INPUT PAPER

Prepared for the Global Assessment Report on Disaster Risk Reduction 2015

RISK TRANFER 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)

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Background

All India Disaster Mitigation Institute (AIDMI) was the first agency in India to design a combination of life and non-life disaster insurance product[1] for disaster victims; through public insurance companies in 2004, supported by the ProVention Consortium. Since the first pilot in Gujarat, AIDMI has pioneered a series of action-learning pilots on disaster micro-insurance across India.The *Afat Vimo* (disaster insurance) scheme covering 19 types of disasters was first piloted in Gujarat in 2004 and was later extended to 2004 Indian Ocean tsunami victims in Tamil Nadu, and 2005 earthquake victims in Jammu and Kashmir. In 2011, the pilot scheme was extended to the floods and cyclone victims in Odisha; through Society for Women Action Development (SWAD) with support from European Union in partnership with Concern Worldwide India and later on in 2013 with support of Climate Development Knowledge Network (CDKN) the study on effectiveness of disaster insurance conducted.

This **input paper** is directly in relation with priority for action 4 - underlying risk factors and their reduction and CI3 – reducing the vulnerability of economic activities with focus on poor and vulnerable communities. It is focused on the guiding questions – 2nd of Economics – What role do factors such as insurance play? The input paper is based on establishing evidence for policy makers and practitioners to promote and strengthen disaster insurance for vulnerable areas of India and other developing countries. It is taking preparedness measures further from reducing death toll (like 2009 *Aila* Cyclone, 2013 Cyclone *Phailin*) to reducing economic loss of poor and vulnerable communities.

About All India Disaster Mitigation Institute (AIDMI)[2]

AIDMI is a community-based action planning, research and advocacy organisation, working towards bridging the gap between policy, practice and research related to disaster mitigation, based in Gujarat, India. Established after the 1987–89 Gujarat droughts, AIDMI has expanded its work over the years to cover a nine types of disasters in twelve areas of India and beyond to eight countries in Asia. AIDMI strives to link local communities to national and international levels of risk reduction, relief and long-term recovery policies and programmes. As an operational and learning organisation, AIDMI works towards promoting disaster risk mitigation and adaptation to climate change risk by supporting, capturing, processing and disseminating disaster related information, lessons and innovative ideas as well as conducting stakeholder round tables, trainings of trainers, reviews, evaluations, and pilot projects.

Risk Faced by the Poor

It is well-known that the most vulnerable to risks are the poorest in society. The poor are already struggling to make ends meet. Hit by a disastrous event, they have few, if any, means to cope with it.

There are five main risks poor families have to face: untimely death and illnesses, crop risk, livestock and fire, theft and machinery failure. An unpredictable risk such as an untimely

[1] Refer as microinsurance or disaster insurance
[2] For more information: www.aidmi.org.

death and especially one of an earning family member can be devastating for the household. The poorer the household is, the more they may suffer. With no credit available from savings or insurance, a poor disaster affected household will apply alternative and less secure and effective methods in the recovery phase which ultimately may impoverish the household further. Another threat for individual households is illness. A health condition is very likely to affect a person's ability to earn money as well as necessitating spending on remedies. A poor household spends a greater percentage of its income on health than a rich one.

Co-variant risks, like natural catastrophes may affect all levels of the society in the geographical area hit by it, but it will always be the poorest that will suffer the most. Drought and flood are constant threats to farmers' crops. Poor people dependent upon agriculture will be directly affected if their crops fail due to lack of rainfall. This is also likely to affect households that keep livestock. Any factor that causes the death of livestock will have an effect on the households' income.

A low-income household generally does not possess any high-value assets, which make it even more dependent upon what it has. A loss will immediately affect its income level. Urban city-dwellers face other risks than those who live in rural areas. In a densely populated area a fire is likely to spread fast and damage several households. Rural populations that earn their living from agriculture are vulnerable to irregularities in the weather. Climate experts agree we will have to face more extreme weather in the future, and this will have adverse effects on poor farmers all over the world especially countries like India.

When hit by any of these risks, a low income household will suffer both human as well as economic losses. Until recently, the ability of low-income households to purchase insurance has been virtually non-existent.

Tool to Reduce Disaster Risk – Loss and Damage

For decades, the financing of disasters in developing countries (including India) has relied on a reactive approach, consisting of the diversion of funds from domestic budgets and extensive financing from international donors. Such 'ex post' funding approaches are inefficient, often poorly targeted, and insufficient. Moreover, they provide no incentives for proactive risk reduction measures such as improved urban planning, higher construction standards, coping mechanism that sustain for long term etc.

Access to microinsurance facilities is increasingly becoming relevant for both the vulnerable poor and humanitarian sector. Relief and compensation efforts are useful, but not enough; they do not fully compensate or adequately help the poor recover all the incurred losses. Thus, in addition to relief or compensation, victims also need access to microinsurance that protect them against natural hazards especially climatic hazards. Financial services enable the poor among victims to leverage their initiatives and accelerate the process of rebuilding their lives and livelihoods, as we (AIDMI) have learned from our livelihood support work, which reached 15000 small businesses initiated after a 2001 Gujarat earthquake. Microinsurance can help the poor in moving out of poverty and the vulnerable in moving out of risk. Similarly, promotion of microinsurance as a risk reduction investment can significantly reduce the total cost of financing post disaster relief and reconstruction and work as an adaptation to climate change risk. Microinsurance and other microfinance services has helped victims of disasters accelerate their recovery and diversify their livelihoods with more productive sources of income.

Concept – Risk Transfer through Microinsurance (disaster insurance)

The benefits of insurance cannot be extolled highly enough by development professionals, researchers, and economists. Yet millions are denied access to this essential risk reduction tool, and these individuals are arguably most in need. They are typically poor and highly susceptible to disaster. Lacking the capital savings and capacity to recover from disaster unaided, when catastrophe strikes they are unprepared and are left to rebuild their lives with the aid of whatever assistance is provided.

