

# SMALL BUSINESS DISASTER MICRO-INSURANCE PROGRAMME



October 2016  
Experience Learning Series 70



# SMALL BUSINESS DISASTER MICRO-INSURANCE PROGRAMME

All India Disaster Mitigation Institute

October 2016

*Experience Learning Series 70*



This document has been produced under the project 'Innovating Disaster Micro-Insurance for Local Market Recovery'. The project is supported by the Humanitarian Innovation Fund, a program managed by ELRHA (Enhancing Learning and Research for Humanitarian Assistance). AIDMI is delighted to receive the generous support of the Humanitarian Innovation Fund towards this action research.

The Humanitarian Innovation Fund (HIF) is a non-profit grant making facility supporting organizations and individuals to identify, nurture and share innovative and scalable solutions to the challenges facing effective humanitarian assistance. Visit [www.humanitarianinnovation.org](http://www.humanitarianinnovation.org) for more information.

The Humanitarian Innovation Fund is managed by ELRHA (Enhancing Learning and Research for Humanitarian Assistance), in partnership with ALNAP (Active Learning Network for Accountability and Performance in Humanitarian Action). ELRHA is hosted by Save the Children UK. Visit [www.elrha.org](http://www.elrha.org) for more information.

The Humanitarian Innovation Fund is co-funded by UK and Canadian aid from the UK Department for International Development (DFID) and the Canadian International Development Agency (CIDA). The views expressed in this document are not necessarily those of DFID, or CIDA. The views expressed in this document are not necessarily those of DFID, or CIDA.



AIDMI is delighted to receive generous support of UNICEF (India) towards this publication.

Title: Small Business Disaster Micro-Insurance Programme

ALL INDIA DISASTER MITIGATION INSTITUTE  
411, Sakar Five, Near Old Natraj Cinema,  
Mithakhadi Railway Crossing,  
Ashram Road, Ahmedabad - 380 009, India  
Tele/Fax: +91-79-2658 2962  
E-mail: [bestteam@aidmi.org](mailto:bestteam@aidmi.org)  
Website: [www.aidmi.org](http://www.aidmi.org), [www.southasiadisasters.net](http://www.southasiadisasters.net)

© All India Disaster Mitigation Institute, October 2016

## CONTENTS

---

FOREWORD	VI
PREFACE	VII
ABBREVIATIONS	VIII
<b>1. INTRODUCTION</b>	<b>1</b>
1.1. Background	1
1.2. Concept	2
1.3. Evidence of the Effectiveness of Disaster Microinsurance	3
1.4. Intended Outcomes	4
<b>2. SMALL BUSINESSES AND DISASTERS</b>	<b>5</b>
2.1. Problem Statement	5
2.2. Concept of Micro–Insurance	7
2.3. Evidence and Rationale for the Project	9
2.4. Obstacles to Implementation of Micro–Insurance Programme	10
<b>3. AIDMI'S INNOVATING DISASTER MICRO–INSURANCE FOR LOCAL MARKET RECOVERY PROJECT</b>	<b>13</b>
3.1. The Project and The Team	13
3.2. Project Objectives	14
3.3. Work Programme	15
<b>4. DEMAND SURVEY ON DISASTER MICRO–INSURANCE FOR SMALL BUSINESSES IN URBAN AREAS</b>	<b>17</b>
4.1. Puri	19
4.2. Guwahati	20
4.3. Cuddalore	22
<b>5. MEETINGS AND CONFERENCES</b>	<b>25</b>
5.1. State Level Meetings and Conferences	26
5.2. Regional Level Meetings and Conferences	30
5.3. National Meetings and Conferences	36
<b>6. THE PRESENT STATUS</b>	<b>38</b>
6.1. Key Achievements	38
6.2. Key Outcomes	38
6.3. Key Lessons Learnt	39
6.4. Key Recommendations	39

## PREFACE

---

Over the years, the scope of humanitarian assistance has considerably increased to address the changing contexts and emerging challenges of our times. Innovations in the form of new ideas or improvements to existing strategies and approaches have improved the effectiveness of humanitarian response. Several humanitarian innovations have led to transformative changes in the lives of people and communities in distress. Risk transfer through disaster micro-insurance is one such innovation that promises to empower marginalized communities to effectively manage and reduce their risks.

As part of its risk reduction and resilience building activities, the All India Disaster Mitigation Institute (AIDMI) in collaboration with Stanford University and the United India Insurance Company (UIIC) has piloted a project called '*Innovating Disaster Micro-Insurance for Local Market Recovery*'. Supported by the Humanitarian Innovation Fund (HIF), this project aims to transfer the risk of small business owners (SBOs) which form the backbone of local markets to insurance companies. Disaster micro-insurance for SBOs has been chosen to be the instrument to facilitate this risk transfer. This project was piloted in three vulnerable urban locations in India, viz. Puri (Odisha), Guwahati (Assam) and Cuddalore (Tamil Nadu).

This experience learning series (ELS) describes all the aspects of the aforesaid project. It gives a detailed picture of the rationale, objectives, methodology, achievements and impacts of this project. The ELS has been organized in six chapters to capture the trajectory of this project from its initial stages to culmination.

The underlying rationale for initiating this project was to help local markets in urban locations (which primarily serve the urban poor) recover effectively after a disaster or emergency. Such markets are primarily composed of micro enterprises which for reasons of scale are mostly left out of the umbrella of traditional insurance coverage. This hampers the continuity of such business enterprises due to the damages suffered in the aftermath of disasters and emergencies. Thus, disaster micro-insurance could provide an affordable and sustainable way for them continue with their operations in post-disaster situations.

This project will also provide an empirical base to test the effectiveness of disaster micro-insurance as an instrument of

resilience building. This in turn would help in scaling-up and replicating similar initiatives in future. Perhaps the greatest achievement of this project has been a customized disaster micro-insurance policy called *Afat Vimo* launched in Puri. Similar policies in Cuddalore and Guwahati will be finalized soon.

Most importantly, this project has been a reaffirmation of AIDMI's commitment to reduce the risks of the marginalized communities of India. As this project comes to its logical conclusion, the findings and lessons from it will help in shaping the discourse surrounding risk transfer in India and beyond.

– Mihir R. Bhatt

## ABBREVIATIONS

---

AIDMI	All India Disaster Mitigation Institute
ASDMA	Assam State Disaster Management Authority
CBOs	Community Based Organisations
CCA	Climate Change Adaptation
ELS	Experience Learning Series
HIF	Humanitarian Innovation Fund
IDMVS	The Institute of Disaster Management and Vulnerability Studies
NDMA	National Disaster Management Authority
NGO	Non Government Organisation
NIOS	National Institute of Open Schooling
SFDRR	Sendai Framework for Disaster Risk Reduction
SSCBDA	South-South Citizenry Based Development sub-Academy
UNISDR	United Nations International Strategy for Disaster Risk Reduction
UNOSSC	United Nations Office for South-South Cooperation
WCDRR	World Conference on Disaster Risk Reduction

## INTRODUCTION

### 1.1 BACKGROUND

Despite their potential, risk transfer approaches are rarely used in humanitarian aid context and very little is known about how microinsurance actually benefits the poor and micro/small enterprises after disasters. More information is needed to establish links between microinsurance and economic recovery after disasters.

Although insurance and other forms of risk transfer are considered an integral part of comprehensive disaster management, the current paradigm of humanitarian responses often fail to protect gains of humanitarian work and development against future risks. As a result, both victims and aid remain exposed to future risks. Hardly any humanitarian response integrates risk mitigation and risk transfer approaches to build resilience to future shocks.

In developing countries of Asia, including India, small business assets of micro and small business enterprises are often unprotected against disasters. According to the Thirteenth Finance Commission (2010-2015) of Government of India, the current level of insurance penetration is less than 1 per cent across the country.<sup>1</sup> The project *'Innovating Disaster Microinsurance for Local Market Recovery'* aims to address this gap. The core challenge addressed by this project is promoting local recovery after a crisis rather than engendering dependence on international aid.

There is mounting evidence that local markets in urban centres are critical for effective recovery in post-disaster and emergency situations. Especially for the urban poor, such local markets provide indispensable goods and services. Most of these markets are composed of very small and informal businesses. Thus, there is a strong case for improving the resilience of such enterprises against the various hazards faced by them.



Demand survey in progress in Puri, Odisha.

<sup>1</sup> [http://fincomindia.nic.in/writereaddata%5Chtml\\_en\\_files%5Coldcommission\\_html/fincom13/tfc/13fceng.pdf](http://fincomindia.nic.in/writereaddata%5Chtml_en_files%5Coldcommission_html/fincom13/tfc/13fceng.pdf)

Hitherto, it has been observed that cash interventions have been promoted as a mechanism to stimulate local recovery by increasing demand but the markets that would serve these populations are themselves affected by the disaster/emergency. Most of the urban poor populations obtain many of their basic needs from local small businesses in their community. These very small enterprises remain untargeted by traditional financial institutions. This innovation is intended to complement cash programs to address the supply side of the recovery equation.

## 1.2 CONCEPT

Given the informal nature and small operating scale of such businesses, they remain outside the ambit of traditional insurance schemes. This in turn, exposes these small and informal businesses to substantial losses in disaster situations. The project 'Innovating Disaster Microinsurance for Local Market Recovery' tries to address this glaring gap. The primary focus is to help micro enterprise bounce back after bearing the ravages of a disaster or emergency.

