50% less dependent on food aid and 0-26% less reliant on other forms of assistance (Janzen and Carter, 2013). However, it is difficult to give full attribution of this outcome to insurance alone; CARE and other NGOs were running concurrent programmes (educating farmers about markets, price of cattle, providing weather information) that may also have impacted dependence on assistance.
- *Government buy-in and scale-up:* Drawing on the lessons from the ILRI/CARE, ILRI/Mercy Corps, and ILRI/World Vision Kenya ILBI pilots, the Kenya Livestock Insurance Programme (KLIP) was launched with support from the World Bank and ILRI. KLIP started in two counties and was later up-scaled to four more and the scheme is now being considered countrywide. By the end of February 2017, a pay out of 2.1 million USD was made to 12,000 pastoralists (MacMillan, 2017). It is estimated that the funds saved 70,000 livestock units (mainly cows, goats, and camels) that contribute to the livelihood and wellbeing of 100,000 people (MacMillan, 2017). Payment amounts are pegged to measurements of forage conditions that range from KES 1450 (14 USD) per pastoral household in areas that have suffered modest losses to KES 29,400 (284 USD) in areas where drought is particularly severe, averaging a payment of around KES 17,800 (172 USD) per pastoral household (MacMillan, 2017).
- *Increased female policy ownership:* Impact assessments found that 40% of people taking out insurance were women, which ILBI (2014) attributed to CARE's approach to target predominantly female VSLAs. Despite the fact that women generally do not have ownership over livestock, the high percentage of women purchasing policies is attributed to the notion that women: (a) have more liquidity as they participate in petty trade, (b) may be more risk adverse, and (c) tend to be more willing to adopt new innovations (Greatrex, et al. 2015).
- *Sensitisation and education:* reaching remote pastoral communities who have little experience with insurance was difficult. To address this issue, ILBI employed insurance simulation games, "edu-tainment" videos, radio programmes and plays as well as used pictorials and educational posters to educate communities (Greatrex, et. al, 2015). Additionally, members of the community who were endorsed by community leaders were trained on the product and were able to lead explanations of the product (Greatrex, et al., 2015).

Project challenges:

- *Understanding how payouts work:* Communities were challenged with the concept of insurance and had difficulty comprehending why they didn't get their premiums returned if there was no claim/payout in the year. Communities expected that if they pay their premiums and no payouts are made, then they would get their money back. Under the Sharia compliant insurance that was later developed by ILRI (Takafu Insurance), if there was no payout, the insurer kept 40% of the premium for administrative costs, and rolled over 60% towards the next year's premium. Communities received this very well.

Lessons learned:

- *Involve communities at product design stage:* Communities were not initially consulted in the design of the insurance product, and as described above, for Muslim populations, the insurance product was not suited to their cultural needs. Once ILRI partnered with a Sharia compliant company and a product offered, uptake of ILBI products increased. Understanding the cultural context of where one is operating is vital to insurance acceptance.
- *Successful outcomes were not due to insurance alone:* In addition to the insurance offered, the project connected pastoralists to markets to support destocking, provided market information, provided weather information so herders could make informed mobility decisions, and provided market information.
- *The most vulnerable need basic support to become more financially able before they should consider insurance:* In order to target the poorest it is recommended that they first begin in a safety net programme that will allow them to build income and assets and ideally, 'graduate' to activities such as entering market systems and engaging with financial services such as insurance.

Reflections:

This project has shown a successful example of how a pilot initiative has helped contribute to the rolling out of a government sponsored large-scale insurance programme. Thus, once insurance schemes are accepted and widely adopted, is there still a facilitative role for organisations? In such a context, it may be meaningful for development actors to think about our role in advocating to ensure future insurance products are appropriate for poor households and well regulated.

CARE GHANA: MICRO FUNERAL INSURANCE, ANIDASO

Project overview:

From 2000-2003 CARE Ghana ran the Anidaso (Hope) project to assess whether microinsurance could contribute to reducing vulnerability and risk exposure of low-income rural households. In Ghana, funerals are expensive yet play important cultural roles in society. Experience showed that for poor households, the cost of a funeral could be a factor that forced families into poverty. The project targeted low-income households and although it did not target women specifically, the insurance scheme attracted large numbers of women. This is attributed to women wanting to safeguard themselves in the case that their husband dies and they need to cover the funeral expenses.

To design the scheme a survey of insurance products, risks people were exposed to, and what products they were interested in was undertaken. Funeral risk was rated as the third highest risk. Initially, the willingness of insurance companies to participate was not encouraging, they questioned if CARE understood the principles of insurance and questioned why CARE was targeting rural, low income people. CARE collaborated with the National Insurance Commission who provided a platform to further engage commercial insurance companies and convey that CARE was not interested in creating a charitable product, but rather a financially viable one. After this, CARE identified an insurance company that was willing to design a product for funeral cover (health care was also a high risk, but the insurance company was not interested in supporting this product). CARE worked with the insurance company to design the product and determined an acceptable premium of approximately 22,000 Cedis (2.50 USD) per month for a family of four. The project provided no subsidy so the premium was fully covered by the policyholder.

At the time the product was developed, insurance companies were mainly active in urban areas and were targeting upper income market and largely civil servants. This made servicing the targeted rural population a challenge. Moreover, this was the first attempt that a Microinsurance scheme was being tried in Ghana which meant working with the National Insurance Commission, who approved government run MFIs/rural banks to become insurance agents (at this time there were no private banks in rural areas). CARE provided oversight to the entire process, alongside the National Insurance Commission, who had an interest in improving the insurance sector and holding insurance companies accountable. Figure 3 illustrates the model employed in Ghana.

In Ghana, insurance schemes that did not pay claims had produced a negative perception of insurance among more literate populations. For low income, rural populations, there was little to no knowledge surrounding insurance and its benefits. To overcome these challenges, each participating rural bank or MFI selected one person to act as the institution's Personal Insurance Advisor (PIA). The PIA's were trained in the insurance product and worked full time to actively sell the product outside the institution.

Project successes:

- *Financial peace of mind:* The scheme allowed policyholders to have peace of mind that they could have the capacity and resources to cover funeral costs should a family member pass away. This was especially important for women in the event of death of their husband.
- *Facilitating local to national relationships:* CARE's experience in the communities and in understanding their needs allowed them to facilitate linking communities to MFIs/rural banks. Additionally, CARE was instrumental in bringing together MFIs/rural banks, insurance companies, and the National Insurance Commission, all actors necessary to the success of the scheme.
- *Increasing financial inclusion:* There were a number of positive 'unintended consequences', one being that the project increased poor, rural women's engagement with the formal banking sector and for many, initiated the opening of bank accounts. For the banks, the project helped them think outside the scope of their normal client base (e.g. teachers, nurses, government employees) to expand to a larger population base. For the National Insurance Commission, it initiated them to think more seriously about the inclusion of rural, low-income populations for insurance products.

Project challenges:

- *Power imbalance between local and national actors:* At the beginning of the project, the rural banks did not initially trust the insurance company. CARE was needed to help facilitate this relationship. Once the project ended and CARE was no longer involved, the rural banks complained about the insurance companies dictating new terms in their agreements. For instance, the original agreement allowed rural banks to hold premiums for a certain period before transferring to the insurance company, but the insurance companies changed the terms, insisting that interest be paid on the premiums the rural banks held.