There is a commonly held misconception that the poor of society are untrustworthy as clients of insurance, and are unable to meet payments. Reality has proved that this is not always the case through positive results in the fields of microcredit and livelihood relief. It is experts' firm belief that the poor should be able to reduce their vulnerability and mitigate risk in the future through disaster insurance. However, the provision of low premium microinsurance policies makes insurance accessible to the majority of society's poorest victims. But how are insurance companies able to provide such low premiums? The key to low premiums is the economic concept of risk transfer and spreading. When individuals in several communities in different geographic locations all take out microinsurance policies, the risk associated with administering each policy is spread across a large number of people and regions.

The likelihood of all of the regions being hit by disaster and everyone claiming simultaneously is remote which enables the policies to be underwritten by the insurance companies at such low premiums. Additionally, the low-income policyholders are insuring few assets at a low value, so even in a disaster situation, claims are not exorbitantly high.

The Impact of Microinsurance in South Asia

South Asia accommodates 22% of the world's population and more than half the world's poor. The majority of them are self-employed and part of the informal economy. Thus they are not covered by any public social protection that provide unemployment benefits, health care, maternity benefits, retirement pension and protection for disabled and children. Being excluded from social protection, they are forced to seek protection elsewhere. Informal safety nets provide security when smaller incidents take place, but they are likely to fail when a greater incident occurs. This is especially the case with covariant risks that affect many individuals in a particular geographic area to the point they cannot support one another. As a result, both a market and a need for microinsurance are present in South Asia.

The total number of schemes offered has increased greatly in the last decade. The exact number is difficult to identify as many of the schemes operate within different frameworks and are not necessarily called microinsurance, such as the Yasiru Mutual Fund in Sri Lanka. But we know the number is constantly increasing and schemes cover a wide range of risks, death and illness being the most common ones. India's legal environment facilitates the establishment of microinsurance schemes.

Micro Insurance Major Risks Microinsurance does not deal with micro problems, but problems that can be devastating for those affected. It is not simple insurance, but something more complex. In comparison to the regular high income market, the low-income market has other characteristics and needs. Therefore, it is important that insurance products are designed especially for those who they are aimed at. The creation of a scheme requires a lot of effort and offers several challenges. There has to be an insurance provider, a delivery channel, capital and knowledge about the target market as well as the technical aspects of insurance. A commercial insurance company is probably focused on building its name and reputation in markets that can provide economic returns in the future rather than providing the poor with social protection which would be the main objective of an NGO intermediary.

A Recognised Tool The annual conferences on microinsurance demonstrate its importance and potential as a tool in securing poor people's livelihoods. Microinsurance has proved to be efficient in securing policyholder's assets, be it their livestock or their health. But it is also necessary to emphasise that microinsurance is not the decisive factor in eradicating poverty. Rather, it is a tool that compliments other measures taken with the aim of reducing poverty, as while microinsurance is applicable to many contexts, it is not a 'fix all' solution appropriate to all situations. Depending on the risks, credit or savings may offer better strategies in dealing with risk. Although insurance offers a more complete coverage of losses than what a person or a household itself would manage to cover with savings. Those who are not affected by any insured incident within the coverage period basically pay for those who are. This is spreading the risk.

As we can see, there have been numerous initiatives in the field of microinsurance and different models have been developed. But the biggest challenge remains to create and communicate the right understanding of the concept and all the benefits that follow. Several case studies support this statement. Various schemes suffer from low renewal rate because the policyholders do not see enough benefits in it.

Why is the Understanding So Poor? To many people the word insurance has a negative connotation. People tend to back out when the word is mentioned. Therefore, we have to develop new strategies of explaining and communicating insurance. It has been proven that where people have a positive experience of microinsurance they will continue to purchase it.

Looking at it from the perspective of a poor policyholder with a very limited budget, it is easy to understand why other urgent needs are given priority. Paying the premium may mean they cannot afford basic need. These have to be covered before a person is able to prioritise insurance.

Opportunities of Reducing Risks in South Asia

The population excluded from insurance in South Asian countries is showing very huge ratio, 90% in India, 93% in Bangladesh, 97% in Pakistan and 95% in Nepal[3]. There is huge potential for microinsurance market in the South Asia region. There is no major development have been made from 2005 to 2014 in this particular field. The majority of loss in any small-

[3] Source: Marc Socqut (2005)

scale to big-scale disasters is suffered by the poor. In a way this is an opportunity for those who want to reduce risk in South Asia. Even in a country growing rapidly like India, the current level of insurance penetration is 3.2% (2012-13) and less than 1 per cent in non-life (2012-13) across the country. Similar to India, many countries of South Asia are faced with a big challenge of transferring disaster risk at the household level. As a result, a large percentage of world's poorest population residing in South Asia still remains exposed to disaster risks, induced economic losses and deprived of any advantages of rapidly advancing insurance market. A disaster may even not have any economic significance at the macro level, but for each farmer a disaster may ruin his or her basis of existence.

Non-availability of microinsurance options to the poor is an issue of financial exclusion. This is an opportunity for the disaster risk reduction actors to make risk pooling and transfer more inclusive.

AIDMI points out to powerful governments and humanitarian donors that disaster microinsurance can work and should be integrated in recovery programmes and argues with giant insurance companies about market potential of disaster insurance in the region. Potential for national and regional market to absorb innovative and affordable microinsurance products is huge.