The innovation is a supply side intervention for local small business recovery and resilience. It adapts proven microfinance mechanisms to address a major part of the humanitarian crisis recovery process for which standards exist. It is an intervention implemented in the pre-disaster phase to improve aid during the acute and recovery phase of a crisis in a sustainable and scalable way. Humanitarian response would be enhanced by a rapid recovery of these small enterprises. There is no existing risk

<b>Table-1. Project Information</b>		
1.	<b>Project Title</b>	Innovating Disaster Microinsurance for Local Market Recovery
2.	<b>Location</b>	Three cities of India: 1. Puri in Odisha (Cyclonic Storm Phailin); 2. Cuddalore in Tamil Nadu (Cyclone Thane); and 3. Replication in Guwahati, Assam (Floods).
3.	<b>Start Date</b>	October 2015
4.	<b>Duration</b>	18 Months
5.	<b>Partners</b>	Stanford University and United India Insurance Company (UIIC)
6.	<b>Supported by</b>	Humanitarian Innovation Fund
7.	<b>One sentence description of the project</b>	The innovation is a small business disaster micro-insurance program to enhance recovery of local markets that play a critical role in providing goods and services to disaster affected populations in urban settings.

<b>Table-2. Scheme Performance 2004-2010: AfatVimo (Disaster Insurance)</b>			
<b>Fin. Year</b>	<b>Clients</b>	<b>Premium (Rs)</b>	<b>Payout (Rs)</b>
<b>2004-05</b>	1024	1,38,240	22,500
<b>2005-06</b>	3000	4,50,000	194,500
<b>2006-07</b>	4492	6,73,800	747,931
<b>2007-08</b>	4251	10,62,750	527,881
<b>2008-09</b>	3737	8,22,140	563,070
<b>Total</b>	16,504	3,146,930	2,055,882

management service for these very small businesses that are the primary markets for many in rapidly growing cities.

Local markets at urban centres in particular provide indispensable goods and services to the urban poor. Therefore, it is imperative to build their resilience so that they can recover properly after a disaster. This is why the project will be carried in three urban locations in India, viz. Guwahati (Assam), Puri (Odisha) and Cuddalore (Tamil Nadu).

This project is a collaboration between Stanford University, United India Insurance Company (UIIC) and the All India Disaster Mitigation Institute (AIDMI) and is supported by the Humanitarian Innovation Fund (HIF). The table-1 provides brief information about the project.

### **1.3 EVIDENCE OF THE EFFECTIVENESS OF DISASTER MICROINSURANCE**

The innovation is highly relevant for developing countries such as India where disaster induced economic losses are on the rise. Disaster micro-insurance for micro and small enterprises in cities will reduce their financial risk. The technical partner of this project has already piloted micro-insurance innovation for *poor communities* under the title of *Afat Vimo* (disaster insurance), which was first tried in April 2004 covering 3700 policy holders in Gujarat and later extended to 2004 Tsunami victims in Tamil Nadu, 2005 J & K earthquake victims, and 2007-08 Floods affected victims in Bihar. Most recently, in 2011, a similar policy was offered in Odisha to more than 900 floods affected women enterprises. Thus, the innovation is adaptable to small-business micro-insurance, replicable and up-scalable. The table-2 shows the performance of *Afat Vimo* disaster microinsurance scheme over the years.



A micro enterprise in the local market of Puri, Odisha.

A recent client impact evaluation of disaster insurance schemes by led by AIDMI with support from ProVention and IIASA in 2009<sup>2</sup> covering Bangladesh, India and Sri Lanka, signalled high demand for disaster micro-insurance after non-insured clients had been given information showing the relevance and pricing of such products as well as the power of organizations to reach more clients simply through outreach. The study revealed that an overwhelming majority (80 percent) of clients feel that disaster micro-insurance should be promoted to

others while only a minority (2.3 percent) think it should not. A total of 1640 disaster micro-insurance clients and 531 non-insured clients were surveyed and consulted during the evaluation. The evaluation also identified challenges in claim processing, delayed payments and inadequate total coverage to shape and implement improved risk transfer mechanisms by involving trusted local institutions and strengthening their client satisfaction and scaling up.

#### 1.4 INTENDED OUTCOMES

By 2050, it has been projected that it is predicted that 70% of the world population will live in urban settings. Of this growing global urban population, slum dwellers make up an estimated one-third, and over 60% in some rapidly growing cities, totalling well over one billion worldwide. The markets that serve them, built on micro-enterprises, represent an equally large proportion of growing economies and remain un-protected by risk-mitigation efforts.

This project aims at serving this burgeoning demographic group by transferring the risk of poor and vulnerable households onto the insurance markets. It will also protect gains made from development and previous humanitarian interventions by aiming to protect markets from the effects of future crises. Most importantly, this project will provide the empirical evidence needed for greater uptake and scaling up required risk transfer programmes for the urban poor.

---

<sup>2</sup> Please visit <http://www.iiasa.ac.at/Publications/Documents/XO-11-059.pdf> for full report.

## SMALL BUSINESSES AND DISASTERS

---

### 2.1 PROBLEM STATEMENT

#### **Small and informal businesses suffer significant losses after disasters**

Enterprise forms the backbone of everyday resilience at the local level. However, repeated disasters have progressively corroded the continuity of enterprises at the local level. Small and informal businesses bear an inordinate brunt of such disasters incurring substantial losses, sometimes to the point of completely closing down after a disaster or extreme event. This is particularly true of India, which not only is highly vulnerable to a variety of hazards but also boasts of a vast small and informal sector in its economy.

As estimated by the National Disaster Management Authority "Approximately 71 per cent of small industries/ businesses do not have any disaster management plan and 43 per cent of them never reopen after a disaster hits them". Serving as the sole means of livelihood for the working poor in urban areas, the damage caused to such small scale and informal enterprises by disasters often pushes and entraps people in a vicious circle of poverty and deprivation.

Due to their size and other factors, small and informal businesses are less resilient than other businesses. Poverty, illiteracy and other debilitating factors prevent these small business owners from getting their businesses registered with the concerned authorities. As a result, they are left out of the ambit of any government policies and schemes that seek to promote business recovery in post-disaster situations. Moreover, these businesses rarely receive support from either the public or the private sector.

Despite their enhanced vulnerability, these small and informal businesses are of vital importance as they comprise a substantial portion of the Indian economy and provide the working poor with a dignified means to earn a livelihood. Employment in the non-agriculture informal sector is close to 59% in urban areas of India.<sup>1</sup> These are often unregistered businesses operating as street vendors and in-home businesses run by family members or small local groups. Often they do not have fixed building structures and are

---

<sup>1</sup> Urban Employment in India: Recent Trends and Future Prospects  
Martha Chen Harvard University, [http://icrier.org/pdf/Martha%20Chen\\_%20Paper.pdf](http://icrier.org/pdf/Martha%20Chen_%20Paper.pdf)

not located in areas officially designated by town planning regulations. Due to these factors, more often than not these businesses are exposed to several risks and neglected in relief and recovery efforts such as compensation, protection measures and not even covered in post disaster assessments of loss and damage by the government.

To make matters worse, the informal sector is severely restricted in its access to risk transfer mechanisms like insurance. According to the Thirteenth Finance Commission (2010-2015) of Government of India the current level of insurance penetration is less than 1 percent across the country. In addition, loss assessments following a disaster often ignore the losses of the informal sector, compensation takes too long, and is often below market rates.

#### **Small Business play Important Role in Disaster Recovery**

Moreover, in the aftermath of a crisis the existing local markets (which are composed of such businesses) deliver essential goods and services to affected populations.

At the same time, small and informal businesses play an active role in reviving livelihoods, markets, and a sense of community after a crisis. The needs of urban populations following a disaster, including the provision of food and healthcare, as well as livelihoods, are primarily met by these small enterprises. Currently it is mostly the "victims" who manage the majority of disaster recovery themselves. While this role is inspiring, it is under-recognized and these victims remain largely unsupported in international humanitarian action worldwide.

#### **Growing Urban Risk in India**

The economic growth experienced by India in the previous decade has led to historically unprecedented levels of urbanization. If these trends persist then India's urban population is expected to rise from 380 million to 600 million by 2030.<sup>2</sup> However, with the influx of large swathes of people into cities, the carrying capacity of many urban systems is often exceeded. Moreover, poor land use planning, flouting of environmental and municipal by-laws, and the absence of disaster-risk assessment in urban design have drastically increased the vulnerability of India's cities to a variety of climate and disaster risks. This pushes a greater number of people

---

<sup>2</sup> Planning commission, GoI (2013) Twelfth five year plan (2012/2017). Faster, More Inclusive and Sustainable Growth Volume I. Available at [http://planningcommission.gov.in/plans/planrel/12thplan/pdf/12fyp\\_vol1.pdf](http://planningcommission.gov.in/plans/planrel/12thplan/pdf/12fyp_vol1.pdf)

into the column of vulnerability, giving rise to newer risks while exacerbating those already there. It is the urban poor who operate the majority of small and informal businesses that are disproportionately exposed to such risks.

## 2.2 CONCEPT OF MICRO-INSURANCE

To protect the assets of small and informal enterprises from the various climate and disaster risks, the All India Disaster Mitigation Institute (AIDMI) initiated a project to pilot disaster microinsurance among these enterprises. Titled, '*Innovating Disaster Microinsurance for Local Market Recovery*', this project aims to enhance recovery of local markets, which are critical in providing goods and services to disaster-affected populations in urban settings.

### **Concept of disaster microinsurance insurance — a type of risk transfer**

Risk transfer mechanisms can be a potent tool to build the resilience of such small and informal enterprises. Simply put, a risk transfer mechanism predicts a future scenario of risk brought on by emergencies, disasters or other stresses and then makes provisions for transferring that risk from one party to another. Disaster microinsurance is one such risk transfer mechanism that has the potential to improve the resilience of India's urban poor to the various risks they face.

