



Villagers in Belanting, Indonesia, with a map showing the village's risks, emergency meeting points and evacuation routes. A comprehensive, community-based approach is key for successful risk management. Photo: Rodrigo Ordonez/Oxfam

# FACING RISK

Options and challenges in ensuring that climate/disaster risk finance and insurance deliver for poor people

Summary



**OXFAM**

Reducing the impacts of disasters on poor people is absolutely vital. Climate/disaster risk financing could play a useful role, if it is part of an approach that includes risk reduction, if it strengthens social protection, and has the real participation of civil society. Insurance, as one component of risk financing, could play a supportive role if carefully designed, keeping in mind the limitations, including the risk of worsening income and gender inequality.

The InsuResilience Global Partnership should build more evidence of what works for poor people, invest in pro-poor business models, and ensure the insurance schemes developed are part of a broader approach to reducing risks and the inequalities that make people vulnerable to disasters.

The full paper is available at <http://policy-practice.oxfam.org.uk/publications/facing-risk-options-and-challenges-in-ensuring-that-climatedisaster-risk-financ-620457>

## OXFAM

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For further information on the issues raised in this paper please email [advocacy@oxfaminternational.org](mailto:advocacy@oxfaminternational.org)

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# SUMMARY

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Disasters resulting from natural hazards are becoming more frequent and more harmful. They push an estimated 26 million people into extreme poverty each year.<sup>1</sup> They also drive increasing inequality, as poor people are hit hardest and find it far harder to recover than wealthier people. For all these reasons, the goal of reducing the impact of disasters on poor people is absolutely vital. This report asks if and how the international investment on climate/disaster risk financing (CDRF) and climate/disaster insurance (not other forms of insurance such as health or life cover) can contribute to this.

In 2015, the G7 agreed a target to provide climate risk insurance for 400 million more poor and vulnerable people in developing countries by 2020, and this has now developed into the InsuResilience Global Partnership (IGP). In less than three years, \$715m has been raised, the vast majority of it to support insurance schemes.<sup>2</sup>

Our rapidly warming world suggests a focus is required on proven solutions. There is still, however, relatively little empirical evidence that insurance is effective in supporting poor people in the face of disasters. Well over 100 disaster insurance schemes targeting low-income populations have been set up around the world,<sup>4</sup> yet remarkably few evaluations have considered their impact.<sup>5</sup> It could well be argued that the InsuResilience target on *quantity* – without an equally clear focus on *quality* – is premature.

## OPPORTUNITY COST

With limited public funds available, investing in one area inevitably means investing less in others. And this becomes even more relevant as insurance schemes for poor people are likely to require public subsidies for the long term and possibly indefinitely. This focus of public expenditure on insurance could therefore potentially jeopardize effective and proven risk management approaches.

For example, social safety net programmes are proven ways to support poor people through the shock of disasters. In 2017, a meta-evaluation covering 27 safety net programmes in 14 African countries found strong evidence of increases in food and other consumption, and in livestock and productive assets, as well as incomes and earnings.<sup>6</sup>

Measures to reduce the risk of disasters and to adapt to climate change are also both effective and cost-effective. For example, one analysis found that 102 out of 117 disaster risk reduction (DRR) programmes were cost-effective, with higher impacts for those in less developed countries;<sup>7</sup> another found that early warning systems could yield benefits 4 to 36 times greater than the cost.<sup>8</sup> Yet both DRR and climate change adaptation (CCA) remain critically underfunded.

The \$715m that has been put into InsuResilience work is about as much as international donors spend on DRR every year. So, while recognizing that innovative approaches will be needed, it is a legitimate question to ask where limited public resources are best channelled. Is enthusiasm for insurance, including the InsuResilience target, skewing

**‘Insurance will not make crops grow. Incorporating risk reduction mechanisms such as weeding, irrigation and recommendations for planting at the right time can be combined with insurance.’**

Rahab Kariuki, Managing Director, ACRE Africa<sup>3</sup>

efforts and diverting investment from better-established and proven interventions that would probably make a better job of reducing the risks faced by the world's poorest people?

## KNOWING THE LIMITS

This does not mean that there is no role for insurance in dealing with the risk of disasters. But far greater investment is required in monitoring and evaluation (M&E) for impact, analysis on the factors that make access to insurance fair and for everyone, and in research on the alternatives and opportunity costs involved. In the meantime, a more balanced dialogue is needed around the potential for insurance and recognition of some of the limits and the unknowns.

For instance, a rule of thumb for practitioners is that disaster insurance is not likely to be cost-effective for disasters that occur more frequently than about once in seven years.<sup>9</sup> Nor can insurance be used to manage the slow rise in sea levels or any other gradual effect of climate change that is a tragic certainty rather than a risk. And yet poor people suffer enormously both from these slow certainties of climate change, and from frequent disasters that strike every year or two.