Lessons learned:

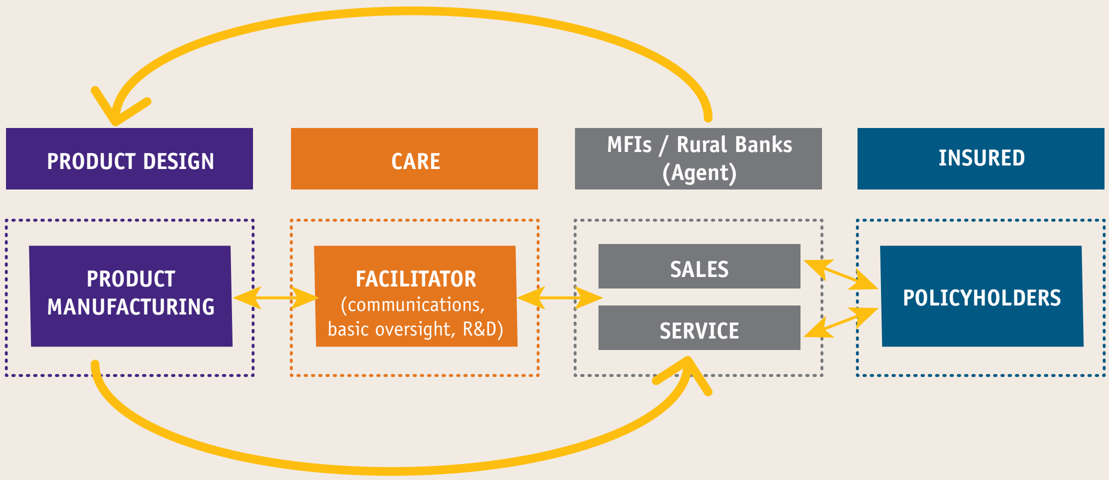
- *Facilitating relationships:* CARE played a critical role in facilitating relationships and brokering trust between the actors involved in the project, from the community to the rural bank, the rural bank to the insurance company, and the National Insurance Commission downwards. The role of facilitating this process should not be underestimated, both in terms of helping identify needs and design a suitable product, and recognising the staff capacities that are needed to develop relationships between actors in the chain.
- *Informal mechanisms:* When researching potential new products to support, ensure that informal mechanisms are included in that research. These are often heavily utilised and can provide insights to product development. The product in development should be seen as complementary, and not as a replacement since these informal activities often have social and cultural significance that goes far beyond basic insurance.

Reflections:

The partner-agent model that was employed in the project was instrumental in attracting insurance companies to design a product for a rural, low income market. Insurance companies were interested in servicing this market, especially as they had already saturated urban, middle income markets, however, accessing these areas made doing so, cost-prohibitive.

The model brought into the equation MFIs and rural banks who acted as insurance agents, selling policies and providing service support. In doing so, it allowed insurers access to this market through the MFI, which meant they did not need to invest in building infrastructure or a physical presence in these areas. For the MFI, the insurance product represents an additional service they can provide to their clients, which supports them in attracting new clients. Although MFI's had previously noted the demand for such products, they were unable to respond due to limitations in their own institutional capacity and the significant financial, institutional, and legal issues that would arise in providing insurance products. However, the skills they do have are related to their ability to work closely with the low-income populations, which was precisely the skill that insurers were lacking. This model allows for mutual synergies between the MFIs and a regulated insurer. Utilising such a linkage allows MFIs to access the insurance products their clients are demanding, while minimising its needs for developing the skill base and legal requirements to offer an insurance product. Lastly, there is no risk to their capital in acting as an agent for an insurer further incentivising their participation.

Figure 3: CARE Ghana Partner-Agent Microinsurance Model



CARE BANGLADESH: HEALTH INSURANCE, SETU

Project overview:

The Socio Economic Transformation of the Ultra Poor (SETU) project started in 2011, with the aim of supporting the extreme poor to graduate out of poverty. The project followed an inclusive and targeted approach that supported people to move out of poverty through improving economic wellbeing, building resilience, and ensuring social & political inclusion. Interventions were focused on building resilience to health shocks by strengthening income, improving health centre treatment, and increasing knowledge about the health system. Evidence showed that not only were the poor often paying for health costs via loans but that in Bangladesh, 17 percent of households were at risk of falling back into poverty due to health costs. As a part of this intervention the pilot program on Micro Health Insurance was launched August 2016 and first phase of this pilot ran until August 2017, and the second phase of this pilot ran until August 2018.

Baseline data, collected over three years found that households, on average, spent over BDT 4,500 (45 USD) per year, approximately 17-18 % of household income, on health expenses. To finance these costs, it was found that 52% of households took out loans to pay for health costs, 33% from informal lenders and 39% from microcredit institutions. The high out-of-pocket costs for health services make health issues a priority shock and therefore supporting a financial/social protection mechanism to address this was deemed central to building household resilience.

To design the scheme, CARE discussed with communities about introducing a micro health program and got feedback on what treatments people need. After approaching an insurance company, Pragati Life Insurance Ltd. (PLIL), an insurance product was created that would offer health insurance and a separate component for maternity services. The insurance would target the extreme poor, who were identified as households with an average income of BDT (Bangladeshi Taka) 25,580 (308 USD) per annum. This insurance program was introduced to beneficiaries by CARE who were members of VSLA groups, benefiting approximately 2,500 households. Group/community leaders were trained in the insurance product and they introduced it to VSLA groups. However this sensitisation is highly dependent on the leaders being proactive in disseminating messages to make VSLA members aware of what services would be delivered in return for the insurance payment.

For those that wished to participate, each insured household was covered up to BDT 20,000 (241 USD) worth of health services from a private provider network, earmarked at BDT 18,000 (217 USD) for inpatient services and BDT 2,000 (24 USD) for outpatient services. For the first year of the scheme, households paid BDT 200 (2.40 USD) and subsidy was BDT 800 (9.64 USD) or 80% of the premium. A survey completed in December 2017 found that after six months of the insurance being in effect, 79% of insured households were willing to pay up to BDT 300 to continue the health insurance.

Project successes:

- *Advocacy on creating a pro-poor business model:* CARE Bangladesh was able to effectively advocate on behalf of policyholders to the insurer when it was found that maternity costs exceeded the insurance coverage (the amount required to cover the services was greater than what was received). In the end, the insurance company agreed to pay, although it was only a few cases that required this revision.
- *Increased insurer interest:* The insurer continued to provide subsidised premiums in the market despite a 2-3 month period in which CARE could not cover the subsidies. The company felt it would create a negative image of private sector insurance if it were to stop suddenly, demonstrating private sector awareness and interest in the product.
- *Improved health outcomes for policyholders:* The 2017 survey found that for those who had received medical treatment under the scheme, 60-65% of users reported easy access and fast service through the provider network while 86% were satisfied with services of the clinics under the scheme, and 92% reported to have recovered from illness by availing service.

Project challenges:

- *Distance to services:* The survey undertook at the end of 2017 found that policy holders were not happy with the distance to some health facilities, which were between 2-4 Kms away. CARE is discussing with the insurance company how to reduce distance while maintaining quality. This will hopefully be achieved by identifying better quality health service providers in closer proximity to the remotely located groups. In some areas PLIL may work with health service to improve their capacity and service delivery quality.
- *Weak sensitisation:* The rate of uptake would have been higher if more time and resources were planned and spent on awareness raising. The project depended heavily on group leaders to be proactive in disseminating information.

Lessons learned:

- *Sensitisation:* The biggest lesson from the first year of the insurance scheme was the importance of sensitisation and education of how insurance works and what are the pros and cons of buying insurance. The approach used by CARE of training community leaders to sensitise was not sufficient in ensuring that policyholders fully understood all the terms. In some cases the terms themselves may be too technical for households to understand. If the terms could be more effectively conveyed about the insurance plans and simplified, there would likely be more households willing to participate. Increasing the number of participants would also reduce the premium payment, a favourable outcome for policyholders.
- *Importance of feedback:* There is a need for learning and flexibility when designing new insurance products. Participant feedback indicated that people wanted more of their allowance to go toward outpatient services. Such client feedback should be used to shape new versions of the product and ensure that products are effectively meeting the needs of the clients. After the completion of the second year, PLIL will take over running the complete programme and aims to revise the premium and service ration based on the number of clients they expect to retain and/or gain.
- *Commercial business case takes time:* The idea of micro health insurance particularly for poor and extreme

poor is fairly new in Bangladesh. From the first years' experience it is clear that private sector companies need at least 1-2 annual insurance cycles to understand the market potential and get value from the scheme. When this space and time is provided, it is believed it will influence the insurance companies to better "own" the product and see its growth potential as a pro-poor centric business.

Reflections:

This has provided CARE Bangladesh with an opportunity to *test different approaches* of how the scheme could run. For the first two years CARE offered the insurance product with a subsidy to a selected group of households, providing valuable information about demand and user acceptance of the product. After the completion of the second year, a full-scale impact assessment and business viability study will be launched in collaboration with PLIL.

In terms of sustainability, PLIL has already gotten informal feedback from a number of surrounding communities who want to enrol in the service. PLIL is now designing the third year continuation model of this service where the existing and new users will pay 100% of the premium. There is potential here for offering a tiered premium, whereby the premium payment is smaller and so is the benefit amount. Also, in learning from the challenges in the first year, they are also focusing on sensitisation and awareness creation at the user level.