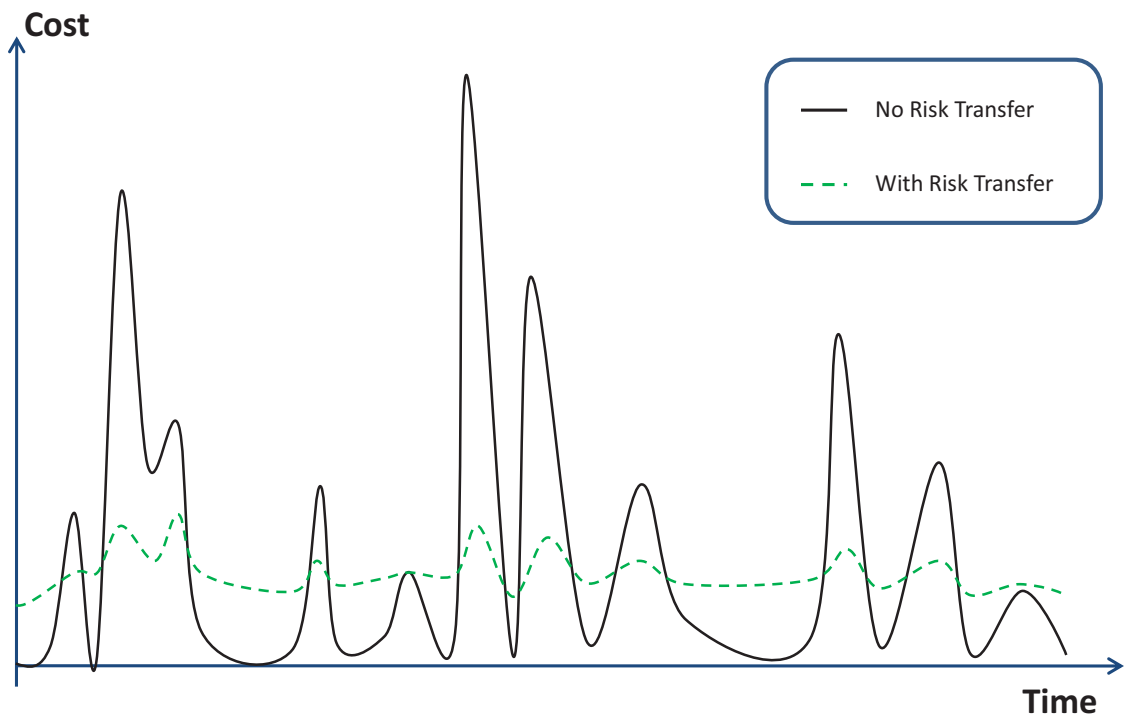
More often than not, Small and informal businesses remain untargeted by traditional insurance arrangements. Disaster microinsurance can emerge as a viable way of sharing risks among individuals, small businesses and insurance companies. For example, many people contribute small amounts (their "insurance premiums") to create a large fund that can be used to make payments ("Pay outs") to the participants to help "make them whole" if they happen to be affected by an adverse occurrence. The concept is that the premiums are small and the occurrence of the negative outcomes are relatively rare. Thus, the risk is spread over a large number of participants. Common examples are

The 2015 flood in Chennai particularly hit small business owners, often destroying their livelihood.



automobile and health insurance. Each individual pays an affordable amount each year and usually does not need to use the benefits. However, if they have an automobile accident, or a health problem, the insurance payments can be made out of a "pool" that has been created by all participants.

There is empirical evidence that supports the claim that insurance (or other risk transfer mechanisms) minimizes the shock to those affected by disasters and helps in a robust recovery. The following graph aptly captures the smoothing effect that risk transfer mechanisms have on disaster affected populations over time:<sup>3</sup>



#### **Micro-insurance as effective risk management strategies**

There is ample evidence that risk transfer mechanisms are effective risk mitigation strategies. Theoretically, insurance is one such risk transfer mechanism that could enable sharing of risks for the poor. However, normal insurance is usually only available to larger businesses and more well-to-do individuals that can access insurance on the private market. Very small businesses usually are

---

<sup>3</sup> World Economic Forum, A vision for managing natural disaster risk, 2011, [http://www3.weforum.org/docs/WEF\\_VisionManagingNaturalDisaster\\_Proposal\\_2011.pdf](http://www3.weforum.org/docs/WEF_VisionManagingNaturalDisaster_Proposal_2011.pdf)

not able to participate in conventional insurance programmes. They cannot afford the premiums and private insurance offerings, which are generally private businesses themselves, unaccustomed to dealing with small and informal businesses.

Therefore, a micro-insurance programme would be a risk transfer mechanism among small scale and informal business units to affectively address the risks arising out of disasters. Small and affordable premiums would be paid each year with the provision that help would be provided when disasters occur.

Such a programme was be implemented in the pre-disaster phase to improve aid during the acute and recovery phase of a crisis in a sustainable and scalable way. Through pay-outs following a disaster it would improve and speed up the recovery of local markets that play a critical role in providing goods and services to vulnerable disaster affected populations in urban settings. In general, it would provide for local small business recovery and resilience among the small enterprises that are vital to local communities.

### 2.3 EVIDENCE AND RATIONALE FOR THE PROJECT

Presently, there are no existing risk transfer mechanisms for these small and informal enterprises. A disaster microinsurance scheme for small and informal businesses would also aid humanitarian response in the aftermath of a disaster by helping local markets recover in an effective manner.

AIDMI possesses previous experience of piloting such schemes among vulnerable and poor communities. *Afat Vimo* (literally disaster insurance in Gujarati) is AIDMI's disaster microinsurance scheme which was first piloted in April 2004 covering 3700 policy holders in Gujarat and later extended to 2004 Tsunami victims in Tamil Nadu, 2005 J & K earthquake victims, and 2007-08 Floods



Field team is collecting data from the respondent at Narengi, Guwahati where the shop is located near the railway track with a temporary structure.

affected victims in Bihar. Most recently, in 2011, a similar policy was offered in Odisha to more than 900 floods affected women enterprises. This experience has shown that disaster microinsurance offerings are adaptable and scalable for micro enterprises.

## **2.4 OBSTACLES TO IMPLEMENTATION OF MICRO-INSURANCE PROGRAMME**

The insurance industry in South Asia is relatively weak. The current level of insurance penetration is 3.2% (in 2012–13) with less than 1% in non-life insurance across India.<sup>4</sup> In addition, disaster insurance programmes are essentially non-existent in developing economies. India is no exception to this wherein the poor find it incredibly difficult to afford normal insurance schemes.

In addition to the general weakness of the insurance industry in India, and the lack of specific disaster insurance mechanisms, there are additional barriers to micro-insurance programmes. In fact, the effectiveness of disaster microinsurance remains untested in India too.

One reason for the lack of private sector micro-insurance programmes in India might be that there may not be much profit to insurance companies since premiums in such a scheme would be small when compared to normal insurance programmes. In addition, to set up such a programme in the private sector would require a large initial investment, especially in comparison to the likely limited profits available.

Also, there is a lack of information and a low level of awareness of risk transfer and insurance among vulnerable populations. There is limited understanding of how insurance works and micro-insurance can be confused with similar financial products like micro-lending. Furthermore, many people do not trust insurance companies and they do not fully comprehend the concept of risk pooling. This may be the greatest barrier to the uptake of a micro-insurance scheme.

A general obstacle may be that disasters present problems that other insurance schemes do not have to deal with. As noted, the

---

4 Risk Transfer Through Microinsurance, Lessons Learnt and Evidence from Phailin Cyclone Affected Community, Mr. Mihir R. Bhatt and Mr. Vishal Pathak All India Disaster Mitigation Institute (AIDMI), <http://www.preventionweb.net/english/hyogo/gar/2015/en/bgdocs/inputs/Mihir%20et%20al,%202014.%20Risk%20transfer%20through%20microinsurance.pdf>

general insurance model has many individuals contributing small amounts to a large pool that only has to be accessed by a few people on rare occasions; this is very different than disaster situations where large numbers of people in an area are all affected at one time. When disaster strikes damage is widespread rather than affecting only a few individuals who can be covered by typical schemes, for example for automobile accidents or health problems.

Transaction costs can be defined as the costs incurred in administering a disaster microinsurance scheme. High transaction costs are also associated with such programs as a result of which their uptake becomes difficult.

A policy holder of *Afat Vimo*.





## AIDMI'S INNOVATING DISASTER MICRO-INSURANCE FOR LOCAL MARKET RECOVERY PROJECT

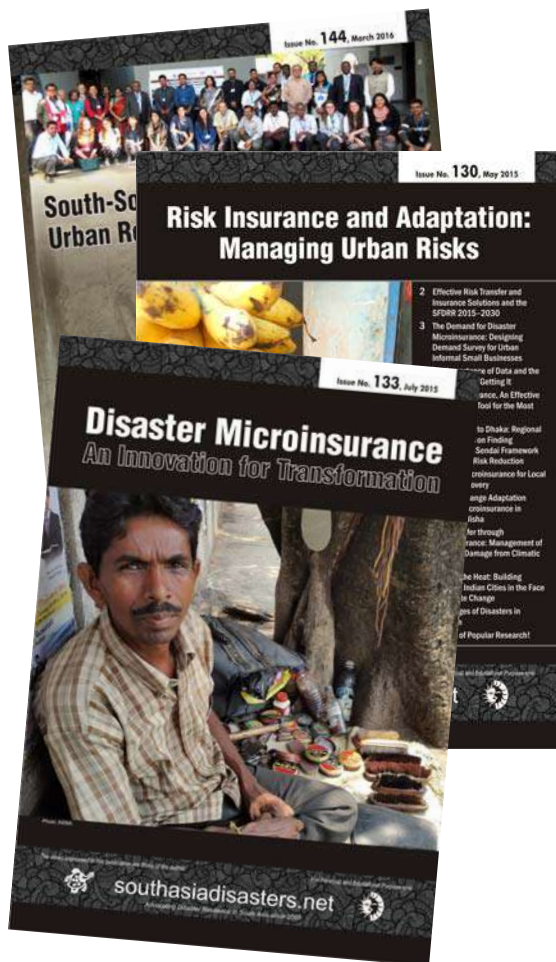
# 3

### 3.1 THE PROJECT AND THE TEAM

As noted earlier, the great majority of small and informal businesses in India do not have any disaster management plan and almost half of them never reopen after a disaster hits them. To address the vulnerability of such small scale business units, the All India Disaster Mitigation Institute (AIDMI), Stanford University, and the Humanitarian Innovation Fund (HIF) have collaborated to launch a project on piloting disaster microinsurance for such business enterprises. Titled *Innovating Disaster Microinsurance for Local Market Recovery*, this project aims to pilot an appropriate disaster microinsurance scheme in three urban sites of India: Guwahati in Assam, Cuddalore in Tamil Nadu, and Puri in Odisha. Since such a concept remains largely untested in India, this microinsurance offering will be treated as a humanitarian innovation.

