INSURANCE EFFECTIVENESS: CLIMATE CHANGE ADAPTATION AND DISASTER RISK REDUCTION

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Presented at ISAP 2015 at Pacifico Yokohama, Japan 28-29 July 2015

OUTLINE

- Important objectives to be met
  - DRR and CCA benefits
  - Evidence for effectiveness
  - Alternatives for insurance
- Preliminary results from case studies
- Conclusions
APN FUNDED PROJECT

Title: Assessing community risk insurance initiatives and identifying enabling policy and institutional factors for maximizing climate change adaptation and disaster risk reduction benefits of risk insurance

Donor: Asia Pacific Network for Global Change Research (APN) under ARCP funding stream.

Collaborators: IGES, EeMausam India Ltd., IAfD, UKM-SEADPRI and UPLB

Duration: 2.5 years starting from Jan 2014.


OBJECTIVES

1: To identify technical, socio-economic, institutional and policy barriers limiting penetration of risk insurance

2: To assess climate change adaptation and disaster risk reduction benefits and costs accrued through risk insurance initiatives

3: To identify enabling environment to scale up risk insurance: What policy and institutional processes can help scaling up risk insurance

4: To sensitize policy makers and other stakeholders about options for scaling up the risk insurance
IS THE INSURANCE A GO-TO-TOOL FOR THE MOST VULNERABLE?

Non-life Insurance Premiums

Prabhakar et al., 2013

GROWTH IN AGRICULTURAL INSURANCE PREMIUMS 2005-2009

Source: Global Premiums Iturrioz, 2010
THREE IMPORTANT QUESTIONS FOR DEVELOPING COUNTRIES

- **Issue I:** Other than the ‘perceived’ benefits of insurance, what evidence do we have on how insurance is benefiting communities leading to a longer term DRR and CCA outcomes?
- **Issue II:** How to make insurance affordable while conveying the true cost of the risk and especially reaching out to the most vulnerable?
- **Issue III:** What alternative approaches exist for those last mile communities who can’t get benefit from the insurance?

ADVANTAGES OF INSURANCE: DO WE HAVE ENOUGH EVIDENCE?

- Emphasis on risk mitigation compared to response
- Provides a cost-effective way of coping financial impacts
- Covers the residual risks uncovered by the other risk mitigation mechanisms.
- Stabilizes rural incomes: reduce the adverse effects on income fluctuation and socio-economic development.
- Provides opportunities for public-private partnerships.
- Reduced burden on government resources for post-disaster relief and reconstruction.
- Helps communities and individuals to quickly renew and restore the livelihood activity.
- Depending on the way the insurance is designed, the insurance mechanism can address a wide variety of risks emanating from climatic and non-climatic sources.

Arnold, 2008; Siamwalla and Valdes, 1986; Swiss Re, 2010
**What about Evidence?**

- Our literature review has suggested that there is no sufficient evidence on how insurance (especially agriculture insurance) is proving effective on the ground. What kind of social and economic benefits insurance is offering leading to disaster risk reduction and climate change adaptation outcomes?

**Will mere paying back of loss amount lead to CCA and DRR benefits?**

- Promoting high risk and profit seeking behavior (with implications for basis risk)
- Indulgence in business as usual crop management practices, resulting in no net risk reduction.
- Subsidies for premiums do not convey the price-of-the-risk signal to farmers leading to no change in crop production practices and no net reduction in cost of risk.
- Most of these issues are often linked to not just how the insurance is designed but also what kind of support services (e.g. education on risk management) goes to the insurance buyers so that they make informed decisions.
CYCLE OF RISK PERPETUATION

Prabhakar et al., 2015

SPIRAL OF RISK REDUCTION

Prabhakar et al., 2015
**RESILIENCE OR ADAPTATION?**

**Vulnerable situation**
- Drought
  - Well being
  - Time

**Resilient situation**
- Drought
  - Well being
  - Time
  - Time taken for payout

**Adaptation situation**
- Drought
  - Well being
  - Time
  - Insurance payoff

Prabhakar et al., 2015

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**IS THE INSURANCE STILL A GO-TO-TOOL FOR THE MOST VULNERABLE AND POOR?**