CARE INDIA: BUNDLED INSURANCE FOR MULTIPLE RISKS, INSURE LIVES & LIVELIHOODS

Project overview:

From 2007 to 2014 CARE India ran the Insure Lives and Livelihood post disaster risk reduction initiative that aimed to increase the availability and access to a wide range of microinsurance products and services that would provide a comprehensive solution to the coastal and rural poor to manage their risks. It envisaged creating two levels of impact: (1) positive changes in the lives and livelihoods of individual households; and (2) structural changes in the working environment of microinsurance sector as a whole. In partnership with international insurer Allianz's Indian subsidiary Bajaj Allianz, the project worked in tsunami affected districts of TamilNadu with the aim of supporting low income communities to improve management of their risk using insurance services.

In 2005, a microinsurance regulation was introduced by the Insurance Regulatory and Development Authority of India (IRDAI) that mandated insurance companies to offer microinsurance products to rural areas by addressing the risk needs of low income household areas. This initiative sparked interest in supporting microinsurance in CARE's areas of operation and CARE undertook a detailed study of the villages in which they operated to understand the main risks of the poor and to assess demand for microinsurance as a coping strategy. The study found that health was considered the highest prioritised risk by the communities as the cost of treatments were high and being ill could result in lost wage earnings. Furthermore, the study found that protection against injury was deemed important. The study also revealed that communities were willing to contribute a maximum of Rs (Rupees) 100 for a premium.

The target population for the project were the most vulnerable. This included the socially vulnerable (scheduled castes and tribes and women-headed households), the economically vulnerable (people with monthly income below Rs 2000), those engaged in occupations that are seasonal (agricultural labour and daily wage labourers), and households with high-risk profiles (only one wage earner).

Based on the study findings and an improved understanding of the target population, CARE negotiated a suitable and customised product for participating communities with Bajaj Allianz. The insurance product offered bundled risks: death, disability, wage loss, funeral, educational grant, and loss or damage to assets. It was decided that the self-help group (SHG)[15] mechanism was the most preferred institutional base through which contributions could be mobilised and therefore, insurance was not offered individually, but rather as group coverage, taken out by SHGs. Keeping in view the affordability of the communities to pay, the project took a conscious decision to promote the mutual model to offer health insurance for the communities as underwriting charges are generally costly. Figure 4 (see next page) outlines the bundled insurance packages that were on offer.

Figure 4: Insurance product offered by Bajaj Allianz

Risk covered	CARE	CARE Plus		
Death of insured member due to accident	Rs. 25,000 (insured)		Rs. 25,000 – insured Rs. 25,000 – insured	 Spouse
Death of insured spouse due to accident	Rs. 25,000	Spouse	Rs. 25,000 Rs. 25,000	Insured Spouse
Permanent total disability of insured due to accident	Rs. 25,000	Insured	Rs. 25,000 Rs. 25,000	Insured Spouse
Loss of limb or eye sight (Accidental)	Rs. 12,500	Insured	Rs. 12,500 Rs. 12,500	Insured Spouse
Funeral expenses	Rs. 2,000	Insured	Rs. 2,000 Rs. 2,000	Insured Spouse
Educational grant to child	Rs. 5,000	Insured	Rs. 5,000 Rs. 5,000	Insured Spouse
Hospital expenses arising out of accident and / or accident injury	Rs. 1,000	Insured	Rs. 1,000 Rs. 1,000	Insured Spouse
Wage loss during hospitalised period and / or accident injury	Rs. 120 per day up to Rs. 600 insured		Rs. 120 per day up to 600	Insured
Loss or / damage to household and other assets of insured kept in the home	Up to limit – Rs. 10,000		Up to limit – Rs. 10,000	
Gross premium	Rs. 60		Rs. 90	
Hospital cash (Rs. 300 per day) up to max 5 days premium	Rs. 1,500		Rs. 1,500 each Rs. 110	
Total premium	Rs. 125		Rs. 200	
Life insurane	Rs. 50		Rs. 10,000	
Death due to any reason, except suicide in year 1	Rs. 101		Rs. 20,000	

To support the rollout of the project, CARE worked with 15 local NGOs who acted as insurance intermediaries. An insurance intermediary had to accept responsibility for analysing the client's risk profile, suggest a suitable product that would cover the risk, and ensure after-sales services like delivery of certificate and processing of claims. Besides fulfilling such responsibilities, they also had to project an estimated number of clients that they would be able to reach out to annually. They received 15% commission from Allianz while 30-50% of the NGOs operational costs were subsidised by grants from Allianz.

In total, over 40,000 participants became insurance clients under this initiative and purchased around 350,000 policies (over multiple years). Women constituted over 95% of clients, and 80-90% of clients were people buying insurance for the first time. Coverage of vulnerable caste groups like the scheduled castes ranged from 6% to 95% depending upon the area. Over 75% fell into the category whose income levels were below Rs 2000 (31 USD) per month.

The insurance was sold as a group policy product whereby each member paid a premium for their own individual cover. Initially, the policy premium cost 60 rupees (1.50 USD), 90 rupees (2.20 USD) for cover extended to spouse, and for additional hospital cash 30 rupees (0.75 USD). However, after the 2008 Cyclone Nisha the premium nearly doubled, as the risk profile was recognised as higher than initially estimated. The program consulted the community and their perspective was factored into the raise in the premium price that was needed to keep the scheme financially viable.

After the cyclone, 13,667 policyholders were eligible for claims. This was the first time that NGO staff were entrusted with the task of claims assessment on behalf of the insurance company. Although they made every effort to maintain objectivity in assessment, many of them were pressured by the community to record non-damages as damages and partial damages as complete damages. A separate government compensation of Rs 2000 (31 USD) per household in the affected villages complicated the situation. Non-policy holders also believed that they were entitled to the claims and demanded assessment of their damages. The process of assessment turned into a process of education as field workers had to explain to non-policy holders the difference between compensation and claims.[16]

In the end, the total amount claimed was around Rs 39 million or roughly 1 million USD. 60% of claims were submitted by women and claims were distributed via bank account. The project supported members without bank accounts to open accounts to enable them to receive claims.

Project successes:

- *Financial empowerment for communities:* The process of assessing and receiving claims empowered communities to be recipients of benefits from a product they themselves had invested in.
- *Innovative product:* The insurance product bundled many risks into one product, which was important so that a family does not have to pay multiple premiums for multiple risks.
- *Increased awareness about insurance to local NGOs:* Before the project, local NGOs lacked capacity and interest in brokering insurance, and saw it as supporting profit for the insurance company. CARE helped these organisations to understand that despite working with a profit driven insurance company, the private sector could play a role in offering risk mitigation services.
- *NGO as advocate:* During the cyclone, many policyholders lost their insurance documents and CARE was able to successfully advocate on behalf of those clients for their claim. Bajaj Allianz agreed to pay the claims.

Project challenges:

- *NGOs' reluctance to be intermediaries for an insurance company*: The project faced challenges in convincing NGOs to become and act as intermediaries for distributing microinsurance products, as NGOs feared becoming commercial agents of insurance providers. CARE built their capacities and deepened their understanding on legal provisions and the value of partnering with insurance providers to offer microinsurance products to help low income households manage risks and influence the products being developed.
- *Claim process:* The claim process created issues, as there were no standard indicators for assessment teams to use when assessing damage. For ease/quickness assessment teams classified the damages into two categories, fully damaged and partially damaged; if the damage was above 60% then it would be treated as fully damaged and if the damage was less than 60% it would be treated as partially damaged. Fully damaged households were eligible for 100% of the claim and the partially affected, 50%. The amount would be paid after deducting 5% excess. Nonetheless, there were issues in determining the percentage of damage as some households were demanding more compensation even though there were no damages to their homes and some households with partial damages were expecting coverage for a complete loss.
- *Understanding the product:* There were options in the kind of insurance products offered, one product that covered multiple risks (general) and one that only covered only life insurance. Problems arose after the cyclone for clients who had purchased life products but not general products; they sought assessment of damages and demanded to be included in the list of claimants. Educating them proved to be a formidable task. Being first-time holders of any form of insurance policy, they found it difficult to understand that each product covered a different kind of risk – life products covered only the risk around life while claims of damage to house and household items were covered by a general product.
- *Transparency:* Microfinance agencies, who usually also work as microinsurance agents, generally provide insurance products to cover risks to loan repayment rather than from a holistic perspective of all the risks a policyholder faces. Further, for field workers who were marketing the products, they had an incentive to "push" the cheaper product (only life insurance) to fulfil their targets, yet this may have not been in the best interest of the client.

