UNEP FI
Adaption
How Insurance
can serve the poor

Thomas Loster
Munich Re
Foundation
From Knowledge
to Action

November 2006
The Munich Re Foundation
Focus „humans at risk“

Environmental and climate change

Disaster prevention

Water: Resource and risk factor

Urbanisation and megacities

Humans at risk

Population development

Poverty
Great Weather Disasters 1950 – 2005
Economic and insured losses
(as at March 28, 2006)

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Thomas Loster
Great natural catastrophes in economies at different stages of development between 1980 and 2005

Source: Peter Höppe, Geo Risks Research Department, Munich Re
Global distribution of insurance premiums per capita

Property insurance premium (non-life including health) per capita per year

The inadequately insured
- no data available
- US$ 1–25

The basically insured
- US$ 26–50

The well insured
- US$ 51–100
- US$ 101–500
- US$ 501–1,000
- US$ 1,000+

2006 Geo Risks Research, Munich Re

Source: Peter Höppe, Geo Risks Research Department, Munich Re
Munich Re Foundation

Climate Change
Serving the poor

Thomas Loster
## Deadliest drought disasters in Africa 1970 – 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Fatalities</th>
<th>Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973 - 1974</td>
<td>Ethiopia, Somalia</td>
<td>300,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>1981 - 1984</td>
<td>Chad</td>
<td>3,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>1983</td>
<td>Swaziland</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>Ethiopia</td>
<td>300,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>1984</td>
<td>Sudan</td>
<td>150,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td>1984 - 1985</td>
<td>Mozambique</td>
<td>100,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>1987</td>
<td>Somalia</td>
<td>600</td>
<td>500,000</td>
</tr>
<tr>
<td>2002</td>
<td>Malawi</td>
<td>500</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>

As at November 2006, © 2006 NatCatSERVICE®, Geo Risks Research, Munich Re
People affected by natural disasters in Africa

![Graph showing the number of people affected by drought and flood per decade from the 1960s to the 2000s, with a source credit to Ian Noble, The World Bank, November 2006.]
Coping with drought risk is of paramount importance!

http://www.wernergut.de
Micro-, Meso-, Macro Products
Different impacts, scales and solutions

**Micro-scale**
- Focus: Micro-insurance
- Health, life (funeral): yes
- Very active small worlds
- Property (home, plough, boat): ?

**Meso-scale**
- Focus: Derivatives and Index Insurance
- Weather, drought: yes
- Much in the developed world
- 1st Index in Ethiopia, more to come

**Macro-scale**
- Focus: Cat Bonds
- Storms, floods, droughts etc.: yes
- Only in the developed world
- Very complex

**Other**
- Climate Funds
- Global agreements?
The reality

Two promising ways forward…

The African Example
The Indian Example
Example India

The Basix Farmers Insurance
Risks Covered by Insurance Cos with BASIX facilitation

Risks to Life
- Death
- Disease
- Disability

Risks to Crops

Risks to Livestock

Risks to Enterprises

Courtesy: Gunaranjan, Manager-Insurance Business, BASIX
How does it do?

BASIX Branch Operations

FX-Field Executive
LSA-Livelihood Service Advisor

As Manager
Branch Head

FX1
FX2

LSA1, 15 to 20 villages
LSA2, 15 to 20 villages
LSA3, 15 to 20 villages

LSA1, 15 to 20 villages
LSA2, 15 to 20 villages
LSA3, 15 to 20 villages

LSA1, 15 to 20 villages
LSA2, 15 to 20 villages
LSA3, 15 to 20 villages

LSA1, 15 to 20 villages
LSA2, 15 to 20 villages
LSA3, 15 to 20 villages

Courtesy: Gunaranjan, BASIX

LSA travels to village

Interacts, assesses and provides...

Credit

Insurance

Agri-Service

Rs.6.3 billion disbursed,
98.3% On-Time Recovery Rate

Courtesy: Gunaranjan, Manager-Insurance Business, BASIX
Example Africa

The Ethiopia Drought Insurance Scheme
To calibrate your eye, a 20 kilometer radius around a set of accredited meteorological stations… (~1250 square km)

Here, a 50 kilometer area (~7850 square km)

Source: John D. Corbett, Mud Springs Geographers
13 November 2006
From meteorological stations (e.g., Chitedze) to daily weather ‘surfaces’ = space / time capacity that is location specific

Source: John D. Corbett, Mud Springs Geographers, 13 November 2006
UN-World Food Program

The world's largest humanitarian agency

Each year, they give food to an average of

90 million poor people to meet nutritional needs,
61 million hungry children thereof in at least
80 of the world's poorest countries
Ethiopia Drought Insurance
“World's first humanitarian insurance policy”

- **Construction**: Derivative based, calibrated index of rainfall data, 26 weather stations

- **Trigger**: Rainfall from March-October 2006 significantly below historic averages (crop failure)

- **Cover**: US $7 m (potential losses 17m farmers)

- **Premium**: US$ 970,000

- **Insurer**: AXA/ AXA Re

- **Insured**: Farmers in Ethiopia/UN-WFP

- **Consultant**: Risk Management Solutions
Lessons learned
Different People – Different Worlds – Different Challenges

Government
Community Head

Farmer
Individual

Insurance Agent
Insurance Manager

Ownership at all levels!
**Insurance Solutions for the poor**
What is needed?

**Insurers**
- stable partners
- stable clear regulatory framework
- geographical spread (diversify)
- long-term business (payback)
- volume

**Affected/Poor/Donors/FoodPrgs/Governments**
- defining needs
- understanding insurance principles
- will for ex-ante versus ex-post

**Both**
Sustained dialogue!
The Solution
Creating stable Task Forces such as UNEP FI

- All players
- Champions
  i.e. real decision makers with mandate
- Fixed Time Frames
- Market potential assessment from insiders
• New insurance related systems are necessary to get these countries, where currently almost no insurance is available, out of the global warming trap

• MCII intends to provide expertise on insurance solutions for losses due to climate change especially in developing countries
Climate Change
Serving the poor

The Munich Re Foundation
Providing a Platform for Micro-Insurance Solutions


Microinsurance

Microinsurance against poverty: The need is great, but these tools have so far been accessible only to a small number of people. From 21 to 23 November 2006, the Microinsurance Conference 2006 will take place in Cape Town, South Africa. The Conference is jointly hosted by CGAP [Consultative Group to Assist the Poor] Working Group on Microinsurance and the Munich Re Foundation with the support of Finmark Trust.

Microinsurance Conference 2005

From 18 to 20 October 2005, the Munich Re Foundation held the 2005 Microinsurance Conference “Making Insurance Work for the Poor: Current Practices and Lessons Learnt”. In cooperation with the CGAP [Consultative Group to Assist the Poor] Working Group on Microinsurance, around a hundred selected experts from international organisations, non-government organisations, development-aid organisations and the insurance industry discussed experiences and challenges of insuring people with low incomes.
Thank you

Munich Re Foundation
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