Stakeholder consultation underway in Puri, Odisha.





Three issues of AIDMI's publication on Southasiadisasters.net on Microinsurance and Risk Transfer.

### 3.2 PROJECT OBJECTIVES

The basic objective of the project is to enhance the recovery of local markets, composed of small and informal businesses which are critical in providing goods and services to disaster-affected populations in urban settings. The project will promote a tool that can enable small and informal businesses and households to protect themselves against the financial losses brought by natural disasters and can help engender sustainability and resilience to business enterprise so sorely needed in post-crisis settings.

Increased knowledge and awareness about the extent to which microinsurance can help small and informal business enterprises in reducing disaster induced economic losses is another major objective of the project. The rationale behind this project is to create an empirical evidence base for humanitarian agencies, urban authorities, and insurance providers to up take risk transfer approaches in the form of disaster microinsurance in their policies and practice. This will help in molding and upscaling risk transfer approaches to better suit the needs of the urban poor.

Similarly, the project aims to increase awareness and uptake of disaster insurance among small and informal businesses themselves, to increase their understanding on how insurance works and to reduce confusions with similar financial products like microlending, informal savings groups, etc. Sharing information among stakeholders is also an objective.

One of the main objectives of the project is to determine the market need and demand for microinsurance and the feasibility of such a microinsurance offering. The project will monitor and evaluate outcomes to design an appropriate disaster microinsurance policy with insurance providers.

The project will inform the policy and practice of the humanitarian aid community, insurance sector and national governments to support up scaling of risk transfer approaches. Increasing the use of risk transfer approaches in the humanitarian aid context, would make such humanitarian efforts more cost-effective by mitigating risks and even changing pre-disaster behavior based on risk financing. This would also protect

development gains made from previous humanitarian interventions by aiming to protect markets from the effects of future crises.

Another objective is to follow an earlier study by AIDMI that assessed the effectiveness of risk insurance in post cyclone *Phailin* in Odisha, India. It became clear that additional analysis and thinking was required to judge and define how effective products can be nurtured, and how new products can be developed and introduced.

Some specific deliverables of the project include the preparation of various knowledge products and a toolkit to facilitate easy replication of this risk transfer approach. Consultation reports, workshop reports, and guidelines for micro enterprise will also be provided, as will training reports, data sets, and a list of enterprises covered. A total of 5000 small and informal business units were studied.

### **3.3 WORK PROGRAMME**

Commissioned for a period of 18 months, the work programme consisted of 3 phases.

#### **1. Demand Survey**

The first phase of the work program was the conduct of demand surveys of small businesses in the three urban locations – Guwahati, Cuddalore, and Puri. This was necessary to determine the need for disaster insurance and to ensure the creation of a suitable microinsurance product. The data was collated and analyzed to facilitate the designing of an appropriate microinsurance scheme.

This survey captured the aspirations and apprehensions of the various small scale entrepreneurs about disaster insurance so as to evolve an insurance scheme that precisely matches their expectations and needs. The findings of this demand survey helped creating an insurance policy best suited to the needs of the targeted group. Important aspects of such a policy like the premium, time frame, claim settlement mechanism, etc., are all based upon the findings of the demand survey as well as consultations with relevant stakeholders (such as insurance companies, partners and the local community).

#### **2. Literature Review**

An extensive literature review has also been done on the existing microinsurance schemes for urban communities. This literature review was immensely helpful in drawing out the best

policies, practices and processes that are present in the existing microinsurance products and schemes.

### **3. Stakeholder Input**

The final disaster microinsurance policy will be designed through stakeholder consultations, including meetings and conferences that synthesize the findings of the aforementioned demand surveys with the suggestions of all the involved stakeholders. The final policy will be introduced to potential clients after these consultative procedures. While analysis and documentation of the demand surveys were in progress, the project team participated in key policy dialogues and the development of a publication – southasiadisasters.net.

### **4. Pilot**

The final microinsurance scheme has been launched in Odisha with 780 small businesses. The process of launching this scheme is underway in the other two states viz. Assam and Tamil Nadu as well. The study of 5000 small and informal businesses in these three cities have provided great insights into the potential of disaster microinsurance. Consultations are still on with stakeholders like the government and insurance companies to pilot the scheme in the best possible way in Guwahati and Cuddalore. All the steps of the process of developing this insurance scheme have been closely monitored and a thorough evaluation will be made of the impact of this scheme on the insured entities.

### **5. End Products and Publications**

This project has produced several deliverables in terms of knowledge products, stakeholder consultations and the final disaster microinsurance scheme. Publications have included three issues of AIDMI's Southasiadisasters.net newsletter, a final project end evaluation report, report of national consultation and academic research publication. A concerted South-South Development Sub-Academy on this theme was also organized in the month of January 2016. All these deliverables have helped in furthering the knowledge and understanding of the benefits of disaster microinsurance urban India.

## DEMAND SURVEY ON DISASTER MICRO-INSURANCE FOR SMALL BUSINESSES IN URBAN AREAS

The efficacy and uptake of any microinsurance product depends upon the extent to which it is synced to the needs of its target group. The first step in the project was to initiate a demand survey on the need for disaster insurance by small businesses in the local economies of the three selected urban sites. This was fundamental in evolving a microinsurance product best suited to the needs of the target group.

Important aspects of such a policy like the premium, timeframe, claim settlement mechanism, etc. have all been based on the findings of the demand survey as well as consultations with relevant stakeholders (such as insurance companies, local implementing agencies and the local community). A literature review was also carried out on the existing microinsurance schemes for urban communities. This literature review was immensely helpful in drawing out the best policies, practices and processes that are present in the existing microinsurance products and schemes.

The demand survey included key research questions developed from the literature review that were not addressed in previous disaster microinsurance projects. The most important of

# 4

Mr. and Mrs. Sahoo doing small-business of selling vegetables in Puri city, since more than a decade, with permanent place but without permanent structure.



these, whether such an intervention induces behavioral change to reduce risk in addition to providing risk coverage, has not been addressed in any other study to date. Ideally, risk coverage through this insurance scheme would not only serve as an excuse to ignore risks but have a positive effect – promoting action to minimize and mitigate the impacts of those risks. Other questions helped develop a potentially generalizable understanding of what factors may drive or discourage insurance uptake.

The demand survey consisted of a questionnaire that provided an insight into the world of the target group for the innovation. The answers to these questions shed light on the living conditions, economic status, disaster history, knowledge of and access to insurance services of the targeted group. The data collected was analyzed to design an appropriate disaster microinsurance product.

This demand survey targeted close to 1500 small businesses from each urban site. Its findings helped in defining the insurance requirements related to the protection of small businesses from disasters, primarily climate-related hazards.

#### **Pilot of the Questionnaire and Orientation of the Team**

The principal tool employed in the demand survey was a detailed questionnaire. The piloting of the questionnaire revealed certain interesting patterns about the expectations and the inhibitions of owners of small and informal business enterprises. For instance, it was revealed that the foremost reasons for the low penetration of insurance schemes among informal businesses were a lack of information and the inability of the people to afford the premiums of normal insurance schemes. All these factors needed to be suitably addressed to evolve a microinsurance product that is acceptable and affordable. The pilot questionnaire was then contextualized to make it better suited to the realities of the three selected urban sites (Guwahati, Puri and Cuddalore).

Prior to the collection of the data through the demand survey, all the project team members took part in site specific orientations. This helped to bring together all the project partners to accomplish the stated goals of the project. Moreover, the local partners helped in giving impetus to the local language during the demand survey to facilitate understanding and uptake by the target group.

The main findings from the demand surveys carried out at the 3 sites are enumerated below:

#### 4.1 PURI

The initial demand survey for developing a suitable microinsurance product was carried out in Puri district of the Odisha state of India in February 2015. A similar demand survey later took place in the other two sites – Guwahati (of Assam state) and Cuddalore (of Tamil Nadu state). Both of these other cities have different baseline hazards from Puri. Cuddalore is a coastline city prone to floods and cyclones where as Guwahati is a higher density area prone to earthquakes, flash floods and landslides.

The initial demand survey in the Puri city of Odisha revealed the following physical structures of small businesses.

1. Permanent fixed shops (brick and cement material)
2. Fixed stalls, but wooden or makeshift material
3. Temporary stalls that are arranged and removed everyday
4. Mobile (like cycle and trollies) businesses
5. Home based manufacturing
6. Workshops

While the data entry and analysis was in progress the following observations came out of the field:

1. There is a large unmet need for microinsurance (or similar risk transfer mechanisms) for informal businesses.
2. Very few respondents have accessed insurance and among these most are limited to life insurance and very few have health insurance (from a government scheme).
3. The demand survey also raised questions among curious small business operators about the concept of insurance. These questions helped reveal their level of understanding of insurance. These discussions revealed that this business community does not have any readily available source for information related to disaster insurance and products for small and informal businesses. This knowledge gap is one of the biggest barriers to easy uptake among respondents.
4. The Puri site also has a lot of tourism related informal businesses taking into account aspects such as seasonality, migration and mobile businesses. The dwellings of many such small business owners were found to be situated in hazard prone areas.
5. Many respondents have been affected by one or more disasters – small and large – mostly by cyclone and flooding. Due to the informal nature of their businesses,

the loss and damage has never been assessed or compensated by the government or other agencies. However, due to various factors (including illiteracy), many respondents are still not familiar with the concept of business disaster insurance.