Disaster induced economic losses in region can be financed through rapidly growing economies, well established insurance markets and global experiences, including successful regional initiatives. Donor support for converging microfinance and DRR during recovery (between two disasters) can make a huge difference to both, the losses and the slowdown of economic process. Short-lived projects tied with stringent deadlines often constrain advancement of innovative thinking for developing long-term and sustainable solutions for financing risks.

A few local organisations in poor countries of South Asia have already demonstrated value of promoting disaster microinsurance with concrete results. This include, Basix in Hyderabad, India; Yasiru in Colombo, Sri Lanka; Proshika in Dhaka, Bangladesh; SEWA in India; and AIDMI in India to name a few.

AIDMI is one of the pioneering organisations in the Asia to design and demonstrate a pilot projects on disaster microinsurance and also support the institutionalizing risk transfer component in humanitarian agencies since 2004 – 05 onwards. The need for designing microinsurance for disaster affected victims was first revealed during a community consultation with 14 left out slum communities in Bhuj following the 2001 Gujarat Earthquake. AIDMI found that only 2% of those surveyed had insurance of any type.

AIDMI designed the scheme with two regulated public sector insurance companies, designed a partner-agent model and named it as *AfatVimo* (disaster insurance) scheme. The scheme covers five risks; (limited) losses of life, trade stock, livelihood assets, house and house contents of policyholders with an annual premium of around $4.50 (including administrative charges) and a total potential benefit of $1,560 (not necessarily the maximum payout) across the various components of the coverage.

The scheme covers damages or losses to a very wide range of disasters including earthquake, flood, fire, cyclone, lightning strike, landslide, et al. (19 types). The product was first sold in April 2004 covering 3700 policy holders in Gujarat and later on extended to 2004 Tsunami victims in Tamil Nadu, 2005 J & K earthquake victims, later on to 2011 flood victims in Odisha.

AfatVimo, being a financial tool for risk sharing, reduces the policyholders' underlying risks and offers financial protection. In addition to the policy itself, the policyholders are supported with micro mitigation measures such as fire-safety, seismic-safe construction practices and business development support.

In order to support the growing demand for an evidence base on impact of microinsurance from donors, in 2009 AIDMI in partnership with ProVention Consortium and International Institute for Applied Systems Analysis (IIASA) led a regional study in South Asia covering five organisations offering disaster microinsurance from Bangladesh, Sri Lanka and India3[4]. A total of 1640 disaster microinsurance clients and 531 non-insured clients were surveyed and consulted. Overall, the results of this study show interest in and willingness to pay for disaster microinsurance programmes in South Asia. The products are reaching poor clients, many who are below the poverty line, highly in debt, and employ limited and difficult coping mechanisms after disasters. However, some challenges in claim processing, delayed payments and inadequate total coverage were reported. The following 6 priority activities and interventions are recommended based on the findings of the study.

1. Utilise the client community to increase awareness and grow.
2. Microinsurance is not a panacea for disasters. There is a need to promote long-term disaster risk reduction in conjunction with microinsurance.
3. Promote increased participation by women in disaster microinsurance programmes.
4. Promote the review of organisations' claims processes to ensure that money is getting to clients in the most effective and efficient way possible.
5. Look for the biggest critic. The proof of impact of disaster microinsurance must be done through the survey of people who have dropped out the programmes, were rejected claims, and who will not renew membership in the future.
6. The use of impact assessments for future product development.

The study concluded that the key to everything seems to be awareness and information. The study signalled high demand for disaster microinsurance after non-insured clients had been given information showing the relevance and pricing of such products as well as the power of

Organisations to reach more clients simply through outreach. An overwhelming majority (80 percent) of clients feel that disaster microinsurance should be promoted to others while only a minority (2.3 percent) think it should not.

[4] For full report visit http://www.iiasa.ac.at/Publications/Documents/XO-11-059.pdf.

India is a forerunner in the field of microinsurance especially in the light of its unique regulatory environment: commercial insurers are required by law to offer cover to low-income households, with the result that over 30 million low earners have insurance today[5]. Low level of insurance coverage is an opportunity for the authorities, businesses, and the civil society to promote financing risk reduction and recovery through microinsurance. It is up to the risk reduction actors to maximise on this opportunity.

The input paper is presenting joint efforts of involved agencies who trying to reach out poor and vulnerable communities and build disaster resilient community by mainstreaming microinsurance with disaster risk reduction and climate change adaptation.

Spreading the Risk of Extreme Weather Events by Insurance

When a disaster strikes, it often has impacts on all levels of society, but it is generally the poor who suffer the most and will face the most difficulties in the recovery phase. Sometimes they were struggling to make ends meet prior to the disastrous event. A poor household may lose most of its assets and face serious challenges rebuilding.

The World Bank has argued that insurance can be an important actor when it comes to managing and spreading the risks related with the increasing occurrence of extreme weather events. The insurance industry possesses both the financial capacity and the ability to promote loss reducing behaviours among policyholders better than the public sector.

Post-disaster Focus is not Enough Providing funding for disasters after they have struck is inefficient. Often, the lack of planning and distribution of resources halt financial resources from being available when they are needed the most i.e. right after a disaster has struck. Moreover, it is ineffective. The resources available might be utilised based on bureaucratic and political considerations, instead of being used on investments that are more likely to restore economic activity rapidly. Finally, post-funding is insufficient. The amount of financial resources available generally doesn't cover the actual costs of recovery. An exception was the over-funding after the Indian Ocean tsunami in 2004.

Lack of Preventive Measures Historically, there has not been significant interest in pre-management of disasters, even though there is proof of large returns on investments in preventive measures. The relatively rare occurrences of natural hazards have made people think we are less vulnerable to them. Furthermore, the international donor community tends to focus on post-disaster relief, rather than taking pre-disaster measures. Lack of risk management planning and economic efforts to be more prepared when disasters occur makes

Governments rely on a diversion of resources from other projects and international donors.