Lessons learned:

- *Assessment of damage:* As the scheme represented the first time an overwhelmingly large number of claims were settled, there were no clear criteria employed to assess the level of damage. In fact, much was left to the judgment of the assessment team. The task would have been easier and more transparent had standard measures been put in place. As a result, the claim process needed to be streamlined and institutionalised. CARE worked with the insurance company to determine some standard indicators that would determine the level of damage, as claim and damage assessment is the prerogative of the insurer.

- *Sensitisation:* The scheme was unique in that it offered bundled insurance, addressing many risks under one policy. When working with such a product, sensitisation about the product to clearly assess various risk profiles and ensure participants understand which product addresses their risk profile is paramount.
- *Method of claim payment:* As an actual shock occurred during the project, this highlighted the challenge of how policyholders were to receive claim payouts. The insurer did not want to pay in cash and many people did not have bank accounts. To overcome this, local NGOs worked with recipients/policy holders to open no frills bank accounts and the insurer issued cheques through a bank with branches in the district. It is important to consider how the targeted population would receive physical payments, should a shock take place and claims submitted.
- *Meeting the policyholder's risk needs:* Ensuring that insurance agents and marketers are acting in the best interest for the policyholder must be considered in how the product is sold and who sells the products.

Reflections:

Although the Nisha cyclone experience demonstrates the power of private sector engagement to CARE, partners and communities, it is clear that to engage with the private sector and derive benefits for the poor and vulnerable, one needs to negotiate with the private sector and *present a robust business case*. Bajaj Allianz has been cooperative in paying out deserving claims of nearly Rupees 40 million as they recognised and appreciated the business that can be offered to the 'bottom of the pyramid.' Unfortunately, Bajaj has changed its priorities and no longer offers rural products, nonetheless, presenting a business case is critical to private sector involvement.

Another important observation is that the project saw people *forego savings* to instead take part in the insurance scheme. Insurance should not replace savings as savings can be used for other purposes such as growing an asset base or dealing with a critical emergency and this could therefore disadvantage people putting all of their savings towards insurance. The small income margins of the poor need to be a underpinning consideration to ensure that insurance is an appropriate tool for risk mitigation.

CARE NEPAL: GOVERNMENT CROP AND LIVESTOCK AND SOCIAL HEALTH INSURANCE SCHEMES, HARIYO BAN

Project overview:

From 2011 to 2016, CARE Nepal implemented the Hariyo Ban Program, a USAID funded project implemented in partnership with World Wildlife Fund (WWF), Federation of Community Forest Users' in Nepal (FECOFUN), and National Trust for Nature Conservation (NTNC). The program aimed to strengthen ecosystem and community resilience by supporting biodiversity conservation and climate change adaptation in the Chitwan to Annapurna Landscape (CHAL) and Terai Arc Landscape (TAL). The Program has two key objectives 1) biodiversity conservation and 2) climate change adaptation whereas gender equality, social inclusion and governance are cross-cutting components. Insurance provided a safety net for policy holders and was one tool utilised to build disaster resilience of the vulnerable, poor small holder agriculture communities targeted in the project.

The project facilitated around 1,000 households to access the Government of Nepal's existing crop and livestock insurance and social health insurance schemes. The crop and livestock insurance covers vegetable crops, fisheries, apiary, goats, buffalo, cows, etc. and insures risks such as fire, flood, inundation, lightning, landslide, subsidence, storm, hailstorm, snow, frost, illness, and diseases. Under the crop and livestock insurance scheme, the government subsidises 75% of the premium. The total cost of the premium is 5% of the sum assured; insurers and clients will bear 90% and 10% of the actual loss respectively. Payouts are in cash and based on investments made in crop production and for livestock, on production value. To make a claim, crop damages and/or livestock death must be documented and certified by registered technicians.

The health insurance premium is NRs (Nepalese Rupees) 2,500 (24 USD) and covers a household of up to 5 members. The insurance is accessed through the Government of Nepal's Community Health Security Development Committee program, Kaski.

The benefits received are access to health services and medicines through government and private health centres that are registered as service providers under the community health insurance scheme. The insurance scheme pays directly to the health service provider and therefore policyholders are not paying upon receiving services and treatment.

The project targeted smallholder agriculture households, many of which were part of Community Forestry User Groups. Like most schemes targeting this demographic, raising awareness about the insurance products and process was an important first step in introducing insurance products to these communities. Awareness raising took place at general social mobilisations and during project community trainings. To further support raising awareness, the program designed a sensitisation campaign with farmers, insurance providers, local government, and relevant stakeholders in Kanchanpur district. The campaign used local radio media (Suklaphanta FM) who aired audio messages that explained the insurance products, benefits, and process.

Project successes:

- *Increased long-term livelihood security:* Insurance policy holders expressed a stronger sense of confidence and security over their agricultural investments.
- *Linking communities to local government:* The project was successful in not only raising awareness about insurance products but also in linking communities to the relevant local government officials and insurance companies.

Project challenges:

- *Product design flaws:* According to the Agriculture and Livestock Insurance Regulation of the Government of Nepal, for crop policies, the insurance only covers the investment cost and not production cost. Moreover, the insurance covers similar bulk crops starting at 2,738 square feet (in the hill regions of Nepal) and 3,645 square feet (for the lowland Terai areas), which is much greater than what a vulnerable household typically farms. In turn, many farmers are not interested in crop insurance.
- *Claim process:* It was challenging for farmers to make claims due to the complicated procedures, and the low levels of literacy among the poor, vulnerable, and socially excluded groups.
- *Distance to insurance service providers:* Access to insurance is made even more challenging as the service providers (insurance companies and their agents/technicians) were often far from farmers, who were in remote locations.

Lessons learned:

- *Building capacity of local government:* As the project was supporting a government insurance scheme, it was important that the role of local government and the line agencies was not only to support the subsidised premiums, but also to facilitate the process of supporting clients. To help them do this effectively the project had to build capacity of relevant government officials (the agriculture and livestock development office in particular) in benefits, process, and compliance to effectively facilitate the process.

Reflections:

An important take away from this project is that insurance is just *one intervention in a set of strategies* that collectively support climate change adaptation and disaster risk reduction. By including it in the project's broader IGA/livelihood support, it importantly established a safety net mechanism that other activities could be layered on top of. For instance, in the project communities created Livelihood Improvement Plans (LIP) and the insurance mitigates major risks identified in these plans.

Also, the design of the insurance product was *not fully suitable for poor, vulnerable households* due to the size of land needed to make a claim and the way in which premium value is determined—from investment value, not production value (for crops). Many of these vulnerable groups are landless or reside in illegal settlements, so are simply not able to benefit from the insurance mechanism. Advocacy to the relevant line ministries would be helpful in conveying the challenges the product presents to poor, smallholder farmers.

CARE TANZANIA: MULTI-PERIL CROP INSURANCE, ALUTA

Project overview:

CARE Tanzania is currently running a project titled, Alezeti: Usawa Na Thamani (ALUTA Project) from 2017 until 2020. The project incorporates multi-peril crop insurance (MPCI) into an overall program that aims to improve livelihoods and income of small-scale farmers, particularly women and youth, through facilitating strong linkages among actors within sunflower market systems, thereby contributing to systemic change, Tanzania's National Sunflower Strategy, and economic development. To do this, the project enhances pro-poor, mutually beneficial collaboration between smallholder farmers, small-scale processors, and larger processors/buyers through facilitating contractual arrangements and strengthening farmers access to a critical bundle of services that include finance, insurance, extension, information, and technologies (production, post-harvest and climate smart) to increase both their productivity and scale of production. Importantly, this project is not targeting the poorest housholds, but the next rung up the ladder. The project will work with approximately 7,075 farmers and aims to have 12.5% willing to buy insurance in year one, 25% willing to buy insurance in the second year, and 50% willing to buy insurance in the third year.