6. The discussion with these potential clients of a microinsurance product also revealed a high level of misunderstanding and mistrust. Low income clients think they do not need insurance, they do not trust insurers, they do not understand fully the risk-pooling concept, and strongly believe insurance is just for the rich and that they do not have enough resources to pay for it.

The demand survey results have been included in the following knowledge deliverables:

1. A report on the demand survey to inform stakeholder agencies including government authorities.
2. A special issue of southasiadisasters.net publication that shares the findings and lessons with practitioners, researchers and decision makers in the disaster risk reduction and climate change adaptation field.
3. Data to initiate consultations with insurance companies to design possible product(s) for small businesses at least in these three sites.

Economic growth, urbanization and climate change are transforming the global risk landscape, and thus the markets for insurance. Some of these changes are contributing to an increase in the demand for disaster insurance. The findings of the demand survey in Puri corroborated these conclusions.

## **4.2 GUWAHATI**

After successfully conducting a demand survey in Puri, the demand survey to design a need based and consumer-driven disaster microinsurance product was carried out in Guwahati, Assam. Guwahati is the main city of Assam, which is the corridor to North-East India. It is a rapidly expanding urban area which is affected by a combination of natural and man-made hazards. The population residing in the city is also very dynamic and a substantial proportion of the population includes migrants from nearby districts who are primarily engaged in informal businesses. The frequency of hazards like incessant rainfall and resultant floods, storms, fires, and others has increased over the years due to multiple reasons. The city (and the entire state of Assam) also falls



under an Earthquake Zone V (highest category for earthquake hazard). Climate Change and changes in rainfall patterns have further compounded the impacts of such disasters affecting the city in addition to the man-made problem of poor mitigation and adaptation strategies and poor urban planning.

This demand survey brought to light the needs of the small businesses in the context of the different hazards and certain criteria defining the design of the disaster insurance product that can cater to the needs and demands of these businesses.

These locations are primarily affected by floods and storms. The businesses covered included both formal and informal shops as well as small shops with established infrastructure, makeshift shops, mobile vendors, etc. Efforts were made to cover both small established shops and marginal businessmen with no structure at all. The following were the key findings from the demand survey in Guwahati:

1. A very large segment of small and marginal businesses belong to the poor migrant population with the majority of them hailing from neighboring districts like Nalbari, Mongoldoi, Barpeta, Goalpara, Dhubri and Nagaon. These districts are those affected by recurrent floods and have inadequate livelihood options, so these people have migrated to Guwahati for earning a living through micro businesses.

Mr. Achyut Baishya lost a huge proportion of handcrafts cloth when a flood inundated his stall. He borrowed from Bandhan, a micro finance group and is repaying the installments. He had no knowledge or information on disaster insurance.

2. The majority of these marginal businesses generate very little revenue which is again affected by incessant rainfall and resultant floods. Though the most informal have no structure to lose, the loss of the working days during heavy rainfall even for two to three days causes severe problems for households that live on this subsistence level incomes.
3. Those who have some sort of a structure and suffer damages or loss of inventory are either dependent on their savings or borrow from money lenders. Problematically, the informal credit through money lenders cost these small businesses yearly interest as high as 360% (30% per month).
4. The awareness and uptake of disaster insurance among the businesses surveyed so far is nil and there are no such examples of initiatives or efforts to include this segment under the umbrella of disaster insurance in the localities covered so far.
5. The respondents have shown both interest as well as inability to purchase an insurance scheme. There is limited understanding on how insurance works and often due to ignorance, insurance is confused with similar financial products like micro-lending, informal savings groups, etc.

From the initial observation and experience, it is clear that this segment of population definitely deserves a formal risk protection mechanism that disaster insurance is capable of providing and the design of the product according to the needs of the population will ensure its sustainability along with adequate education and information.

### **4.3 CUDDALORE**

After successfully conducting a demand survey of small businesses to assess the demand for disaster microinsurance in Puri (Odisha) and Guwahati (Assam), a similar exercise was conducted in Cuddalore (Tamil Nadu). The city of Cuddalore falls in the eastern part of Tamil Nadu, which is prone to natural hazards such as tsunamis, cyclones and floods. The district also experiences a hot and tropical monsoon climate, characterized by humid weather and erratic rainfall. Temperatures range from 19.9° C to 26° C in the winter and from 31° C to 42° C in the summer. Together, these conditions set Cuddalore's enhanced vulnerability to various natural hazards. In particular, flooding and cyclones pose a serious threat to the city due to its long coastline.

The enhanced vulnerability of Cuddalore also exposes the small and informal businesses of this city to a lot of climate stresses. Previously, in the aftermath of many disasters, these small and informal businesses had suffered heavy losses, sometimes forcing their closure altogether. While the incessant floods during the monsoon months is a source of distress for all the residents of Cuddalore, the small and informal businesses of the city feel a greater pinch of these climate stresses. Flooding causes widespread damage to the structure of the shop as well as the inventories of such enterprises. Since most informal businesses possess no safety nets to recover or sustain livelihoods after an extreme event, a lot of them go out of business following an extreme event.

A potent way of overcoming this drawback for small and informal businesses is through promoting risk transfer approaches, in particular disaster microinsurance. The demand survey conducted in Cuddalore, sought to accomplish two purposes. First, to assess the demand for a disaster microinsurance scheme among the small and informal business community of the city. Second, to disseminate information about the potential benefits of disaster micro insurance in protecting livelihood assets against any kind of natural disaster.

Some of the highlights of the demand survey conducted at Cuddalore are as follow:

1. Among the total small business surveyed (1746), 96% of the small business owners have been affected by a disaster



A small business owner from a local market in Cuddalore, Tamil Nadu.



Small and informal business owners celebrated the World Humanitarian Day on 19<sup>th</sup> August, 2015 with AIDMI team.

every year and expressed the need of a disaster microinsurance scheme.

2. Most of the small and marginal business owners suffered huge losses of both livelihood and inventories. After a disaster strikes, they are forced to borrow money from local moneylenders, at an exorbitant rate of interest that pushes them into a vicious cycle of debt.

3. It was also found during the survey that there was limited understanding about insurance among the respondents. The survey revealed

that only a few small business owners among the surveyed population had previously subscribed to insurance. While only 4% of the surveyed small business owners admitted to having any knowledge of microinsurance.

4. The small business owners have expressed interest in purchasing business disaster insurance and they generally favor paying smaller premiums annually.
5. Most of them wanted comprehensive programs that covered numerous risks. This design would include disaster, eviction, theft, and injury. A composite and integrated product at the right price point would likely be more successful.
6. Moreover, the small business owners wanted insurance programs that protected against heat waves and sudden rainfall. A more permanent program should shield businesses from these conditions.
7. After such a thorough study, it is apparent that this vulnerable section of society needs a proper coping mechanism against the various hazards to which it is exposed. Thus, disaster microinsurance is a great instrument for the small and informal business owners. This form of insurance can also keep small business out of a cycle of loss/poverty by providing the critical post disaster liquidity required in urban environments.

The demand survey in the 3 urban sites of the project revealed some fascinating insights about the aspirations and apprehensions of small and informal business owners. All these findings were then collated, analyzed and fed into the development of a suitable disaster microinsurance offering for these selected sites.

## MEETINGS AND CONFERENCES

One of the main aspects of this project was to conduct meetings and conferences with various stakeholders and other experts to share information and concerns regarding the possibility of implementing a disaster microinsurance scheme. Awareness generation was critical for widespread uptake of disaster microinsurance among small and informal businesses themselves, to increase their understanding on how insurance works. Therefore, sharing information among stakeholders was an indispensable part of this project.

To increase the chances of a successful pilot, it was imperative to devise a disaster microinsurance product which was thoroughly grounded in evidence from the field. This necessitated inputs from various stakeholders and potential clients of such a product. These stakeholders ranged from members of insurance companies to small business owners and from government authorities to local community based organizations. Through these stakeholder consultations, the voices and insights of all these groups were



Mr. Mihir R. Bhatt interacting with the participants at the 8<sup>th</sup> SSCBDA.



captured. During these consultations, the synthesized findings from the demand survey were shared among all the stakeholders. Detailed deliberations about these findings, the existing gaps and final mile challenges took place at these consultations.

The following is a description of the several meetings and conferences which were held as part of the stakeholder consultations for this project. They have been categorized as state, regional and national level meetings and conferences.

## **5.1 STATE LEVEL MEETINGS AND CONFERENCES**

### **World Humanitarian Day**

The All India Disaster Mitigation Institute (AIDMI) celebrated the World Humanitarian Day on 19<sup>th</sup> August, 2015 with some small and informal business owners from Ahmedabad. Since 2009, World Humanitarian Day is celebrated throughout the world to commemorate those people who have lost their lives in humanitarian service and those who continue to bring assistance and relief to millions. This year the theme of the World Humanitarian Day was "Inspiring the World's Humanity." This theme called upon people to celebrate the spirit of humanitarian work by spreading awareness about humanitarianism. AIDMI's focus on this day was on shaping humanitarian innovation for informal businesses.