Further, despite the potential, there is little evidence that insurance incentivizes risk reduction, and there is mixed evidence on adaptation. Paradoxically, indemnity insurance for infrastructure is unlikely to foster 'building back better', a principle of effective aid after disasters since at least the 2004 Indian Ocean tsunami.

Insurance can also increase inequalities – as without substantial and well-targeted subsidies, poorer people are likely to be excluded from micro-insurance schemes (where the individual is the policyholder) due to affordability, political, social or economic marginalization or other reasons. Many schemes are gender-blind, such that schemes may exclude women or increase household inequalities.

Crucially, 'basis risk' (the difference between an insurance payout and actual losses), which is a key problem for index insurance, means that insurance schemes may not reduce financial risk at all. When considering the opportunity cost of the premiums, people or governments could even be worse off.

## PRO-POOR INSURANCE

Standalone microinsurance seems not to be appropriate for the poorest people, who have many risks, little income and few assets to insure. It may be a solution to prevent vulnerable people from falling into poverty due to shocks, but more work is needed to identify the income or asset threshold for success. As weather hazards are not the only risk poor people face, a deeper understanding of the root causes of vulnerability must be the starting point. Integrated approaches that combine insurance with measures to address other constraints (such as credit or risk reduction) – like R4 and Nataal Mbay – offer more promise.

Macro- and meso-insurance models (where the government or a 'risk aggregator' such as a cooperative is the policyholder) seem to offer potential, especially if they are integrated into broader programmes to increase resilience. But to ensure that payouts swiftly reach poor people, more investment is needed to develop effective contingency plans, delivery mechanisms and targeting.

**'We should be investing more in prevention. Firstly because you save lives, and secondly you save money.'**

Enrique Guevara, former head of Mexico's National Center for Disaster Prevention, CENAPRED<sup>10</sup>

Finally, business models need to be found that can better meet the needs of poor people: both adding in the missing 'p' in public-private-people partnerships to rebalance the roles and interests of all parties, and supporting mutuals and cooperatives which are often uniquely placed to support poor communities.

## A WAY FORWARD

The world's development, adaptation and humanitarian systems are almost overwhelmed by the scale of the challenges they face, so investment in innovation is required. But this must be underpinned by a strong commitment to learning, ensuring that results from increased investments in impact measurement swiftly find their way into programme development. It should not come at the cost of proven risk management strategies, particularly in a rapidly warming world.

There is an argument that insurance could be a useful tool for middle-income people, thereby freeing up government and donor resources for people in poverty. While attractive in principle, the lessons from health insurance are that this leads to a stratification of services and support, such that inequality is deepened further.<sup>11</sup> Disaster insurance must be designed so as to avoid this.

More broadly, the objective of the CDRF process – to provide better financial management for risks – is clearly positive. But it must be pursued with a clear imperative to protect poor people, be driven by climate justice (a recognition that those most impacted by climate change have done least to cause it and should be supported), and be implemented in combination with measures to reduce risk. Perhaps most importantly, risk-financing decisions of governments should be open to public scrutiny, and made after a meaningful involvement of civil society in affected countries.

For none of these are simply technical processes. They involve decisions about how to respond to the different risks faced by different parts of society – poor and rich, women and men – and whether governments, insurers and donors tackle, ignore or at worst deepen such inequalities.

Insurance schemes cannot of course answer the whole challenge of reducing the vast human needs of disasters – payouts from regional insurance pools have been small in relation to the sums sought in UN humanitarian appeals – but well-designed schemes could complement aid if funding can be found. To meet the promise of the Sustainable Development Goals, agreed in 2015, to 'leave no one behind,' this must be married with a greater investment in social protection and safety nets, and a broader approach to reduce risks and adapt to climate change.

**'People's own determination to get out of poverty should be matched by our commitment to redistribute risk and build equality, thereby supporting them to thrive and prosper, rather than just cope and survive in a world of increasing risks.'**

HE Ellen Johnson Sirleaf,  
former President of Liberia<sup>12</sup>

# KEY RECOMMENDATIONS

## Donors and governments should ensure that protection is provided for the poorest people

- Ensure that **social protection and safety nets** are available to protect the poorest people, funded by progressive taxation<sup>13</sup> and international aid. CDRF measures could play a role in funding shock-responsive systems.
- **Prioritize risk reduction and adaptation** to reduce the risks that poor people face. Public investment in CDRF should not disincentivize or otherwise crowd out investment in DRR or CCA. Use the World Bank's well-being metric, or similar, to identify an appropriate package of measures that delivers for poor people.<sup>14</sup>

## IGP partners should identify the right balance of CDRF priorities

- Ensure that the target to reach 400 million people with insurance does not skew programme responses. The IGP should provide **a) impartial technical advice and b) funding** for the full range of CDRF and risk reduction tools, not just insurance, considering forecast-based financing, contingent credit and grants, resilience bonds, and so on.
- Develop **pro-poor principles** that will guide the work of the IGP, derived from the recommendations in this paper.
- Ensure that supported **CDRF schemes are pro-poor and reduce risk**: embedded within a strong and comprehensive risk management framework; explicitly seeking to incentivize and enable risk management and avoid maladaptation; and having clear contingency plans, delivery mechanisms and targeting protocols.