To design the insurance scheme, CARE Tanzania worked with OutAssurance, a company that expressed interest in working with an NGO to design a product for rural small-scale farmers. Risk assessments were conducted to identify the priority risks farmers faced and this also allowed an opportunity for communities to engage and provide feedback to OutAssurance field officers. In the targeted area, for some, insurance was a new concept while for others, they had already had experience with crop or health insurance (33%). For those that had experience with insurance, they raised concerns on the swiftness of claim handling and payout.

To raise awareness and increase uptake of insurance products, OutAssurance will deliver a Training of Trainer (TOT) to farmer leaders in the communities and paraprofessionals, who will then disseminate information to producer groups. In these communities, farmer leaders and paraprofessionals are trusted by community members and chosen to spread insurance information for this reason. To incentivise the lead farmers and paraprofessionals, OutAssurance will provide commissions for each policy purchased. To support the process, OutAssurance will carry out continuous visits and meetings with farmer leaders, targeting quarterly meetings and following their planting schedules. The project covers costs related to sensitisation, but otherwise, the project does not incentivise or support OutAssurance financially in any way.

The insurance covers against multiple crop risks, namely weather and pests. The premium costs 29,500 TZS (13 USD) and is not subsidised, with farmers paying 100% of the premium. The terms and conditions are agreed between the insurance company and the policyholders and a contract is signed when both parties are satisfied with the terms and conditions of the policy. As a resource to policyholders, OutAssurance have field staff that will conduct field visits and work closely with the village agronomists to monitor the farms for any problems that may occur. Additionally, the project also works with Litenga Holdings, a private company that will work with farmer groups to build capacity in organisational skills, link them with private institutions to access loans, link processors and farmers, and provide training on how to negotiate and enter contracts with processors and buyers.

With support from CARE, OutAssurance is developing a cashless transaction system for the insurance registration, premiums, reporting, and payments. All claim payments are made against lost production costs, which means that in the event of a failed harvest due to weather or pests, farmers are reimbursed not only for the value of what was lost but their labour as well. By supporting farmers with other services, such as with quality seeds and improved production techniques OutAassurance is supporting improving yields.

Project successes:

- *Bundling of services:* OutAssurance offers other services and support that go alongside the insurance product, improving production overall for policyholders. Bundled services include linking to finance, inputs, seeds, training on good agricultural practices, support to soil testing, and training in how to use the ICT insurance app.
- *Improved women's access to financial services:* OutAssurance will specifically engage women farmers for insurance policies and will also raise awareness surrounding health insurance products.

Project challenges:

- *Sensitisation:* In some villages, community members had never heard of crop insurance, which required in-depth educating about what insurance is and the value of the products.
- *Large geographical scope:* The remote location of many villages has created difficulties in how to reach them all regularly and required OutAssurance to re-evaluate the number of field staff they are employing.

Lessons learned:

The project is relatively new, so the impact of the insurance component is still being monitored.

Reflections:

It is important to note that this project does not target the poorest of the poor, but people that are above this level. The project is working with a level of farmers that are able to invest in insurance as part of their production costs.

This project will generate many learnings about how CARE can create a *business case for private sector insurance* companies to develop products for rural agricultural communities. To further engage and incentivise, the project is piloting two innovations: ICT tools for insurance and an incentivisation structure at farmer level. Both of these innovations are not only valuable to CARE but also to the insurance company, helping to incentivise their participation and the overall business case.

Insurance is only one intervention, being supported by a package of other activities aimed at strengthening capacity to engage in the market system and build resilience. The project could potentially provide valuable learnings related to how to effectively *layer and sequence activities with insurance* to reduce risk and support further investments in livelihoods.

4: Ensuring microinsurance is pro-poor

A number of actors that include ODI, Bond,[17] MCII, RESULTS UK, and the InsuResilience Global Partnership, have made recommendations for how insurance schemes can be pro-poor, consider resilience outcomes, and be part of integrated disaster risk management strategies. The various sets of recommendations are similar but some are more focused on macro-level and donor support to insurance (BOND, 2016) and others detail more technical aspects of insurance product design and roll-out (ODI, Weingartner, 2017). This report will highlight MCII's (Schafer, et al, 2016) Pro Poor Principles for Climate Risk Insurance as these are most aligned to the role of NGOs and development organisations.[18] Although these principles are in relation to climate risk insurance, they are also relevant to other microinsurance schemes that have been discussed here. Each principle will follow with an example of how a CARE case study supports this principle.

Figure 5: Pro-poor principles for climate risk insurance

Source: Schafer, et al. (2016)

1. COMPREHENSIVE NEEDS-BASED SOLUTIONS

Solutions to protect the poor and vulnerable from extreme weather events must be tailored to local needs and conditions. It is imperative to embed insurance in comprehensive risk management strategies that improve resilience.

- Complement risk, needs and context assessments to identify the actual needs of vulnerable communities with regard to climate risk management and where insurance can fill gaps in existing strategies.
- Closely link insurance products with ex-ante (pre-shock) climate risk management strategies that place priority on preventing and reducing losses and damages.
- Foster nationally and locally, driven and owned schemes that are tailor-made to the context and linked to traditional risk management approaches.

CARE Ghana: The funeral insurance scheme that was designed and created in Ghana is a good example of how carrying out risk assessments can identify and prioritise risks within the local context and result in tailor-made products that appropriately address risk in a community.

2. CLIENT VALUE

Providing reliable coverage that is valuable to the insured is crucial for the take-up of insurance products.

- Ensure that coverage is reliable and that critical risks are not under-insured.
- Bundle the insurance product, where appropriate, with additional services that are valuable to the client.
- Actively reduce basis risk, which remains a key challenge when parametric insurance based on indices is applied.

CARE Tanzania: In their crop insurance scheme, CARE Tanzania is bundling insurance with a number of other critical services that compliment the insurance scheme. The bundled services aim to increase farmer productivity and scale of production and includes increasing access to finance, agricultural training, weather information, and technologies (e.g. production, post-harvest and climate smart).

3. AFFORDABILITY

Measures to increase the affordability for poor and vulnerable people are paramount to the success of an insurance scheme and also important to satisfy equity concerns.

- Establish solidarity and human rights-oriented insurance schemes that apply measures to increase affordability of insurance for poor and vulnerable people.
- Strive to indirectly reduce premiums by investing in risk reduction measures and an enabling environment (see Principle 7). This will create long-term co-benefits towards delivering comprehensive disaster risk management.
- Provide smart premium support that is reliable, flexible and long term, which distorts incentives as little as possible and makes the client aware of the true risk costs.

CARE Kenya: The health microinsurance scheme supported in Kenya subsidised health insurance for the vulnerable and poor households that were targeted by the project. For households, the value of the insurance premium was equivalent to twelve days work, a significant cost for a poor household, but a reasonably small investment for CARE. However, it is important to keep in mind that by fully subsidising the insurance premium, the project is creating potential issues of sustainability if participants cannot cover the premium in future. The project helped communities establish VSLAs to improve their financial situation, putting them in a position to make future payments if desired.

4. ACCESSIBILITY

Efficient and cost-effective delivery channels that are aligned with the local context are key for reaching scale.

- Build on natural aggregators, such as associations, cooperatives, mutuals, federated self-help groups, and savings and credit groups, which have established successful delivery mechanisms and align the insurance scheme with the local context.
- Invest in tech-leveraged secure client identification and targeting and payment systems to reduce fraud and improve the timeliness of payouts.
- Utilise social protection programmes, where appropriate, to implement large-scale development of insurance for the poor and vulnerable.

Across many of the case study examples, existing community groups (VSLAs, self-help groups, farmer groups, forestry user associations, etc.) were utilised as forums to raise awareness and sensitise about insurance concepts and products.

CARE Tanzania: Together with the insurance company, OutAssurance, CARE Tanzania is supporting the modelling and testing of an ICT system will that will support cashless insurance transactions with the aim of: registering farmers, collecting premiums, as a feedback/reporting tool, and allowing the company to pay farmers when a claim occurs. This ICT technology will support a human centred design process to streamline the insurance system and bolster its transparency and accountability to the user.

5. PARTICIPATION, TRANSPARENCY AND ACCOUNTABILITY

Successful insurance schemes are based on the inclusive, meaningful and accountable involvement of potential clients and other relevant local level stakeholders – in the design, implementation, and review of insurance products – creating trust and providing a basis for local ownership and political buy-in.