As noted earlier, and as discussed at the World Humanitarian Day, small businesses suffer significant losses, sometimes to the point of elimination, after a humanitarian crisis. At the same time, small and informal businesses play an active role in reviving livelihoods, markets and a sense of community after a crisis. All these roles are inspiring, but under-recognized and these victims remain largely unsupported in international humanitarian action worldwide.

Taking a leaf out of this year's theme, AIDMI joined to celebrate the World Humanitarian Day with a unique group of youths familiar with small and informal businesses. These youngsters came mainly from three categories, humanitarian workers, students from higher education, and those who had dropped out of school for one reason or the other, but are now pursuing their education through non-traditional systems such as the National Institute of Open Schooling (NIOS). It was decided to introduce such youngsters to the different aspects of humanitarianism through humanitarian efforts in the field of disaster risk reduction and later on humanitarian innovation via

risk transfer through microinsurance for small and informal businesses.

The celebration started with a presentation that gave the group an insight into the background and different aspects of humanitarian work worldwide. This was followed by an interactive session where the presenters informed the group about the daily humanitarian work which people often undertake without even knowing it.

The next part of the celebration consisted of spreading awareness about the project 'Innovating Disaster Microinsurance for Local Market Recovery'. The presenters stressed the humanitarian aspects of this project, which tries to address the post disaster financial needs of small and informal businesses. "Humanitarian action is not humanitarian if it leaves the recovering victims exposed to more and future risks", said Mihir R. Bhatt of AIDMI.

Also as noted earlier, due to poverty, illiteracy and other debilitating factors, these small business owners often do not get their businesses registered with the concerned authorities. As a result, they are left out of the ambit of any government policies and schemes which seek to promote business recovery in post-disaster situations. Disasters or extreme events are often the greatest threat faced by such businesses. Thus, many small and informal businesses face closure after a disaster or extreme event. Risk transfer approaches in the form of disaster microinsurance seem to be a feasible solution to the problem of continuity and recovery of small and informal businesses in post-disaster situations.

The presenters stressed that the project "Innovating Disaster Microinsurance for Local Market Recovery" aims to do just that. The project is supported by the Humanitarian Innovation Fund. The need for a disaster microinsurance product for small and informal businesses was also highlighted through the following points:

- Small informal businesses are repeatedly exposed to disaster risks.
- Employment in the non-agriculture informal sector is close to 59% in urban areas of India.
- Loss assessments often ignores the losses incurred by the informal sector, compensation takes too long and is often below market rates.
- Disaster Microinsurance can break the cycle of poverty by providing low income households access to post disaster liquidity.

- Often it is the 'victims' who manage the majority of disaster recovery themselves. Microinsurance can help accelerate their efforts.
- The informal sector is restricted in its access to vital financial services such as microinsurance.

After briefing the group of participants about the needs of disaster microinsurance, the presenters related the progress of the project. It was stated that the data from the demand surveys of small businesses from the 3 urban locations noted earlier have been collated and analyzed for designing an appropriate insurance scheme. It was also pointed out that the final disaster microinsurance policy will be designed through stakeholder consultations that would synthesize the findings of the demand survey with the suggestions of all the involved stakeholders. The final policy will be introduced to potential clients after these consultative procedures.

The proceedings of the day ended with an interactive session between the presenters and the group of youngsters. The participants shared their views on how to better communicate the findings of this project through the use of social media platforms like Facebook and Whats App. They vowed to spread the word about the spirit of humanitarianism among their friends too.

#### **Guwahati Roundtable**

The findings brought to light by the demand survey on disaster microinsurance in the Assam city of Guwahati, India were worth sharing with relevant stakeholders. The survey revealed that as risk is increasing over time with increasing frequency and extremes of weather related events due to climate change, the ability of urban small business to face these challenges is missing. This was confirmed during the demand survey when small business owners explained their struggles without any support from the public or private sector. Disaster microinsurance is a pressing need for these small businesses, but no such product currently exists.

A roundtable conference titled, '*Linking Disaster Risk Reduction with Risk Transfer: Protecting Small Businesses in Urban Areas*' was organized by the project team at Guwahati on 21<sup>st</sup> July, 2015. The objective of this roundtable conference was to discuss the findings of the demand survey in Guwahati which would then help in the consequent evolution of a suitable disaster microinsurance product.

The roundtable shared the key findings of the survey conducted with the small businesses and the needs that emerged



after the analysis. At the roundtable there was active discussion between State and District Disaster Management Authorities, Insurance Companies, Humanitarian Agencies and Small Businesses.

It was indeed an achievement for the project to have the State Disaster Management Authority attend the consultation with ownership and initiative. The one-day roundtable took place in the conference hall of the Assam State Disaster Management Authority (ASDMA, Government of Assam) with 38 participants from across various sectors including government officials from the state and district level disaster management authorities, public and private sector insurance companies, humanitarian agencies and representatives from small businesses.

The event was inaugurated by Mr. Ashim Kumar Chetia ACS, Deputy Chief Executive Officer, ASDMA. In his inaugural speech he emphasized urban risks and said "The biggest challenge in DRR (Disaster Risk Reduction) for us has been the lack of coordination and contribution from all stakeholders. There is a need to work towards bridging this gap. The issues and challenges must be resolved with initiative and commitment from all stakeholders". Mrs. Hazarika in her discussion on urban risk reduction highlighted efforts and initiatives of ASDMA and said "the overlap between disaster risk and climate risk cannot be ignored. The frequency of climatic events and rapid and uncontrolled urban

Staying together for a cause – the participants of roundtable on "Linking Disaster Risk Reduction with Risk Transfer: Protecting Small Businesses in Urban Areas" at Guwahati, India.



Mr. Mihir R. Bhatt with  
IDMVS staff.

development needs to be addressed by all stakeholders together. It is high time for climate compatible development". Dr. Himansih Deb, Regional Manager, United India Insurance Company stressed upon the need for enhancing the knowledge and understanding among small businesses about the concept and importance of insurance products for the benefit of lower income groups. Mrs. Rupali Rabha, a small businesswoman from Bhangagarh,

Guwahati said, "seasonal storms result in severe devastation in the market where we do business, almost everyone who suffers damage either uses his/her savings or resorts to using informal credit".

During the inauguration, Deputy CEO, ASDMA and SPO, ASDMA launched the latest issue of southasiadisasters.net on 'Disaster Microinsurance: An Innovation for Transformation'.

This consultation revealed the existing plight of the small informal businesses in the context of disasters from varied perspectives and laid the foundation for the evolution of innovative tools that will have the potential to address the multiple dimensions of risks suffered by these small businesses. The round table discussions helped the project build understanding. After the roundtable, the insurance companies that were present are now more sensitive towards this target group. The round table discussion provided an opportunity to raise awareness and arrive at an agreeable solution for reducing risk through disaster insurance for the urban small businessmen in Guwahati.

## 5.2 REGIONAL LEVEL MEETINGS AND CONFERENCES

### Sendai UN World Conference on Disaster Risk Reduction and Dhaka Roundtable

The 3rd United Nations World Conference on Disaster Risk Reduction (WCDRR) was held in Sendai, Japan in March, 2015, organized by the government of Japan and the United Nations International Strategy for Disaster Risk Reduction (UNISDR). At the 3rd WCDRR, the Sendai Framework for Disaster Risk Reduction (SFDRR) was adopted by 187 countries on March 18, 2015.

SFDRR offers a new vehicle and energy to take the idea of establishing a disaster microinsurance programme in India forward.

While the demand survey as part of this 'Innovating Disaster Microinsurance for Local Market Recovery' project was in process it became clear to the project team that there is a limited understanding of disaster microinsurance at different levels; and that a further push at the regional level is required for effective planning, design and operations among policy makers and practitioners to increase awareness and understanding of risk financing. The project team raised the topic of risk transfer through microinsurance directly before, during and after SFDRR through a wide range of platforms with the focus to promote and collaborate on risk transfer through microinsurance. This also served to encourage integration of risk reduction and climate change adaptation approaches.

The Institute of Disaster Management and Vulnerability Studies (IDMVS), University of Dhaka; and Duryog Nivaran, the South Asian Initiative in Disaster Management organized a Round Table on "From Sendai to Dhaka: Regional Perspectives on Sendai Framework to Disaster Risk Reduction" in Dhaka University on April 2, 2015. IDMVS is a leading center of disaster risk reduction initiatives and Dhaka University was an appropriate host as the leading university in a high risk country.

The keynote speech was given by Mr. Mihir R. Bhatt, Managing Trustee, All India Disaster Mitigation Institute (AIDMI), India and Chair, Duryog Nivaran. He welcomed the SFDRR as well as thanked Margareta Wahlstrom of ISDR and Government of Japan for World Conference on Disaster Risk Reduction and enlisted areas for developing regional perspectives. This included, the role of new knowledge on risk and the use of science and technology for building resilience in South Asia. Issues of regional economic growth, demography, and city level governance came up in the discussion. Moderated by Mr. Muhammad Taher, Member of Duryog Nivaran, the panel of discussants included Dr. Mahbuba Nasrin, Director, IDMVS, Dhaka University; Ms. Cathrine Tranberg Haarsaker of UNDP Bangladesh; Ms. Dilruba Haider, Coordinator, Gender and Climate Change, UN Women, Bangladesh; NGO and civil society leaders joined.

Mr. Mihir R. Bhatt with the panel of the discussants.



One of the ideas that came up was to look at the private sector and its role in reducing disaster risk and promoting preparedness. The discussion covered the idea of microinsurance as a way to reduce risk as well as a way to be prepared. Four areas for action came up at the end which included preparing pilot projects and programmes in the region; negotiating risk and how it is or is not covered by new economic development, physical or other; new and agile instruments to finance microinsurance sector development; and further integrating Disaster Risk Reduction and Climate Change Adaptation with insurance.