Spreading the Risk When a person or household purchases insurance it joins a risk pool that will decrease their potential economic loss to a controllable level. All the premiums paid make a fund that will pay for losses. There is a possibility that an insurer may be bankrupted

[5] Dirk Reinhard, Munich Re Foundation, The Impact of Microinsurance in South Asia (2008), southasiadisasters.net Issue: 43, AIDMI.

by a catastrophic incident, but it is rare. A tool for insurance companies is to obtain reinsurance.

Using insurance as a tool in disaster management would not exclude international donor aid, but they would supplement each other. General characteristics of international aid is that it is decreasing as a percentage of the developed countries' GDP, and only a small fraction of this is aimed at preventive measures.

Disaster Insurance in Odisha

Source : http://www.orissatourism.gov.in

Figure 1 The location of Puri, Odisha, India and Bay of Bengal

The opportunities for development are extremely restricted by different conditions like political, economic, living in disaster prone areas like coastal areas prone to cyclone, floods as was seen in Cyclone *Phailin*. Through different micro finance and insurance policies, the poor could attain a better standard of life through programmes prepared in the field of financial business services. Demand of microinsurance is very huge and constantly increasing. There are several factors contributing to this reality including frequency of disaster event due to high vulnerability, increasing population and awareness of insurance.

The poor and vulnerable families really required microinsurance that cover non-life component especially shelter and livelihood. Single party cannot do this effectively. A combination of insurance companies and non-government organisations with focus on effective facilitation and time-to-time follow up with poor communities can produce desired result. The above-mentioned case is one such initiative.

For microinsurance to be successful — for the insured and for the risk bearers — many elements are important; such as simple and affordable insurance products reaching large numbers of people; stream-lined administration, including premium payment; a simplified claims procedures and verifications; and rapid delivery of benefits. If most of these elements are present, it can be possible for microinsurance schemes to become sustainable, to perform well and to provide "real value" to the poor.

The needs assessment[6] reveal that insurance penetration among the targeted communities is very low. A majority of households (vulnerable locations and affected by floods) consulted

[6] Assessment conducted by Concern Worldwide India - 2010.

during the needs assessment do not have any insurance protection, although majority of them would be interested in taking out an insurance policy in future. The demand of coverage is varies including life, livelihood, cattle, accident, household equipments and health insurance. Many households reported that they would like to have more information on various micro-insurance options available in the area. They also reported that insurance premium between Rs. 100-200 would be affordable to them and most trusted source for providing insurance to them would be local humanitarian agency. Based on the assessment following actions were carried out under the project 'Building Disaster Resilience of Vulnerable Coastal Communities'. The projected facilitated by Concern Worldwide India with support from the ECHO and implemented by Society for Women Action Development (SWAD) and Centre for Youth and Social Development (CYSD) and Sabuj Sangh with technical support from AIDMI.[7]

Many sources confirm that communities have their own coping mechanisms to respond and recover from impacts of natural disasters. In the states of Odisha and West Bengal, the community coping mechanisms include, migration, borrowing money, selling of land and livestock, eating less, taking money from savings, take kids out of school, and so on. A majority of respondents that participated in the needs assessment mentioned about borrowing money, migration, and selling of assets to cope with disaster situation. The needs assessment reveal that many poor and vulnerable households from the targeted areas participate in various social protection schemes supported by state and national government when given the opportunity. Participation in these schemes forms an integral part of community coping mechanism. However, because of numbers of reasons performance level of these schemes is low in terms of coverage and impact. Currently there is no system of bottom-up monitoring and tracking in place to improve governance of these schemes.

Microinsurance products are becoming increasingly important for risk reduction in Odisha. They transfer financial risk from vulnerable individuals to the insurance market. Microinsurance covers many losses but is often unavailable to the poor due to the high transaction cost to affordable premium ratio. Through microinsurance among poor and vulnerable communities we can decreases the need for humanitarian aid. Additionally, microinsurance offers the disaster affected a more dignified means to cope with disasters than relying on the generosity of donors after disaster strikes.[8] Microinsurance may also make tracking trends in vulnerability and hazards easier when claims are charted with geographic information systems.

Based on the needs assessment, number of actions identified with involved agencies to achieve the objectives of risk transfer in targeted vulnerable communities. These include development of methodology and conduct demand survey; microinsurance scoping study; capacity building and knowledge management in local languages – *Bengali, Odia* and also in English. The capacity building and knowledge management includes trainings on risk transfer for institutions and for communities, material on risk transfer concept and policies,

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[7] Process Documentation: Microinsurance for Disaster Risk Reduction (2012) AIDMI with Concern Worldwide India. https:/

/www.concern.net/sites/www.concern.net/files/media/resource/process_documentation.pdf.

[8] Mechler, R.; Linnerooth-Bayer, J.; and Peppiatt, D. (2006). *Microinsurance for Natural Disaster Risks in Developing Countries: Benefits, Limitations and Viability.* Geneva: ProVention/IIASA.

consultations among stakeholders – humanitarian agencies, government, insurance companies and communities and experience sharing knowledge products. The process of designing microinsurance emphasised on a consultations between insurance companies, local humanitarian agencies working directly with communities, potential clients especially women.

Based on the assessment and scoping study, it was clear that community requires product that cover both life and non-life and for sustainability of the project, premium should remain in the financial capacity of clients from poor and vulnerable communities. On the other side, community is also having desire of saving with insurance protection. With all these opportunities and challenges, partners conducted series of consultations with LIC and UIIC for taking *Afat Vimo* (disaster insurance) in Odisha. The initiative reached out 950 families from the Puri district of Odisha. The *Afat Vimo* product modified for Odisha communities based on the need and demand from the communities and financial capability for long-term sustainability.
The client selection was a challenging work for the involved agencies, as it requires incorporating long-term perspectives. However, the past work of HVCA (Hazard Vulnerability and Capacity Assessment) helped a lot to identify the client for the *Afat Vimo* product. Involved team members did cross verification through survey data with HVCA and baseline data documents. Later on team came out with the following criteria for the selection of the client during the first year of the *Afat Vimo* in Odisha.

