



InsuResilience Direct climate risk insurance solutions

What is direct climate risk insurance?

The concept of “climate risk insurance” denotes the application of insurance instruments to risks associated with climate change. In direct insurance schemes policy holders such as micro, small and medium enterprises (MSMEs) or individuals pay a regular premium in exchange for a pre-defined payout or damage compensation in case of extreme weather events such as drought, storm, or flood. Policies are often sold at the local level and retailed through a variety of channels, including agribusinesses, financial institutions such as agri-lenders, banks, farmers’ cooperatives or local insurance companies and their agents. Payouts can serve various purposes, e.g. purchasing food to compensate harvest losses or payment of school fees.

Goal of InsuResilience for direct insurance schemes

Quantitative goal

InsuResilience aims to provide 100 million additional beneficiaries with insurance coverage against risks arising from climate change by 2020. Altogether, 400 million people are to be covered by direct and indirect insurance schemes with the help of InsuResilience.

Co-benefits and objectives for market development

To make direct insurance schemes sustainable, close cooperation with private sector is a key success factor. Private sector companies not only provide risk capital but also knowledge and data for the design and implementation of insurance schemes, as well as relevant innovative technologies such as remote-sensing technologies, which enable timely loss assessments on a large scale. InsuResilience strives to reduce market barriers for private sector engagement, e.g. by increasing access to meteorological data or creating incentives for private companies to engage in climate risk insurance markets.



Cotton farmer in Benin

Examples of direct insurance approaches under InsuResilience

The InsuResilience Investment Fund (IIF) aims to increase protection of poor and vulnerable people in developing countries against extreme weather events by promoting the development and distribution of climate insurance products. Therefore, the IIF invests in insurance providers, brokers and other insurance intermediaries to increase the reach of climate insurance products. The fund combines debt and equity investments in two separately investible sub-funds mobilizing private investors pursuing both financial and social returns. Investees are required to have their main focus of operations in countries and territories eligible to receive official development assistance as defined by the OECD. Furthermore, the IIF offers financial support for product development, technical assistance and premium finance.

Created by KfW on behalf of BMZ, the IIF aims to protect around 100 million people against the consequences of extreme weather events until 2020. BMZ supports the IIF with nearly EUR 75 million. Furthermore, the IIF mobilises private investors to promote the development and distribution of further climate risk products. With its investments by mid-2017, the IIF

estimates to contribute to better climate protection of 16 million people in developing countries by 2020.

Remote Sensing-Based Information and Insurance for Crops in Emerging Economies (RIICE):

The rice crop monitoring initiative RIICE has been helping governments and farmers in South East Asia to better forecast harvests in the face of an increasing number of extreme weather events. The initiative collects satellite-based data for land under rice cultivation in Cambodia, India, the Philippines, Thailand and Vietnam. Real-time monitoring and forecasting enables government authorities to take action and implement emergency measures long before harvests fail. The data collected is also used by insurance systems, for example in India, to make crop insurance more efficient and payouts more transparent.

Market development in India: InsuResilience develops a bundle product consisting of a savings component, health insurance, and natural catastrophe insurance. The product will be distributed to laborers, micro businesses and farmers via a microfinance institution. It is not linked to a loan and will offer both asset protection and income loss protection.

Market development in Paraguay: An index-based weather insurance for various crops like maize and soy will be distributed via a public bank to farmers who already have a loan.

Market development in Zambia: With support of InsuResilience, an agricultural insurance product bundled with life insurance and farming inputs is developed. A contract farming operator pre-finances 100% of the premium upfront and recovers the amount from the farmers at the end of the season.

Benefits of direct schemes

With insurance, legally entitled policy holders are no longer in the position of being supplicants. After a disaster they receive financial liquidity both timely and directly, which in turn reduces the necessity to sell

assets to compensate for losses. Thus, direct schemes enable a more rapid recovery. Besides these protecting aspects, direct schemes enhance the planning reliability of individuals. This can unlock opportunities to increase the amount of savings, to invest in higher-return activities, and to improve credit worthiness.

Challenges and limitations of direct schemes

There is a lack of historical and still insufficient weather data, including accessible databases, and of knowledge regarding the potentials of insurance schemes. Combined with the challenges of climate risk assessment and high risk margins of climate vulnerable countries, this represents significant market barriers and hampers the development of climate risk insurance markets in many developing countries.

Potential for future activities

The **Global Index Insurance Facility (GIIF)** as a multi-donor trust fund will further support the development and growth of local markets for indexed/catastrophic insurance in developing countries, primarily in Sub-Saharan Africa, Latin America and the Caribbean, and Asia Pacific.

In order to stimulate direct insurance market development, the InsuResilience initiative will further work on **mobilizing additional funding from private sources**. These funds could be used for technical assistance, to help enhance the regulatory environment and to ensure measures for consumer protection.