Dr. Mahbuba Nasrin pointed out the potential of women's leadership in the region to reduce risks. Ms. Cathrine Tranberg built on the work of UNDP and suggested "risk informed" development in the region. Ms. Dilruba Haider argued for attracting new ideas and energies to address the long standing vulnerability of women and their work in South Asia. Dr. Soneji of Oxfam called for greater focus on demographic opportunity to reduce risk in the region.

Discussions focused on microinsurance and its use in SFDRR and the need for skills and services to help design microinsurance projects. It was decided to work out an action and research road map based on the discussions.

For the South Asian region frequently affected by natural disasters, risk transfer and insurance are key measures that can be employed to increase resilience in advance of these events and enhance recovery efforts in their aftermath. The current Humanitarian Innovation Funded project to explore disaster microinsurance for businesses is in line with the SFDRR as it studies a tool enable businesses and households to protect themselves against the financial losses brought by natural disasters. A key component of this research will be how the insurance product further influences disaster risk reduction behavior among clients. This will be a measured outcome along with the primary financial outcomes.

#### **South Asian Summit**

In an address during the launch of the Smart Cities Mission on June 25, 2015, the Prime Minister of India stated that "The city's residents and leadership should decide how a city should grow." This statement reflects the philosophy of the Smart Cities programme, a nationwide project launched by the Government of India. It endeavors to cover 100 cities with INR 48000 cr. (USD 8 Billion) over five years. But are these smart cities safe cities? A

recent survey on disaster insurance demand captures the perspectives of small businesses in urban areas of India for smart management of financial matters. It found that insurance coverage to small businesses makes a city safe, and a safe city makes a smart city.

The second annual South Asian Summit on May 22–23, 2015 in New Delhi was organised by the Cities Network Campaign, the All India Institute of Local Self Government, and the Climate and Development Knowledge Network. Mihir R. Bhatt from AIDMI chaired a session on 'Urban Vulnerability and Resilience – Climate Change and Adaptation'; the panel included Dr. B. C. Sabat, Senior Scientific Officer, Delhi Government; Dr. K. Vijaya Lakshmi, Vice President, Development Alternatives; Ms. Prarthana Borah, Senior Programme Coordinator, Centre for Environment Education and Ms. Divya Sharma, TERI. The panel and overall summit raised many important issues. Among these, risk pooling and transfer came up during discussion as an important feature in the concept of smart cities. Other issues that came up are discussed below.

Urban risk in India is ubiquitous. Cities are unsafe. According to the World Resources Institute, gross domestic product at risk of flooding in India may surge 10-fold by 2030 as cities expand and climate challenge worsens. Only sustained efforts can help avoid this scenario. We live in an era of historically unprecedented urbanization. With the influx of large swathes of people into cities, the carrying capacity of many urban systems is often exceeded. This pushes a greater number of people into the column of vulnerability, giving rise to newer risks while exacerbating those already there.

A total of 37 participants from 8 countries and 6 Indian states participated in the academy, drawn from government bodies, multi-lateral agencies and universities.



Action based research on risk sharing instruments should be encouraged in towns and cities located in climatic hotspots, and the best practices should be scaled up. Non-life coverage needs to be encouraged, especially for small businesses. Barriers such as the low level of awareness of risk transfer and insurance among vulnerable population needs attention by the relevant government and private institutions. The insurance industry is relatively weak in South Asia, and panelists highlighted the need to support it for better risk management. However, microfinance alone cannot remove poverty; it must include mitigation measures. Reducing risk comes first, and insurance exists to help deal with residual risk as one part of a comprehensive disaster preparedness system. Convergence of activity by academics, researchers, policy makers, donors, risk management practitioners, as well as victim communities is necessary.

Based on the above-discussions and project progress, it is clear that the process of designing the disaster microinsurance product must reflect on the operational points of the programme and research. That is to say, if a smart city takes up disaster microinsurance for its small businesses, how will this risk transfer be governed?

#### **8<sup>th</sup> South-South Citizenry Based Development Sub-Academy (SSCBDA)**

The All India Disaster Mitigation Institute (AIDMI) in collaboration with the United Nations Office for South-South Cooperation (UNOSSC) organized the '8<sup>th</sup> South-South Citizenry Based Development sub-Academy (SSCBDA)' in Ahmedabad, on January 11–13, 2016. This year a total of 37 participants from 8 countries and 6 Indian states participated in the academy, drawn from government bodies, multi-lateral agencies and universities.

The theme of this year's academy was 'Building Urban Resilience through Risk Transfer: Protecting Small Businesses and Local Market Recovery'. This academy provided the perfect platform for several leaders, practitioners, students and members of various community based organisations (CBOs) and non-governmental organisations (NGOs) to share their experience and knowledge of reducing risks in their communities and learn from the experience and knowledge of others.

It is often observed that local communities are the first responders to any disaster. This high level of risk exposure has led these local communities to partner with local CBOs and NGOs to

come up with coping mechanisms based on local knowledge systems. However, such risk reduction innovations from the grassroots often go unnoticed at regional and global levels.

The academy was inaugurated by Mr. Denis Nkala and Mr. Mihir R. Bhatt, Managing Trustee, AIDMI. Both Mr. Nkala and Mr. Bhatt noted that small and informal businesses in urban locations provide social mobility and a dignified means of livelihood to the working poor. However, natural hazards and climate extremes threaten the continuity of these businesses. Risk transfer approaches such as disaster micro-insurance for small and informal businesses may be a viable option for building the resilience of these businesses against disaster and climate risks.

The first day of the academy consisted of three sessions highlighting the sub-national and regional views on urban resilience and risk transfer. The day ended with case studies presented by CBOs from Assam, Odisha and Tamil Nadu. Important issues highlighted during the day included:

- Haphazard urbanization driving urban risks
- The impact of disasters on informal workers
- The significance of data on informal settlements (slums), possible areas of insurance collaboration between the government, insurance providers and NGOs
- Viable areas of overlap between disaster microinsurance and urban resilience
- Incentivizing insurance for small and informal businesses and workers
- The role that risk transfer approaches have played in building urban resilience in Nepal and Sri Lanka.

The second day of the academy consisted of sessions on the themes of small businesses and risk transfer; urban resilience, risk transfer and inclusion; planning and finance for urban resilience; and climate risk insurance beyond South Asia. The important issues deliberated upon included:

- The indispensability of risk transfer mechanisms for small businesses and street vendors
- The role disaster microinsurance can play in engendering inclusion and promoting the welfare of women
- Disasters can be viewed as opportunities for sustainable and inclusive development through the promotion of grassroots women's organizations

- Tweaking insurance services and offerings to match the needs of the urban poor
- Perspectives on disaster and climate risk microinsurance from Argentina, Brazil and France.

The third and final day of the academy aimed at summing up the knowledge and experience shared by the participants during the previous two days. The lessons learnt from the academy were then located in the goals of macro policy instruments such as the Sendai Framework for Disaster Risk Reduction (SFDRR) and recently ratified Climate Deal at the Conference of Parties 21 (COP21). The highlight of the day was the launch of a new insurance product by the participants of the academy. The insurance product has been designed on the basis of demand surveys and consultations with various stakeholders. This product targets 750 small businesses in Puri, Odisha.

The experience, expertise and knowledge of the participants of the academy have been consolidated into a 'Learning Statement' to promote and strengthen risk transfer and insurance in line with implementation of SFDRR PoA3 (priority of action).

### **5.3 NATIONAL MEETINGS AND CONFERENCES**

Just like the conferences and meetings held at the state level, the mandate and the findings of this project were also taken to various stakeholders through national level meetings and conferences. An overview of key National Meetings and Conferences is given below:

#### **Meeting with Mr. Kamal Kishore, Member NDMA**

The National Disaster Management Authority (NDMA) is the apex administrative body in India designated with the task of making India safe from the adverse impacts of the various hazards it faces. As already mentioned, one of the principal objectives of this project has been to test and highlight the effectiveness of disaster microinsurance as a potent risk transfer and resilience building measure.

Consequently a meeting was organized by AIDMI with Mr. Kamal Kishore (Hon. member, NDMA) on 13<sup>th</sup> October, 2016 to showcase the emerging findings from this project. Mr. Mihir Bhatt, Managing Trustee, AIDMI presented the hitherto progress of this project and discussed the possibility of scaling up the idea of disaster microinsurance with the backing of the government. The deliberations that took place also focused on the potential ways of

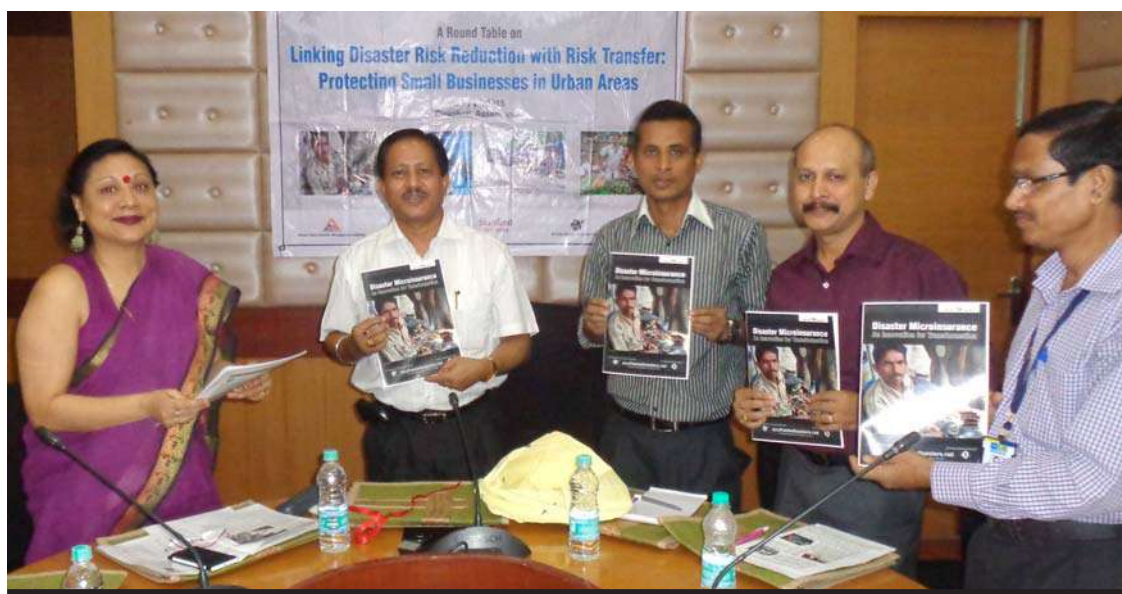
involving a greater number of stakeholders both from the public and the private sector to increase the outreach and the impact of this risk transfer mechanism.