1. Age group – 20 to 60
2. Widow and women headed households
3. Families that have differently able persons
4. Marginalized and poor families
5. Landless labours
6. Houses in low-lying areas and also fits in the above socio-economic background
7. Families that have migrated labour member/s

Above-mentioned points are came out with consultations between insurance companies (1st point), partners and communities. Building disaster resilience of vulnerable communities is the main focus area of the project thus point 2 to 7 were listed out during client indemnification procedure. Needless to mention that each client is belongs to some micro-business and/ or services.

2013 Cyclone *Phailin* and Risk Transfer

Odisha has set an example for the rest of India by using all the resources efficiently in the pre-disaster stage. This efficient planning of preparedness activities in the predisaster state is perhaps the greatest reason behind the minimal loss of life after the cyclone. Other reasons include the constant monitoring of weather patterns and warnings, clear instructions to district authorities, positioning of relief materials and teams well in advance, coordination with the central government for defence and other agencies' assistance, and most importantly, the evacuation of a large number of vulnerable citizens to safe locations.

The World Bank has praised India's evacuation of nearly 10 lakh people in Odisha and Andhra Pradesh, which ensured minimal loss of human lives, before the cyclone *Phailin* made landfall and attributed it to its years of disaster management preparedness.[9] The lessons learnt from 1999 super cyclone was very helpful to community and Odisha government. However the impact of cyclone is severe when we see the affected shelters, livelihoods, agriculture field. The economic loss is huge in coastal districts of Odisha, especially poor localities.

From Cyclone *Phailin*, we must learn to reduce the economic impact on community especially on poor community. One realistic option is –microinsurance that covers life and non life both. The pilot is implemented through joint efforts. Concern Worldwide India facilitated the process in Odisha; AIDMI provided technical support; SWAD, Puri based organisation implementing the policy and covered 950 poor and vulnerable families living in Puri district of Odisha.

Effectiveness of *Afat Vimo* Policy – HFA2 and Evidence from 2013 Cyclone *Phailin*

Afat Vimo policy holders sharing their experience during study on effectiveness of the policy after 2013 Cyclone *Phailin*

Figure 2 Clients of Afat Vimo policy

Vulnerability to all kinds of hazards is exacerbated by a variety of socio-economic factors. Financial stability (or rather the lack of it) is one such factor that compounds the adverse effects of disasters on communities and individuals alike. For, inadequate financial coping mechanisms post disasters and emergencies, have been known to be particularly debilitating factors that push and entrap people in the vicious circle of poverty. Consequently, any concerted effort to reduce vulnerabilities and build up resilience ought to subsume devising strategies that promote financial resilience.

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[9] The Hindu (October 2013) http://www.thehindu.com/news/national/other-states/world-bank-praises-indias-phailinevacuation-efforts/article5247063.ece?homepage=true; Access on October 18, 2013.

In this regard, one of the five priorities of Hyogo Framework for Action (HFA) is to 'Reduce the underlying risk factors'. This priority aims at addressing the lack of coping arrangements that build up financial resilience. HFA was drawn for a period of 10 years (2005-2015).With just one year left in its expiration, the global humanitarian community has woken up to the need to address the challenges in disaster risk reduction post 2015. This necessitates the devising of a post 2015 framework for disaster risk reduction or (HFA 2). The consultations areas for HFA 2 have also been identified. One of the key areas identified for HFA2 is *'Reducing risk or underlying risk factors'*. This key area of HFA 2 corresponds completely with a priority of HFA that is also *'Reduce the underlying risk factors'.*

The importance of accorded to this priority/key area by both HFA and post 2015 framework for disaster risk reduction highlights how significant a challenge is posed by it. It shows how the experts and practitioners from the field of DRR unanimously agreed to make it a priority for HFA and have now consented to make it a key area for HFA 2 as well. Consequently, AIDMI in collaboration with LEAD India with support of Climate and Development Knowledge Network (CDKN) has initiated a study on 'Risk Insurance in Odisha'. The study has recognized the financial instability by building up the financial resilience of vulnerable people through disaster microinsurance in Odisha. The main objectives of the study were:

- To assess the **effectiveness** of disaster insurance in building the resilience of communities in cyclone *Phailin* affected areas of Odisha
- To **increase** the understanding of targeted policy-makers and stakeholders on the opportunities and limitations of disaster insurance as a part of an integrated DRM strategy
- To **initiate** a discussion with targeted policymakers and stakeholders on the value of scaling up of disaster insurance

This study closely follows in the footsteps of a previous above-mentioned project initiated in Odisha wherein AIDMI's disaster microinsurance scheme called *Afat Vimo* was piloted and introduced in 2012 to build up the financial resilience of vulnerable people. The present study takes off from where the pilot ended. For, the present risk insurance study in Odisha aims to assess the effectiveness and efficiency of its disaster microinsurance scheme (*Afat Vimo)* in the aftermath of cyclone *Phailin* in Odisha. The findings of the study would be used to justify the scaling up and institutionalizing of disaster microinsurance into disaster risk planning and management by initiating a deliberation with key policymakers and stakeholders.

Due to 2013 cyclone *Phailin*, 165 clients are affected and faced loss and damage. The claims are registered to insurance company. After cyclone *Phailin*, AIDMI SWAD and AIDMI assisted clients in filling the claims properly. The *Afat Vimo* clients are illiterate or have poor literacy skills, thus need such assistance. The *Afat Vimo* clients get a window of one month period to claim post the disaster. The first assessment process was done by insurance company where SWAD team facilitate the process with technical support from AIDMI. It was completed by mid-January 2014. The policy covered any damage to shelter, household things and livelihood stock due to natural hazard.

