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MiCRO / SBS / Bancamía – Boosting Resilience for Microentrepreneurs

**Providing Access to Index-based Insurance
to Protect Rural and Urban SMEs in Colombia
against Extreme Events.**



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Despite the delays that the pandemic caused to the design and implementation of new products, three years after the launch of the first parametric insurance in Colombia, the Microinsurance Catastrophe Risk Organization (MiCRO) and its local partners have been able to provide almost 120,000 beneficiaries with increased protection against the impacts of hazards such as excess rain, drought and earthquakes. In 2019, MiCRO and SBS Seguros Colombia S.A. designed a microinsurance product for Small and Medium Enterprises (SMEs) in Colombia, which has since been offered to Bancamía's clients and focuses on reaching the urban and rural poor.

Country context

Colombia is a country located in South America with a population of over 50 million people. It is known for its landscapes and biodiversity, as well as its history of political conflict and violence. Recently, Colombia has made significant progress in economic development and reducing poverty, but there are still many challenges that the country faces: i) One of the major challenges in Colombia is related to armed conflict and violence, which has been ongoing for several decades. The conflict has resulted in the displacement of millions of people, particularly in rural areas, and has had a significant impact on the country's social and economic development. ii) Another major challenge in Colombia is related to inequality and poverty. While the country has made significant progress in reducing poverty and improving access to basic services such as healthcare and education, there are still significant disparities between different regions and socioeconomic groups. iii) Climate change is also a challenge in Colombia, particularly its impact on vulnerable populations such as crop producers and indigenous communities. The country is severely exposed to a range of climate-related risks, including droughts, excess of rain, earthquakes, floods, and landslides, which can have significant impacts on food security, livelihoods, and the environment. Access to insurance against disasters remains low for rural areas across Latin America.

In this context, MiCRO designs affordable and needs-based risk transfer solutions for underserved populations at the micro level together with local partners, mainly insurance companies and distribution channels with access to the target population.

Project description

MiCRO and SBS Seguros Colombia S.A. designed a microinsurance for SMEs in Colombia in 2019 which is currently being offered to Bancamía's clients. It is a voluntary insurance embedded in the credit and fully paid by the end beneficiary. The product is called "My Protected Investment" and is provided to clients with credits for productive activities. There are two components of the product: The first component is an innovative index-based insurance, which builds on MiCRO's experience and protects beneficiaries against financial losses caused by the occurrence of extreme events, namely drought, excess rain and earthquakes. The indices were designed using 20 years of historical data and the modelling was performed by experts in hydro climatology, mathematics and computing, in close collaboration with Swiss Re. The second component is a traditional insurance for SMEs and builds on the experience that SBS and Bancamía had with a similar product that was already implemented years ago.

The traditional component protects beneficiaries against direct losses of their assets, mainly buildings, assets and household goods, plus animals and crops for clients in rural areas. While the innovative parametric component works automatically (beneficiaries receive payouts after a triggering event), the traditional component requires that the client files a claim after a covered loss occurs, which SBS processes using simplified adjustment methods. The combination of these two coverages helps the insured to: i) better understand the insurance product; ii) receive a payout for direct damages and a payout for the economic loss.



Training/play on how climate insurance works

Training session on the complementarity of savings and insurance

Challenges and lessons learned

1. Ensuring client’s understanding of a product, managing their expectations and earning their trust proved to be challenges. This is a matter that requires time, training and appropriate financial education tools and „good noise“ that comes from frequent payouts accelerating the process.
2. Ensuring alignment with the Sustainable Development Goals with distribution partners. In this sense, Bancamía is a great partner given their vision of reaching underserved populations, in particular women.
3. Working with regulators to simplify some regulatory measures, such as the Anti-Money Laundering / Countering the Financing of Terrorism (AML-CTF) was also a lesson learned. Some regulations are not adapted to the context of the urban poor, as banks and insurance companies request data and documents that the urban and rural poor usually do not have including proof of residence and an exact postal address (sometimes impossible in informal settlements and other suburban areas).

“When they called me to ask if there had been any damage, I said no, because my place was still intact, but I did lose all the food because nobody goes out to eat when there is a storm that lasts for days, well, we keep the food and with that the debt ... Fortunately, Bancamía has that insurance.”

Female Bancamía’s client with a little fast food restaurant

Hazards covered

Drought, Earthquake, Other

Product/Solution

Corporate/Institutional, Microinsurance Business, Microinsurance Households

Topic / Theme the project addresses

Climate Change & Climate Policy, Gender, Nature-Based Solutions, Private Sector

Objective of the project

To strengthen the resilience of the vulnerable and low-income population against disasters in Colombia with a sustainable insurance market solution that generates value to the target group.

Beneficiaries

As of December 2022, 30,000 poor and vulnerable policyholders with increased protection against the impacts of extreme events with 8,396 individual payouts averaging USD 20 per payout, increasing awareness on disaster risk reduction.

Involved organizations / parties in the project

- Microinsurance Catastrophe Risk Organization (MiCRO)
- SBS Seguros Colombia S.A
- Bancamía

Project duration

2019 – Ongoing



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