- Actively support and build partnerships, networks and communication channels that allow for inclusive and meaningful involvement of the poor and vulnerable. Organisations and structures that have deep roots within the local context are favourable partners.
- Ensure that the design and implementation processes are transparent and accountable.
- Establish an effective monitoring and evaluation framework that measures outputs, outcomes, and impacts to ensure that the insurance schemes actually reach and benefit poor and vulnerable people.

CARE Bangladesh: In the health microinsurance scheme in Bangladesh, CARE developed a product with an insurance company that provided allowances for inpatient and outpatient care up until a capped amount. Participant feedback indicated that people wanted more allowance to go towards outpatient services and this is being considered by the provider in the product's redesign.

6. SUSTAINABILITY

Safeguarding economic, social, and ecological sustainability is crucial for the long-term success of insurance schemes.

- Provide a long-term perspective on project planning and financing, as setting up insurance schemes is a multi-year effort.
- Incentivise risk reduction and prevention through the design of the insurance scheme, including risk-based premiums.
- Ensure that insurance schemes do not incentivise practices that are not environmentally sustainable.
- Ensure the participation and inclusion of women in climate risk insurance policy and programming.

Multiple schemes: Several of the case study examples have specifically targeted women for the insurance scheme by reaching out to women's groups and VSLAs (often with more women participants than men) and by proactively planning to reach women.

7. ENABLING ENVIRONMENT

It is vital to actively build an enabling environment that accommodates and fosters pro-poor insurance solutions.

- Support capacity-building to improve financial and insurance literacy and risk awareness of those insured, local insurers, distribution channels and governments.
- Strengthen regulatory and legal frameworks that govern the market, support the effective functioning of the scheme and allow growth by actively working with national governments and regulatory agencies.
- Promote strong, long-term partnerships, in particular public–private partnerships, which foster a clear allocation of roles.
- Invest in freely accessible data and technology including hazard/weather monitoring infrastructure, which are essential for effective and efficient design and implementation, as well as ensuring the uptake, distribution and payout of insurance products.

CARE Nepal: The project supported an existing government insurance scheme and therefore it was important that the role of local government and the line agencies was strengthened to facilitate the insurance process. The project builds capacity of relevant government officials in benefits, process, and compliance to effectively promote good insurance practice.

5. Recommendations and conclusions

CARE's experience with insurance covers a range of risks, ecologies, and contexts. CARE has supported schemes addressing climate and social risks, that have been stand alone projects or part of larger interventions, that have worked with both government and private sector schemes, and that have supported the design of new products or increased access to existing products. It is difficult to draw concrete conclusions from the case studies presented here because there was no common framework used to monitor, evaluate, and measure the impact of these initiatives. However, these case studies provide a small, but stable foundation to explore if and how to employ insurance products within CARE's programming. Common themes, observations, and findings from these case studies have led to the recommendations presented below. The section concludes by posing a few remaining questions for NGOs and practitioners to explore.

Recommendations

1. INSURANCE SHOULD SIT WITHIN A COMPREHENSIVE RISK MANAGEMENT PLAN

We know that effective climate risk management requires a comprehensive set of solutions, insurance being only one of them. Undertaking a rigorous *risk and vulnerability assessment* supports assessing the various layers of risks faced by the targeted population and should consider who bears each level of risk and possible risk transfer strategies for each of these. The question that should be asked is, "What is the *opportunity cost* of investing and supporting insurance – will it be at the expense of other risk prevention, reduction, mitigation or adaptation measures? If so, will it increase vulnerability and make people worse off as we have seen when premium payments were made at the expense of savings?" To avoid these pitfalls, it is necessary to facilitate a risk layering approach that works with a set of solutions for prevention, preparedness, adaptation, response and recovery. If considering insurance and there have been no DRR or adaptation measures taken in the area,

Figure 6: Insurance in the process of comprehensive climate risk management (modified from the World Bank)

STEP 1	**RISK IDENTIFICATION AND ASSESSMENT**	Risk identification (e.g. risk mapping); risk assessment (modelling hazard behaviour and modelling asset vulnerability)
STEP 2	**RISK PREVENTION AND REDUCTION**	Preventing and reducing the probability of events and exposure (e.g. building codes, land use planning) and vulnerabilities (health improvements, access to services, livelihood diversification).
STEP 3	**PREPAREDNESS**	Early warning system, pre-positioning emergency response equipment, evacuation plans, and contingency planning
STEP 4	**ADDRESSING RESIDUAL RISK WITH FINANCIAL METHODS**	Transforming, pooling, sharing risk, risk retention
STEP 5	**RESILIENT RECOVERY**	Resilient recovery and reconstruction policies, disaster resistant reconstruction

Source: Schafer, et al. (2016)

then transferring risk through insurance is likely not appropriate. Additionally, our experience has shown that when working with the most poor and vulnerable, insurance success is generally contingent upon the complementary activities such as asset accumulation, livelihood diversification, and income strengthening.

2. UNDERSTAND THE LOCAL AND NATIONAL INSURANCE MARKET

If insurance is deemed an appropriate intervention strategy to manage risk, it is necessary to understand the insurance sector and the products on offer at local and national levels. A commonality in all of the schemes CARE has supported is that they have been carried out in partnership with the insurer – a private sector company, the government, or a partnership between both. Where they exist, linking to government schemes may increase access to government programmes, and build linkages between communities and government. Where government schemes do not exist, working with private sector providers is important to develop and tailor new products that meet the needs of poor households.

3. ENSURE THERE IS ENOUGH TIME AND CAPACITY FOR A ROBUST DESIGN PHASE

A major component determining if a product will be successful is how it was designed. How policy holders learn about a policy, register for it, report claims, receive payments, and provide feedback are all factors integral to the uptake and success of a product. If we support schemes that design a new product, we should ensure there is ample capacity (in terms of time, human resource, and budget) to support a robust design phase. For instance, we learned that when background documents were needed to participate in a scheme, such as birth certificates or national ID cards, this created barriers for some groups accessing the product. Or, as we saw in India, insurance payouts required a bank account, yet many policyholders did not have this, which required the project to support this process. In the end, the extra processes of registering policy holders for IDs or for bank accounts are counted as project successes, but such circumstances can be well planned for if taken into consideration in design.

4. INCLUDE POTENTIAL POLICYHOLDERS IN THE DESIGN OF THE SCHEME

The design phase should aim to facilitate a participatory process with the demographic that the product will target. Including potential policyholders in the design will help create a product that is tailored to their risks, reflects their risk appetite, and ensures inclusivity of product development. Moreover, participation in this stage of the process provides early sensitisation of communities to the concept of insurance and can strengthen buy-in and acceptance of the scheme as it can reduce the power imbalances between actors. Lastly, for companies that are creating new products and entering new markets, this participation provides an opportunity for them to better understand their future clients.

5. CAREFULLY CONSIDER CULTURAL CONTEXT IN DESIGN

Our case studies have shown us that cultural context can influence risk profiles and the types of insurance products needed. The main risks faced and how they contribute to vulnerability will inform what insurance should target. However, we know there are local informal mechanisms to manage risk and these need to be adequately assessed to ensure that insurance is not negatively affecting these structures. Further, it is important to consider that different cultures and communities have diverse experience with insurance – some struggle to understand the concept while others are already familiar with it. For Muslim communities, having Sharia compliant products is necessary for their success. Understanding the cultural context is paramount to ensuring that projects are supporting and increasing access to the most suitable insurance product.

6. PURPOSEFULLY ADDRESS GENDER DYNAMICS

Understanding gender dynamics is vital component to the success of a scheme and importantly, to ensuring we are doing no harm. In some instances, increasing access to insurance could result in further entrenching inequality. In many of the contexts where we operate, gender roles and norms position men as the lead decision maker over resources in a household. Insurance products should in no way further distance women from influencing decision making and control of resources in their home and should be designed to address the different needs and risks of women and men. The case study examples have shown how by focusing on VSLAs, self-help groups, and by specifically targeting women's participation, this can be addressed.

7. REFLECT ON THE COMMITMENT AND SUSTAINABILITY OF PARTNERS

For countries with new insurance markets it is likely that there will not be many insurance actors offering products, especially aimed at the rural poor, thus limiting options for companies to work with. Nonetheless, where we are approaching the private sector to design new products, it is imperative that we are able to present a solid business case for developing an insurance product. This requires us to understand various business models and modalities that support researching, designing, piloting and rolling out a scheme. Importantly, we must consider the will and skill of the company – Are they interested in working with this demographic over the long term (sustainability)? Do they have the skills and capacity to design new products and market them? Are they willing to invest money and resources into the process? Do they require capacity building and support?