In March 2014, 112 claims have been successfully settled, giving a combined payout of approximately US$6520. All these claims settle ranging from 28 USD to 274 USD. The annual premium of the policy is around 3 USD with maximum coverage of around 1500 USD. All of the claims made are for property damage and loss of contents due to cyclone *Phailin* and the following floods.

Community-based Disaster Microinsurance Innovation

The process

As an input to the designing of a suitable microinsurance scheme, a scoping study of available micro-insurance options in the targeted areas was conducted. The scoping study was an effort to explore and understand the diverse micro-insurance landscape in the state of Odisha. The study attempted to answer key questions such as, a) what are the larger policy and legislative frameworks around insurance in general and micro-insurance in particular? b) what are the micro-insurance products and schemes available? c) who are the insurers and how do they channelize micro-insurance services and products? and d) how have been the trend in terms of micro-insurance growth and penetration and the challenges thereof?

The scoping study revealed that in absence of insurance, community members uses a wide range of coping mechanisms such as migration, borrowing money, selling of land and livestock, taking money from savings, taking kids out of school, including participation in state sponsored social protection schemes. The scoping study revealed that the insurance landscape in Odisha was largely dominated with about 30 individual and group micro-insurance products offered by 12 public-private insurance providers. In non-life sector, about seven micro-health insurance product were available and three agriculture insurance products were available. In addition, four live-stock micro-insurance products were available at the time of the scoping study in Odisha.

The findings of the scoping study were clear that in spite of these many option available, they were not easy to access and community needed a micro-insurance product that could effectively combine advantages of different micro-insurance products i.e. life and non-life, which they could easily afford and sustain. Community also showed a desire of combining saving component with insurance protection.Based on the findings of the scoping study, the project team conducted a series of consultations with Life Insurance Corporation of India (LIC) and United India Insurance Co. Ltd for developing a suitable insurance product for Odisha. The final product with following feature was launched during the Stakeholders' workshop on August 21, 2012 at Bhubaneswar.

Scheme Overview[10]

Scheme components	Amount (USD = 62.50 INR)
Maximum liability for lost life	INR 35,000 ($560)
Maximum liability for damage to house	INR 30,000 ($480)
Maximum liability for damage to house contents	INR 30,000 ($480)
Maximum liability for stock-in-trade	INR 15,000 ($240)
Maximum liability for personal accident	INR 25,000 ($400)
Total Coverage	INR 1,35,000 ($2160)
Total premium (non-life) Yearly	INR 135 ($2.16)
Total premium (life)[11]	Varies based on the age

Table 1Coverage of disaster insurance scheme in Odisha

Claim Settlement Details for *Afat Vimo* (from 2008)

Year	Annual Premium (INR)	No. Of Claims	Claims Settled	Amount of Settled Claims (INR)
2008-09	544351	22	18	308900
2009-10	325177	39	34	444145
2010-11	215685	26	24	291400
2011-12	368600	69	68	476261
2012-13	140600	01	01	010000
2013-14	144400	165	112	400507

INR. 62.5 INR = 1 USD. Claims and number of settlement cases with amount.

Table 2 Scheme Performance

During the piloting work, the following points came out to keep in mind while working on microinsurance.

1. Assessments/ scoping studies of the area are very important for microinsurance work. Documentation of existing microinsurance practices adopted by micro finance institutions is also crucial. This includes gathering primary and secondary data on the various microinsurance practices adopted by different types of institutions.
2. For any agency who is interested in working on micro-insurance, it is important to review the current regulatory environment, and to form and adopt appropriate rules,

[10] Particularly for Odisha. Based on the assessment study the scheme coverage is differ.
[11] It is linked with money back policy based on the demand from the clients.

regulations and guidelines to ensure the safe and sound operation of institutions providing microinsurance.

3. Constant monitoring and evaluation of micro-insurance work is highly necessary. The results should be integrated with the action plan.
4. Reviews of the technical capacities and capabilities of the insurer in relation to the target audience are crucial for moving ahead.
5. Regular meetings with clients to address their needs for better operations and addressing challenges at local level. This also helps with avoiding myths about micro-insurance at the local level.
6. The success of the product often depends on the services provided by the team members involved. Thus it is very important to build the capacity of involved staff so that they can provide effective services to support clients with creating an enabling environment at local level. This would ultimately increase the renewal ratio of the good product. This will also help with identifying latent demand from the clients.
7. Assessments demand surveys and other such actions require details about data collection and effective analysis procedures. Experts and partners should use these details to identify the actual needs of clients.
8. Processes which are not specific to requirements may lead towards high costs, cost-sharing among channel partners, and poor service quality.
9. Service providers should create clear plans of actions when dealing with migratory clients to ensure their long-term association.
10. Some simple procedures are normal but it is very important to design them clearly from the beginning to avoid repetition. The format of the client profiles, demand survey, assessment data and client forms should be clear, simple and show how they are linked with one another.
11. There are a lot of knowledge products available on microinsurance and risk transfer. However, to build capacity, these should be tailored to the local context and most importantly be in the local language. This may be a time-consuming process but it is invaluable to achieving good results. This can make big positive changes in knowledge building among team members and clients.

Figure 3 Workshop with risk transfer stakeholders to share their experience (2013 cyclone Phailin) and design the way ahead

The following key issues emerged for achieving better building protection for poor and vulnerable communities.