- High insurance costs
- High residual risks
  - Urban areas: Poorly developed risk mitigation options such as structural standards, land use/urban planning etc.
  - Rural/agriculture: Only 35-40% of Indian agriculture is irrigated.
- Poorly developed re-insurance industry
- Poor availability of data to assess risks for designing risk insurance systems (e.g. weather data and data on crop loss)
- Willingness to pay: Cultural and perceptual issues with both people at risk and policy makers

Given these limitations, should we still think of insurance as a go-to-tool for the most vulnerable? What are the alternative financial risk management approaches we can think of?
**COSTS AND BENEFITS OF INSURANCE**

Prabhakar et al., 2015

**HOW EFFECTIVE INSURANCE IS FOR LOSS AND DAMAGE: BANGLADESH**

To reduce the NELD due to Extreme Cyclones

Measurable & Verifiable  
Societal Value  
Society Wellbeing  
Relevant to DRR-CCA  
Exclusive

Access to sanitation  
Number migrate  
Number of crimes  
Malnutrition  
No of school days  
Species diversity

Compensation  
Cyclone shelters  
Insurance  
Preparedness plans

Preliminary results
HOW EFFECTIVE INSURANCE IS FOR LOSS AND DAMAGE: JAPAN

To reduce the NELD due to Extreme Typhoons

To reduce the NELD due to Extreme

To reduce the NELD due to Extreme

MALAYSIA CASE STUDY: VULNERABILITY ASSESSMENT

Rich farmers

Low-income farmers

Based on author’s unpublished preliminary results
**Malaysia Case Study: Marginal Costs and Marginal Benefit of Insurance for Rich and Poor Farmers**

**Rich farmers:** Farmers practicing better agriculture practices (8.4 units of benefits per unit of cost)

**Low income farmers:** Farmers practicing traditional agriculture practices prone to weather and climatic vagaries (2 units of benefits per unit of cost)

**India Case Study: Comparison of Costs of Indemnity and Weather Index Insurance**

Note: Preliminary estimates, costs and benefits are aggregates
CASE STUDY FROM INDIA

Impact of insurance on
- Borrowing after disaster
- Repayment of loans
- Long-term wellbeing

Based on pilot opinion surveys in Andhra Pradesh, India

CONCLUSIONS

- Insurance costs are higher for the vulnerable farmers and hence there is a need to introduce mechanisms that off-sets these costs.
- Savings linked insurance can provide a good means of making insurance attractive to low-income farmers and it can be combined with the WII.
- Insurance probably need to be used as a more targeted tool than as a blanket approach.
- More study results are expected to segregate the costs and benefits in terms of DRR and CCA using a framework that differentiates these outcomes.
PUBLICATIONS FROM OUR TEAM

- Effectiveness of Insurance for Disaster Risk Reduction and Climate Change Adaptation: Challenges and Opportunities, In Effectiveness of Insurance for Disaster Risk Reduction and Climate Change Adaptation: Challenges and Opportunities, Editor: SIVAPURAM Prabhakar and Joy J. Pereira, Juan M. Pulhin, Gattineni Srinivasa Rao, Henry Scheyvens, Jay Cummins, Research Report, 2015/1, Language: English.

- Disaster Risks and Insurance in the Agriculture Sector in Asia: A Review, In Journal of Food, Agriculture & Environment, Author: Prabhakar, SVRK, Peer-reviewed Articles, 2015/1, Language: English.


- Promoting Risk Insurance in the Asia-Pacific Region: Lessons From the Ground for the Future Climate Regime Under UNFCCC, In Implementing Climate Change Adaptation Strategies, Author: Prabhakar, SVRK; Gattineni Srinivasa Rao; Koji Fukuda and Hayashi, Shinano, Book Chapter (not published by IGES), 2013/04, Language: English


- Promoting Risk Insurance in the Asia-Pacific Region: Bottom-up Lessons for the Future Climate Regime under UNFCCC, At National Symposium on Climate Change Adaptation, Author: Prabhakar, SVRK, Presentations, 2011/11, Language: English


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THANK YOU!