Learning can be drawn from other projects/sectors that are strengthening private sector engagement in programing. For instance, market system development and value chain projects often work with the private sector, sometimes investing in building their capacity and buying down their risk[19] to enter new, often remote rural locations. By building the capacity of the company to generate smart and relevant products, to sensitise populations, to register clients, and administer payouts themselves, we can support sustainable solutions, albeit through a private sector entity.

Similarly, when collaborating with government partners and public bodies, we should consider their ability to continue providing time and resources to maintain the scheme. For instance, they should be able to support ongoing sensitisation, conduct assessments, and process claims in rural or remote areas, while ensuring policyholders can reach the services they are insured for.

8. PLAN SUBSIDIES CAREFULLY

In our case studies, there were examples of schemes that offered subsidies that gradually phased them out over the lifetime of the project, or did not offer them at all. When subsidies were employed and then phased out, they were mostly used with a view to introducing the idea of insurance to the population, growing their interest and a market for the insurance, and eventually phasing out the subsidy. Some of the programs had very optimistic assumptions about rolling back subsidies (e.g.: from 100% to zero subsidy within a few years), which were too ambitious to accomplish in the timeframe provided. Some of the government insurance programmes subsidised premiums as part of a safety net mechanism. If subsidies are offered, it is essential to consider how they will be sustained and/or phased out.

9. PLAN AND PREPARE FOR ROBUST AND CONTINUOUS SENSITISATION

Our case studies have taught us that sensitisation is vital to the success of insurance schemes. The target population's literacy, financial literacy, climate literacy, and previous experience with insurance will influence how to educate and the level of awareness-raising needed. Sensitisation is central to ensuring that policyholders clearly understand the concept of insurance, its process, and the terms of their contract. We have seen examples of misunderstanding regarding when and how payouts occur, what is covered and what is not, and why when there was not a disaster people were not reimbursed. Sufficient time, resources, and strategy are needed to undertake sensitisation (and sometimes continuous sensitisation throughout), as this is a vital step when working with new and young insurance markets. Where NGOs and development organisations take a primary role in sensitising communities to products and the insurance process, we should ensure we consider how this will be done in the future. Whenever possible, we should be strengthening the capacity of the insurance company or the government to carry out this important step of insurance introduction to communities. If working through local partner organisations and/or community leaders who are supporting awareness-raising, ensure they have a high level of understanding, communication skills, and motivation to help households assess if the insurance product is an appropriate option for them.

10. ENSURE CLIENT'S BEST INTEREST IS AT THE CENTRE OF POLICY MARKETING AND SALES

Related to sensitisation, when insurance products are marketed, it is crucial that the potential policy holders risk profile is at the heart of purchasing decisions. Depending on the model for how the insurance is to be sensitised and marketed, we have seen instances where the agent carrying out the marketing is incentivised for each policy sold. In such cases there is a risk of an agent mis-selling products to increase their numbers and the rewards they receive. Whoever the agent selling the product is – local leaders, VSLA members, government entities, rural bank representatives, insurance company agents, etc. – they must ensure the client's risk profile, risk mitigation/prevention options, and financial ability are the main factors in deciding to purchase the policy. To counteract this risk, ensure that whoever is marketing the product is trained in how to help households assess their own risk and decide if the policy is appropriate.

11. PLAN TO MONITOR, EVALUATE, AND MEASURE IMPACT

The case study examples have highlighted the gaps in monitoring, evaluating and learning from individual project insurance outcomes across the organisation, and understanding how they impact larger resilience outcomes. Within climate microinsurance discourse there have been suggested indicators to measure the impact of insurance on resilience capacities and outcomes.[20] In addition to considering resilience-based indicators M&E systems should track gender inclusion (how products can target women and impacts on women), the level of poverty of participants (can they include the poorest of the poor), what sensitisation techniques are employed and how successful were they in influencing uptake (which approaches led to behaviour change).

12. ORGANISATIONS SHOULD AIM TO PLAY A FACILITATIVE ROLE IN THE PROCESS

The case studies presented have illustrated several lessons about the role that an NGO or development organisation should play throughout the process of designing and implementing an insurance scheme. First and foremost, for sustainability, they should try to position themselves as only a facilitator of the insurance scheme as opposed to being a primary system actor. NGOs often have positive engagement with communities (through VSLAs, self-help groups, farmer groups, etc.) and existing relationships with communities and local governments, so are well positioned to build on these relationships in a scheme. They can facilitate relationships between communities and insurance companies, between communities and government, between insurance companies and other service providers such as banks, and between the insurance company and the government. In some cases, the communities trust in CARE helped dissipate fears and distrust of insurance companies where communities had existing negative perceptions around insurance. Also, the case study from Ghana illustrated how an NGO can mediate imbalances of power, in this case between a national level insurance company and small, rural banks.

In the case of the IBLI pilot in Kenya, where a piloted scheme later was adopted and scaled up by the government, the NGO/practitioner has a role and responsibility to play in sharing lessons from the pilot and in advocating for them to be considered in future scale-ups. This also speaks to the need to have more rigorous and standardised project M&E and impact evaluation of supported schemes.

Lastly, there is potential for NGOs/practitioners to take up an advocacy role in speaking up for policy holders, especially when new insurance products are being introduced that may have detrimental impacts on poor households or simply not meet their needs. There are examples of the insurance industry responding well towards circumstances faced by poor, including Bajaj Allianz in India who paid out claims after the 2008 cyclone despite lost policy papers or in Bangladesh when PLIL continued to provide subsidies to policy holders in a "gap period" left by a lack of CARE funding. However in the long term, NGOs/practitioners should strengthen the ability of poor policy holders to raise their needs and concerns to insurance providers and could consider building capacity and resources of the existing insurance regulatory body to be better positioned to act in this capacity (which would work towards an enabling environment for more equitable provision for the poor).

Remaining 'big picture' questions

There are two 'big picture' questions that this report leaves unanswered but encourages NGOs/practitioners to further explore. The first surrounds the appropriateness of microinsurance for the poorest and the second relates to concepts of human rights and justice and who is responsible for insuring climate and health risks.

Literature and discourse surrounding microinsurance has documented and argued that insurance may not be the best strategy to mitigate risk for the most vulnerable or the poorest. Reasons for this are the weak asset base and financial position that the poorest tend to be in: they are unable to pay insurance premiums and/or they may sacrifice savings in order to purchase insurance, an action that may reduce their resilience in the long term. However, some of the case studies were aimed at this demographic group, and two of those examples provided no subsidies for the premium. This shows us that there are instances where if products are well researched and designed, implemented correctly, and in conjunction with other activities to build resilience, the poorest may benefit from insurance. As facilitators of insurance schemes, NGOs need to be aware of the debate surrounding who is best suited for insurance.

In regards to themes of justice and human rights, for schemes targeting increasing climate extremes and disasters, the debate rests within the framework of climate justice: Is asking low-income people to pay for their insurance a fair solution, when they have had negligible contribution to the climate change that is causing the risks they are having to insure? In relation to schemes that support health insurance, arguments championed by Oxfam question whether insurance schemes supporting user fee systems detract from the commitments and the responsibilities of governments to provide universal health care. This speaks to larger ideological and conceptual issues that NGOs/practitioners should to be aware of: if supporting social health insurance schemes is at odds with advocating for universal health care.

Conclusion

In conclusion, in reviewing CARE's experience with microinsurance schemes, this report has identified important lessons and recommendations for NGOs and development practitioners that should be considered in future schemes. Although learning needs to continue and some larger questions still remain, our experience has shown that insurance could be a useful tool for mitigating and lowering risk to individuals, households, and communities. Microinsurance needs to be part of a larger risk management strategy and applied alongside complementary interventions such as prevention, risk reduction, and adaptation. Development actors should continue to play a role as the development of insurance products for poor households advances, to help policy holders ensure products are appropriate, suitable and meeting their needs.

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Notes

1 Please see Appendix A for comprehensive definitions of key insurance terms and concepts.

2 For example, R4 Rural Resilience Initiative partnership between Oxfam and the World Food Programme (https://policy-practice.Oxfamamerica.org/work/rural-resilience/r4/; http://www1.wfp.org/r4-rural-resilience-initiative) and VisionFund International, a subsidiary of World Vision (http://www.visionfund.org/)

3 A risk profile is an evaluation of an individual willingness to take risks, as well as the threats to which an individual is exposed.