1. There are many micro-insurance products available in the market. Links with risk reduction need to be strengthened as disaster events can create huge economic losses in families who are already dealing with economic crisis. It is another issue where humanitarian agencies need to focus on when considering improving the accessibility of microinsurance products for poor families.
2. Humanitarian agencies need to work beyond the project duration mindset in microinsurance work.
3. The unavailability of microinsurance options to the poor is due to financial exclusion.
4. The key to everything is awareness and timely information at the local level.
5. Building knowledge on microinsurance, rather than only providing product information to poor and vulnerable communities, is required.
6. Capturing learning from implementing micro-insurance policies is very important for stakeholders. It is also crucial to share such efforts with humanitarian agencies so that their efforts can be improved.

Gender and Disaster Insurance

Figure 4 Women as a client and promoter of risk transfer through microinsurance

The contribution from women particularly in building knowledge on concept and importance of disaster insurance is very high. The disaster insurance is mostly sold through women leaders, association and women's self help groups, as usually, women have been found to be more financially literate and responsible. It has been shown that financial empowerment of women has secondary effects, including improved self-esteem and respect within communities, decrease violence, and better nutritional care and education for children. The contributions of women in Odisha were very fruitful to achieve the results and building ownership and sustainability of the product. The women clients contributed effectively in the disaster insurance that leads towards successful story of ownership, sustainability and most important their effective role in process among stakeholders. The poor women have a disciplined track record related to different micro finance activities.

Institutionalizing Climate Smart Disaster Risk Management (CSDRM)[12] Approach in SWAD

Past experience with climate extreme contributes to understanding of effective disaster risk management and adaptation approaches to manage risks (IPCC, 2012).Various agencies at governmental and nongovernmental level are proactively involved in disaster risk reduction and are now involved in climate change concerns. . However, given the complexity and range of issues involved with disaster risk reduction, climate change adaptation, and development; it has become apparent that a lot more needs to be done to support and strengthen the efforts especially at the ground level by different institutions. Understanding the threats posed by climate change and disaster risk, Society of Women Action Development (SWAD), a local level humanitarian organization (facilitating disaster insurance in Odisha with AIDMI) agreed the implementation of Climate Smart Disaster Risk Management Approach (CSDRM). AIDMI provided technical support to institutionalizing CSDRM. CSDRM approach is one such tool that can be used by community based organisations to tackle disasters, poverty and adaptation through improved integration.

CSDRM is a process-oriented approach; it provides guidance to stakeholders to systematically address climate change, disaster risk reduction and development not only at policy level, but also at the implementation level. It is designed for those who are responsible for managing disaster risks at national, state and local and organisational level; they can identify one or many entry points and eventually find a way to integrate their focus area and climate resilience. The guide draws out different routes through three central pillars that are divided into 12 action points. SWAD's different programmes identified and pathways of integration identified through different consultations with team and community of SWAD. The risk transfer through microinsurance is one identified programme.

Figure 5 Community Based Adaptation: Integrating Risk Transfer Programme with CSDRM approach

This CSDRM institutionalizing process in SWAD increased the linkages with community based adaptation and sustainability of the product in SWAD as a institution and in Odisha as a centre to promote and strengthen disaster insurance for poor and vulnerable communities against different climatic risk in coastal areas.

[12] For more information: Changing Climate, Changing Disasters: Pathways towards Integration, 2012

Limitation/ Constrains

Though microinsurance is an effective tool for risk reduction and risk mitigation, it has limitations. Firstly, microinsurance cannot provide complete protection against disaster risks resulting in a loss greater than what a household can save or repay. A majority of microinsurance programmes do not combine risk transfer or risk mitigation strategies along with other microfinance. Secondly, microinsurance service cannot immediately translate into a stand-alone enterprise for successful disaster recovery. Thus, providing a range of other services for accessing basic amenities, relief compensation and business development services, including marketing after a disaster, are crucial for the swift recovery of the poor. Thirdly, microinsurance programmes have emerged in response to the needs of the poor affected by emergency. However, when it comes to financing disaster losses of the poor, commercial banks and microfinance institutions are unwilling to finance such losses. Thus, the poor remain marginalised. It is a common myth that disaster victims are unable to save and that they are unreliable borrowers. However, random and unreasonable flows of relief discourage savings and repayments. Fourthly, the economic losses of disasters are relatively higher for the poor. Loss estimations mostly bypass their loss of income and livelihoods. They usually suffer the longest and the most compared to other social groups. However, a vast majority of disaster victims in India have limited access to microinsurance and other microfinance services, especially after a disaster or during recovery. In addition, they do not have any say in deciding the rate of interest or other terms of financial agreements. Market penetration in the lower income strata of India is low and even lower in disaster-prone areas. The spread of SHGs and vulnerable areas do not overlap.

Recommendations for Next Steps

Firstly, microinsurance services have not penetrated deeply enough into rural, isolated, and vulnerable areas. There is an urgent need to replicate, develop and expand innovative products and setup service networks that can function at breakeven, especially in areas that vulnerable to risk related to climate change.

Secondly, there is a need to recognise the fact that microfinance products can only become sustainable from a disaster risk reduction perspective when they are perceived as risk transfer investments and converged with micro mitigation and microinsurance, in order to pull a greater variety of risk and recovery initiatives. Microfinance alone cannot remove poverty; it must include mitigation measures.

Thirdly, there is a strong need to develop a stabilisation fund for microfinance institutions to help them respond to the overwhelming demands for loans and services immediately after a disaster. The majority of microfinance programmes to date in India take a supply-side and grant based approach. There is a need to help them develop a demand-driven approach and to make them self sustaining. The microinsurance policy that protect (economic) against local hazards and with combination of life and non-life coverage must be promoted and strengthen by MFI, Government and humanitarian sectors.

