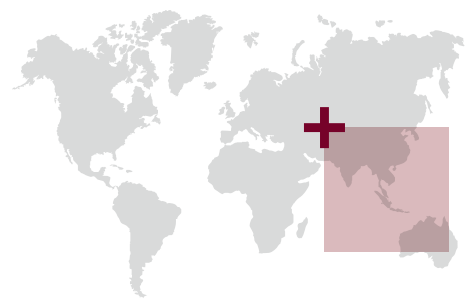


# NATURAL CATASTROPHE INSURANCE FOR LOW INCOME GROUPS IN ASIA



## AT A GLANCE

### Name

Natural Catastrophe Insurance for Low Income Groups in Asia

### Duration

October 2009 – September 2012

### Focus Area

Philippines (country-wide)

### Target group

Member institutions of the Cooperative Life Insurance and Mutual Benefit Services (CLIMBS) and their individual low-income members

### Funds available

The project is funded by the German Ministry for Economic Cooperation and Development (BMZ) with 1.8 million Euro.

### The project is jointly implemented by ...

Munich Re, Cooperative Life Insurance and Mutual Benefit Services (CLIMBS; an umbrella cooperative and licensed life and non-life insurer), DHI (local consulting partner, specialized in the field of water, environment and health), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ GmbH) through the programme develoPPP.de of BMZ.

### The core objective is ...

to offer insurance services against the effects of extreme weather events in order to enhance the financial stability of financial cooperatives by protecting their credit portfolios. The insurance benefits are passed on to the low-income members of these institutions.



On behalf of:



of the Federal Republic of Germany



## BACKGROUND

**Many regions in South-East Asia are highly exposed to extreme weather events like torrential rain and strong wind.**

Extreme weather conditions pose a financial risk to microfinance institutions, such as cooperatives, which offer loans and insurances to people. For instance, they interrupt the cash flow of cooperatives as member borrowers can lose their livelihoods and assets in a single storm and become unable to repay their loans, thus leaving the cooperative in a state of insolvency. Currently, to offset this risk, cooperatives lend money at a higher interest rate, posing an additional burden to the member borrower, especially to low-income households. By protecting the portfolios of the financial institutions in case of extreme events, reliable access to affordable financial services can be ensured particularly at the time where it is most needed.

## APPROACH

**In the light of recent natural catastrophes, Munich Re and GIZ GmbH entered into a development partnership to review microinsurance needs and design a demand-oriented product.**

During this review it became clear that the development of a weather-index insurance product for the protection of loan portfolios against natural catastrophes is the most feasible form of addressing these needs.

As an umbrella cooperative and licensed composite (life and non-life) insurance, the CLIMBS has become the third crucial partner of the strategic alliance and is the primary insurance provider of the jointly developed microinsurance product: the CLIMBS Catastrophe Protection Policy.

### 1. Developing insurance cover for extreme weather events

In close cooperation with the team of Munich Re, technical assistance is being provided to CLIMBS developing their first index product. Organisational and Capacity Development measures at CLIMBS is core of this workstream.

### 2. Capacity Development and Financial Literacy

GIZ provided means of financial literacy to the cooperatives enabling them to make sound decisions on how to reduce and mitigate financial risks arising from extreme weather events. By this, cooperatives can increase their own and their clients' resilience to these natural threats.

Acting as multipliers disseminating awareness and insurance competence to end clients, the cooperative were also supported to develop a broad insurance literacy campaign in order to increase the level of awareness about insurance among the population.



### Challenges:

1. General low level of financial literacy and understanding of insurance among the population.
2. Affiliated cooperatives and their members are for the first time exposed to concept of index insurance.
3. Highly technical product requires specialized team of experts within CLIMBS.

### Opportunities:

1. CLIMBS unites over 1,600 cooperatives nationwide, which means a potential outreach to over 900,000 members and policy holders.
2. Collaborative product development process which allowed to design a product tailored to the demand of the cooperatives.

## OUTCOME

The developed microinsurance product “CLIMBS Catastrophe Protection Policy” creates a sustainable impact on two levels: **on the one hand, it supports cooperatives by helping them manage their exposure to the default risk; on the other hand, the individual borrowers or members these cooperatives are supported by protecting their equity and investments in the cooperatives and by enabling them to rebuild their livelihoods after an extreme weather event.** It thus prevents low-income households from slipping into poverty. Moreover, by enhancing the micro lending capacity and liquidity of cooperatives even in critical times, it makes loans affordable to their low-income members.

## LESSONS LEARNED

1. Selling the product: A highly technical insurance product requires a highly technical capacity development to the staff selling the product to effectively and efficiently convey the necessary information needed by the cooperatives’ decision makers on product purchasing.
2. To increase the effectiveness and credibility of financial literacy activities they should be carried out by a neutral expert instead of the distribution channelled. Otherwise financial literacy activities might be perceived as promotion activities.



## CASE STUDY

In the development of this catastrophe protection product, triggers, also known as indexes, have been defined across the country for each municipality. These indexes, considering the topographic relief and geographic location of the Philippines local government units are measured either in wind speed or rainfall. They are categorised by their intensity into a 10-, 15- or 20-year reoccurrence event. If a cooperative operating in a given municipality experiences extreme weather conditions that exceed the indexes set for that municipality, then the weather event triggers a payout for the cooperative. The amount of payout is a percentage of the cooperative's loan portfolio, depending on the event intensity and its corresponding category class.

In a binding statement, the cooperatives make a commitment to pass on the insurance benefits to their members. To this end, each cooperative establishes a separate Natural Catastrophe Fund and special lending windows that offer interest-free emergency loans from the fund to help afflicted members to recover. Those most strongly affected by the natural catastrophe shall be prioritized. Certification from village officials and other quick, transparent mechanisms will verify the actual damage to each member and thus help decide on prioritization.

## IMPRINT

### Published by

Deutsche Gesellschaft für  
Internationale Zusammenarbeit (GIZ) GmbH

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Eschborn, May 2014

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