4 The triple dividend framework as developed by ODI, the London School of Economics (LSE) and the World Bank Global Facility for Disaster Reduction and Recovery (GFDRR) in 2015. For more see ODI (2017).

5 Basis risk is the risk that the insurance does not cover the crucial element that leads to loss – e.g.: the insurance says enough rain fell but it was at the wrong time and crops still failed. See Appendix A for further information.

6 Basis risk is essentially the difference in amounts between payouts and actual losses.

7 The price that is fair given the probability that a risk occurs.

8 For a review and discussion of index-based schemes see Greatrex, et al. (2015).

9 Basis risk is the risk that the insurance does not cover the crucial element that leads to loss – e.g.: the insurance says enough rain fell but it was at the wrong time and crops still failed. See glossary for more detail.

10 This means people whose herd size was just above the critical poverty threshold.

11 A list of CARE staff interviewed is provided in Annex B. Where outcomes are quantified and/or qualified without a data source, the information came from interviews with CARE project staff.

12 Village Savings and Loan Associations are self-managed and self-financed local savings groups, primarily targeted towards women. They are a means of empowering women to pool their savings, then loan one another money to start small businesses or pay for important life expenses and emergencies. They are normally comprised of 15-30 members who have chosen to be a part of the group. Each member deposits regular savings into a common pot, and the savings pot becomes a source for loan-taking by members.

13 The IBLI research team carried out an annual longitudinal household survey in Marsabit to monitor factors leading to IBLI uptake and to evaluate the impact of IBLI coverage. The survey carried out baselines before ILBI was introduced starting in 2009 and collected for 5 years (Jensen, et al., 2015).

14 There was a drought in 2011 that allowed the ILRI research team to understand the impact of insurance after a shock takes place.

15 Self Help Group play the same role that VSLA’s do in this instance.

16 Compensation is something that comes out of their status of being affected by a disaster and the government showing its concern for the welfare of the affected poor; claims, on the other hand, is a right that every client who has paid for the risk to be covered is entitled to.

17 Bond is the UK network for organisations working in international development. https://www.bond.org.uk/

18 Please note that these seven principles have been copied verbatim from Schafer, et al. (2016).

19 The Beam Exchange (2018) describes ‘buying down risk’ as a form of cost-sharing between a private sector entity and a development actor that “is used by programmes to help buy-down the risk of a market actor trying a new innovation. This tactic is useful when a potential partner understands the benefits and risks of a new venture, and just require a small safety net to increase their confidence throughout implementation.” A tangible example of this is when CARE financially supports/cost shares the marketing and sensitisation campaign for an insurance company offering a product in a new, remote location where they previously had not worked or have presence.

20 See Munich Climate Insurance Initiative study (Schafer and Waters, 2016) titled, “Climate Risk Insurance For The Poor & Vulnerable: How To Effectively Implement The Pro-Poor Focus Of Insuresilience.” The study assesses the impact of eighteen different climate risk insurance schemes against anticipatory, absorptive, and adaptive resilience capacities. The study suggests eight different indicators that can support tracking if these capacities are built. Also, a 2017 ODI report (Weingärtner, et al.) titled, “Disaster risk insurance and the triple dividend of resilience,” explores how insurance contributes to the Resilience Triple Dividend framework. The Resilience Triple Dividend seeks to improve the business case for investing in disaster risk management (DRM) and suggests that such investments could yield significant and tangible benefits, even in the absence of a disaster (Tanner et al., 2015).

Appendix A: Glossary

Adapted from RESULTS UK (2016), Weingärtner, Et Al. (2017), and Hirsch and Schafer (2017)

Adverse selection: Related to the risk of asymmetric information between agents that can bias the terms of a contract. In the case of insurance, adverse selection is the tendency for those that are most exposed to disaster risks, and therefore more likely to incur a loss, to obtain an insurance policy. Insurance companies can reduce adverse selection by using additional sources of information, for instance by sharing information between themselves (reputation information).

Basis risk: The index design can never be perfectly accurate, particularly when available weather data is not high quality or granular enough. Farmers may experience losses when a payout is not triggered, which creates hardship and damages trust. This problem is called 'basis risk'. It can never be completely eliminated, but it can be minimised through improved design of indices and products, data innovation (such as openly shared, high-resolution satellite data) and good communication so that clients are fully aware of to have a basis risk fund to supplement under payments that would lead to hardship.

Climate literacy: An understanding of people's influence on the climate and climate's influence on people, society and their environment.

Climate risk insurance: A form of risk transfer mechanism designed to pay out to the policyholder when defined climate related events take place, thus diversifying losses across people and time. This often takes the form of 'index' or 'parametric' mechanisms that pay out when specific conditions – such as the amount of rainfall, wind speed, or the greenness of vegetation in a specific geographic area – fall outside of pre-defined parameters.

Ex ante: Before the event, or based on forecasts rather than actuals. Refers to future events.

Micro-level insurance: A form of direct cover whereby individuals such as farmers hold policies and receive payouts directly. These policies may be sold or distributed via aggregator organisations such as farmers' cooperatives or NGOs.

Meso-level insurance: A form of indirect cover whereby policies are held by – and payouts made to – 'risk aggregator' organisations that provide services to individuals, such as financial institutions, cooperatives, credit unions or NGOs. In practice, this is often applied to lending organisations to cover their loan portfolio.

Macro-level insurance: A form of indirect cover whereby policies are held by – and payouts made to – governments or other agencies working at national level, in order to provide emergency funding without cutting into their regular budgets. Increasingly these schemes are operationalised through regional risk pools, such as the Africa Risk Capacity, the Caribbean Catastrophe Risk Insurance Facility and the Pacific Catastrophe Risk Assessment and Financing Initiative.

Moral hazard: A situation where a party or agent prioritises own interests over common benefits. In the case of insurance, this can lead to an individual providing false information about its assets or credit capacity to the insurer or taking unusual risks in order to earn more pro t.

Climate risk insurance either provides direct or indirect coverage: In the first case, a direct agreement/contract between the insured person or institution (e.g. a famers' co-operative) and the insurer (or risk-taking entity) regulates the insurance policy, including the insurance premium to be paid by the insured, the conditions (e.g. length of time-period without rainfall) under which a payout of the insurer to the insured is triggered, and the payout amount to be received from the insurer. Indirect climate risk insurances are those where the insurance contract is made between the risk-taking entity (e.g. African Risk Capacity) and insured governments, and where the finally intended target group, vulnerable people, indirectly benefit from payouts intermediated by the insured government (Schäfer, et al. 2016). While direct climate risk or harvest loss insurances are the dominating approaches for farmers in developed countries, so far most farmers in Africa, apart from large-scale agribusiness, hold either no insurance policy at all, or they benefit from macro-level (government as the policyholder) or meso-level (e.g. cooperatives as policyholders) indirect insurances. (Hirsch and Schafer, 2017).

In terms of climate risk insurance products, two major types are to be distinguished: indemnity-based insurance and index-based or parametric insurance. While the first compensate the actual loss (which are to be measured, what is costly and time-consuming), the latter make immediate payouts once a weather-related index (e.g. days without rainfall) is triggered (what makes premiums cheaper and claim settlements faster, but requires a network of weather stations and includes a basis risk which is not insured). Accordingly, both product types have their pros and cons. (Hirsch and Schafer, 2017).

Appendix B: List of CARE employees interviewed for case studies

CARE Country Office	Microinsurance scheme	Person(s) interviewed
CARE Kenya	Micro health insurance	Phyllis Kariuki
CARE Kenya	Index Based Livestock Insurance	Mwende Kusewa
CARE Ghana	Funeral insurance	Gifty Blekpe
CARE Bangladesh	Health insurance	Ahmad Sadequl Amin (Fahim)
CARE India	Bundled insurance product for multiple risks	R Devabalan and Bharati Joshi
CARE Nepal	Incorporating government insurance in Hariyo Ban program	Bal Krishna Jamarkattle
CARE Tanzania	Multi-peril crop insurance	Blandina Karoma

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PHOTOS
Front cover: A woman with her livestock in Ethiopia © Michael Tsegaye / CARE 2018

JANUARY 2019