Fourthly, it is critical to link the poor and microfinance institutions with a formal financial system. We must strengthen links between microfinance institutions for the poor in the informal sector with formal sector institutions. In order to ensure the sustainability of investments in microfinance products, capital formation must take place at the community level, with the active participation of the poor. Poverty removal and disaster risk reduction are not two separate issues. Development cannot be achieved unless both of them are simultaneously addressed.

Fifthly, microinsurance programmes must combine the developmental and disaster recovery needs of the poor.

Lessons Learnt

The process of developing and administering *Afat Vimo* offers many lessons for up-scaling the product and for sharing with other risk transfer stakeholders:

1. Demand exists for disaster microinsurance but it is not yet clear if potential clients are willing to pay a premium that covers all administrative costs without direct or indirect subsidies;
2. Pro-poor financial risk transfer initiatives combined with risk reduction measures such as *Afat Vimo* remain rare in the South Asian region. There appears to be a significant potential for disaster risk management at community level through insurance. The 2007/08 floods in Bihar provided an opportunity for local institutions to extend access to community risk transfer services by discussing insurance concepts with disaster-affected households. It is possible that other disaster recoveries will result in new attention paid to insurance;
3. Convergence of interest and attention of academicians, researchers, policy makers, donors and risk management practitioners along with victim communities is necessary. Generating the awareness - and building the commitment - to initiate microinsurance costs money, time and effort. These must be found to make *Afat Vimo* suitably resourced;
4. to be viable, risk transfer products need to be appropriately designed and piloting and up scaling is a long process that requires dedicated local institutions. This needs planning, awareness building and long-term commitment. Pilot initiatives in microinsurance should be based on medium and long-term financial plans that emphasise financial viability. A minimum of a three or five year horizon for such a plan may help ensure that actions are taken to cover administrative costs in the product model. Options for collecting a commission to offset administration costs should be investigated;
5. The *Afat Vimo* scheme has tremendous potential for expansion. Currently, microinsurance coverage under the *Afat Vimo* scheme is only available to communities where AIDMI has presence. Offering a similar policy in other disaster hit areas is under review by the AIDMI team;
6. Micro finance organisations and civil society partners may consider bundling existing credit or other financial services with microinsurance to hedge default risk and extend risk transfer to wider groups of the poor;

In order to expand awareness of the positive and negative aspects of insurance, agencies working with large groups of children in developing countries should explore options for commercial microinsurance coverage for partner children and their schools.

Conclusion

A recurrent theme that is emerging in the post-HFA consultations is that of risk transfer mechanisms for the poor and vulnerable communities. The mid-term HFA progress report (2010-2011) shows a dismal picture of the efforts taken by private and international financial institutions to increase the access of the poor and vulnerable to risk transfer measures like insurance.

With climate change exacerbating the severity of disasters in the developing world, a tool like insurance is of the utmost important. It helps low income families to recover from the loss of livelihoods in the aftermath of a disaster by offering a way out of the vicious circle of poverty. The disaster micro insurance scheme empowers the marginalized communities to life with dignity and not be dependent on the charity of others.

Like many forms of microinsurance, *Afat Vimo* offers several advantages: it can be a transparent means of providing compensation against damage; it decreases the need for humanitarian aid. Additionally, microinsurance offers the disaster affected a more dignified means to cope with disasters than relying on the generosity of donors after disaster strikes. *Afat Vimo* may also make tracking trends in vulnerability and hazards easier when claims are charted with geographic information systems.
Reducing an entity's disaster risk is possible through increasing that entities physical/ material, social/ organisationa, and behavioural/ motivational capacities (Anderson and Woodrow, 1989). Using this framework, *Afat Vimo* is successful in reducing community risks to disasters. Physical/ material goods are insured and can be replaced after loss and damage; social/ organisational capacity is supported as informal businesses are brought together (through SWAD in Odisha) and receive a product that is typically not affordable if the same households were to individually approach the insurer; motivational/ behavioural capacity is built as understanding the issues of risk and disasters are increased.

Increasingly, partnerships with private commercial sector actors are being forged for the application of microinsurance and risk reduction. There is much that can be learnt in terms of risk management from private sector and public enterprise insurance providers; they have a wealth of experience that can be shared, and, in this, can facilitate the provision of microinsurance policies for the poor. AIDMI has engaged in a partnership with the Life Insurance Company of India to provide life insurance, and the United India Insurance Company to provide non-life insurance cover under the *Afat Vimo* scheme. They also continue to raise awareness of the opportunities and benefits of insurance provision to the low-income strata of communities. There is additional scope within microinsurance to motivate private sector insurance companies to develop and provide products for low-income individuals as initiatives for their own corporate social responsibility.

A particular strength of the *Afat Vimo* scheme is the unified policy design. Under *Afat Vimo*, life and non-life coverage is brought together under one client product. According to a study by the International Labour Office (2005: 7), 45% of the microinsurance schemes researched covers only a single risk. Only 16% of schemes cover three risks, making *Afat Vimo* one of the most simple and comprehensive products in India. This not only makes the policy more attractive to clients, but also makes investment in the policy more efficient in economic terms. Another aspect of *Afat Vimo* that sets it apart from other microinsurance policies is the extensive range of eventualities covered under the policy. To combine micro-mitigation with microinsurance, community capacity building and involvement in *Afat Vimo* – including training on insurance concepts and claim administration (below) - has provided more stability and viability.

The expansion of *Afat Vimo* can be attributed to the affordable premium at which the product is offered. This puts insurance within the reach of those who otherwise would not be able to access conventional insurance services. Similarly, the policy has had a great deal of success in the prompt settlement of claims, which has translated into client satisfaction and a good relationship with the insurance companies. It has also contributed to the good policy renewal rate which currently stands at 100% for Odisha state. The replication of the product is under planning for other key states prone to risk of extreme events like Assam, Tamil Nadu.

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