**Meeting with Mr. Prakash Javadekar, Hon. Minister of Environment, Forest and Climate Change, Government of India**

On 20<sup>th</sup> October, 2015, a meeting was convened between Mr. Prakash Javadekar (Hon. Minister of Environment, Forest and Climate Change, Government of India) and AIDMI in New Delhi. The purpose of this meeting was to apprise the Hon. minister about the potential of disaster microinsurance in breaking the cycle of post disaster poverty in environmentally fragile parts of the country. This meeting was great opportunity to relate the positive findings of this project with one of the most important decision drivers in india.

This meeting also created a chance to share the innovation project with the objective of advocating disaster insurance and non-life coverage for vulnerable population living in climatic hotspots. The Hon. minister listened intently to the findings and then gave some great insights on the future of such innovations in India. The overlap between urban resilience and environmental sustainability veered the discussion towards the much talked about SMART Cities mission as well. It was agreed upon that a SMART city has to be a Safe city as well. Consequently, greater integration between the objectives of this project and those of SMART cities mission was suggested.

During the inauguration, Deputy CEO, ASDMA and SPO, ASDMA launched the issue of Southasiadisasters.net on 'Disaster Microinsurance: An Innovation for Transformation'.



# 6

## THE PRESENT STATUS

Having reached its final stages, the project 'Innovating Disaster Microinsurance for Local Market Recovery' has revealed some interesting insights in terms of risk transfer mechanisms and the needs of Small Business Owners (SBOs). The critical demand survey was successfully conducted in Puri (Odisha) with 1551 SBOs, in Guwahati (Assam) with 1622 SBOs and in Cuddalore (Tamil Nadu) with 1746 SBOs. At present, under this project, the *Afat Vimo* scheme has been launched in Puri district of Odisha with 782 clients. Similarly, the negotiations are on in the other locations of Guwahati and Cuddalore to launch a similar disaster microinsurance schemes.

Hundreds of small business owners suffered great losses in the floods of December 2015 in Cuddalore, Tamil Nadu.

### 6.1 KEY ACHIEVEMENTS

The project allowed to gather precious data capturing the aspirations and apprehensions of many small business owners (SBOs) concerning disaster microinsurance in three different sites of India: Puri (Odisha), Guwahati (Assam) and Cuddalore (Tamil Nadu).



The project helped in developing partnerships between various stakeholders, increasing the knowledge of the process of microinsurance implementation and strengthening the link between actors at various scales.

The findings of the survey were used to create a microinsurance policy for 782 SBOs of Puri.

Having factored in the findings from the demand surveys, a disaster microinsurance product has been designed for small and informal businesses of the project site – Puri, Odisha state. This microinsurance scheme covers all types of natural calamities, fire, burglary along with personal accidents – PTD, PPD (Permanent Total/ Partial Disability) and death.

## **6.2 KEY OUTCOMES**

Concerning the survey conducted in Puri, Guwahati and Cuddalore, a crucial amount of data was gathered. The main results can be summarized as following:

1. There is a large unmet need for microinsurance (or such risk protection tool) for informal businesses.
2. Very few respondents have insurance and among these, most are limited to life insurance and very few have health insurance (from a government scheme).
3. There is limited understanding on how insurance works and the small business owners do not have any readily available source for information related to disaster insurance. This knowledge gap is one of the biggest barriers found among respondents.
4. Many respondents have been affected by one or more disasters - small and large -mostly by flooding and cyclone.
5. The survey revealed a high level of misunderstanding and mistrust. Low income clients think they do not need insurance, they do not trust insurers, they do not understand fully the risk-pooling concept, and strongly believe insurance is just for the rich and that they do not have enough resources to pay for it.
6. Most of the small and marginal business owners suffered huge losses of both livelihood and inventories. After a disaster strikes, they are forced to borrow money from local money lenders, at an exorbitant rate of interest which pushes them into a vicious cycle of debt.

As mentioned above, a disaster microinsurance scheme called *Afat Vimo* was implemented in Puri. This microinsurance scheme covers all types of natural calamities, fire, burglary along with personal accidents - PTD, PPD (Permanent Total/ Partial Disability), death. A detailed breakup of this product is as follows:

Particulars	Some Insured (INR)
Fire and Natural Calamities:	
Building	30,000/-
House hold goods	15,000/-
Stock of Product	10,000/-
Bsusiness Struture and Tools	30,000/-
Personal Accident (PTD, TPD, Death)	30,000/-
<b>Total</b>	<b>1,50,000/-</b>

Brochure on Disaster Microinsurance for Informal Small Business (in Odiya language).



### 6.3 KEY LESSONS LEARNT

Assessing the demand for a suitable disaster microinsurance and then devising a suitable microinsurance offering has been an enriching experience. In conceiving and implementing this project the following key lessons have been learnt:

#### Lessons from Demand Survey

The survey revealed higher than expected demand among small businesses for insurance protection, especially in vulnerable locations and among informal businesses. It confirmed that a large need exists in this place that can be served.

#### Lessons from Collaborative Partnerships

The project revealed important information concerning the partnerships. Small NGOs require support in terms of management. Moreover and due to the above institutional barriers local humanitarian institutions could not commit themselves to the microinsurance tools which require a longer term commitment (investment) of the association beyond the project duration of a few months to a year. For instance, Society for Women Action and Development (SWAD) is AIDMI's partner which conducted the survey and helped implement the disaster insurance tool in Puri, Odisha.

sSTEPS Society for Social Transformation and Environment Protection (sSTEP) was the local partner of the project in Guwahati, while BEST is the partner in Cuddalore.

Similarly, the insurance products designed in Odisha was made in partnership with the United India Insurance Company (UIIC). After analyzing the data collected through the demand surveys, the UIIC has helped in developing a microinsurance scheme suited to the needs of small businesses in the aforementioned three cities

As big companies are not yet interested in this type of product, NGOs of a certain size -such as SWAD- appear as the best partners.

#### **Lessons from Engaging Communities**

The project also enlightened the need for the organization to support NGOs when conducting studies and dialogues with communities. Local partner agencies require active support to initiate consultation with private sector alone, especially when it comes to microinsurance products to which the stakeholders are not accustomed.

### **6.4 KEY RECOMMENDATIONS**

All the phases of the project have been critical in highlighting certain gaps and point to measures of improvement. The analysis of the data collected through demand surveys in particular has been very enlightening. Based on all the lessons from the project, the following is a list of recommendations for different stakeholders:

#### **A. State and National Governments**

- I. Policy Protection:** Governments must strengthen existing protection measures for marginalized vendors to promote resilience and risk mitigation. Local powers should promote insurance programs. And existing laws under the National Street Vendors Act must be strengthened to address the consequences of disasters.
- II. Innovative Pilots:** The appropriate government entity must take measures through innovative pilot projects to encourage involvement of the street vendors in particular and small business in general towards sustainable risk transfer practices considering the disaster risks they face. The government may require and could garner support and involvement from Insurance Companies, Civil Societies and Advocacy groups towards this end.
- III. Creating Platforms:** The appropriate government entity should emphasize the creation of platforms where innovative solutions can be designed and tested, the existing platforms like Town Vending Committees and

similar ones must be strengthened to address awareness generation on sustainable risk transfer practices.

## **B. Insurance Companies**

- I. Designing Products:** Insurance providers must consider the needs and demands of target groups. They should also think about replication across the region. Premiums and durations should be flexible and meet the preferences of different business owners.
- II. Covering Losses:** Providers need to think about lost inventory – both in homes and businesses – and have to design products to minimize these losses.
- III. Educating Consumers:** Insurers should improve public knowledge of programs, in part by developing IEC materials. By educating SBOs, providers can create a larger market for their services.

## **C. International Agencies and Donors**

International Expert Agencies and donors must understand that disasters consistently affect the lives and livelihoods of SBOs. International groups should conduct research into potential solutions. And part of any solution needs to encourage vendors to pursue risk mitigation.

## **D. Local NGOs and Civil Society Organizations**

CSOs should understand the target group's issues to raise awareness. They must design plans that help ailing SBOs adapt. They must work with providers to create life and disaster insurance programs. Most importantly, they should put pressure on governments to take action.

The project might be in its concluding phase but it has offered key insights on how risk transfer mechanisms can be used as an adequate means of recovery of local markets. The rationale behind this project was to create an empirical evidence base for humanitarian agencies, urban authorities and insurance providers to up take risk transfer issues in their policies and practice. This will help in moulding and up scaling risk transfer approaches to better suit the needs of the urban poor.





**ALL INDIA DISASTER MITIGATION INSTITUTE**  
411 Sakar Five, Near Natraj Cinema,  
Ashram Road, Ahmedabad 380 009 India  
Tele/Fax: +91-79-2658 2962  
E-mail: [bestteam@aidmi.org](mailto:bestteam@aidmi.org)  
Website: [www.aidmi.org](http://www.aidmi.org), [www.southasiadisasters.net](http://www.southasiadisasters.net)