## All stakeholders should ensure that CDRF and insurance schemes are demand-led

- Provide much clearer objectives, success criteria and indicators on reducing the vulnerability of affected populations.
- Foster schemes that are nationally and locally driven, by both government and affected communities. Support full participation of affected communities and capacity building and financial support for Southern civil society organizations.
- Provide support for the delivery of insurance through cooperatives, mutuals and self-help groups, including appropriate regulation and support for federation and reinsurance.
- Support public–private–*people* partnerships, balancing the roles and interests of all parties to achieve effective outcomes.
- Ensure accountability and transparency. Support stronger national regulatory and parliamentary oversight, and the IGP should set up an independent facility where concerns can be registered and complaints investigated.

## Where insurance is being considered, all stakeholders should consider the root causes of vulnerability and inequalities

- **Analyse the root causes of vulnerability that drive risk, including structural inequalities** affecting women and girls, older people, people with disabilities and marginalized and vulnerable groups.
- Prioritize options which achieve a more **balanced distribution of risk** across society, and ensure that **measures to address power and inequalities** are incorporated or provided alongside insurance.

‘There are so many risks, resulting in so many emergencies, that it is unrealistic to expect poor households to contain them by means of the single financial strategy of insurance.’

*Portfolios of the Poor*<sup>15</sup>

- Commit to **improving gender equity** through the development of a gender framework, using disaggregated data, gender-sensitive design and further research to increase impact and avoid unintended consequences that may deepen existing inequalities.

### The IGP should support learning and increase programme quality

- **Build evidence, undertake research and focus on learning** to stimulate an informed and nuanced debate and improve programme quality. The research agenda should include work to identify those for whom insurance is an effective and cost-effective option (and those for whom it is not), more work on opportunity cost and alternatives and development of insurance schemes that support adaptive capacities.
- Radically increase funding and **strengthen monitoring and evaluation**. Rather than focusing primarily on counting coverage (to achieve the target of 400 million people), M&E should focus on developmental impact, including social and ecological consequences, both intended and unintended, and any maladaptation. A minimum of 5% of programme spend should be invested in M&E
- **Develop tools** for the sector. The IGP should develop and/or promote minimum programme standards, an M&E framework, a gender analysis tool and other tools to ensure impact as well as sustainability.

### All donors should support climate justice

- In line with UN Framework Convention on Climate Change (UNFCCC) obligations, donors should provide **sustained, predictable and long-term financial support** for comprehensive disaster risk management and climate change adaptation, which may include CDRF.
- Develop **alternative sources of finance** for CDRF measures that address loss and damage, such as levies on fossil fuel extraction or revenues from carbon pricing systems, to ensure less reliance on aid.
- Request evidence from **insurance company partners** that they do **not drive climate change through other investments** in fossil fuels and other high-emission sectors or, at the very least, that there is a time-bound plan to phase out such investments as soon as possible.

‘I have become a very good convert for the role of insurance in the broader spectrum of risk financing. But I also want to point out that it is subject to affordability challenges, and it should not be seen as a silver bullet. It has to be seen as part of an overall toolkit which also sees investments into risk and vulnerability reduction.’

Ronald Jackson, Executive Director, Caribbean Disaster Emergency Management Agency (CDEMA)<sup>16</sup>

#### Oxfam insurance programmes

This report has been informed by Oxfam’s work on insurance.

- The biggest and best-known is the R4 Rural Resilience Initiative, a partnership between Oxfam America and the World Food Programme (WFP). The programme is most established in Ethiopia and Senegal and WFP is expanding the programme to Malawi, Zambia, Kenya and Zimbabwe. It is targeted at the very poor and consists of a package of measures: risk reduction (DRR), risk transfer (insurance), risk reserves (saving) and supporting prudent risk taking (credit). It enables poor people to pay for their insurance through social protection work schemes.
- An innovative meso-level flood index scheme in Bangladesh is providing business interruption cover to very poor landless men and women who are reliant on wage labour. This was suspended for a while due to lack of funds; it is now operational again, but still needs to scale up.
- Schemes are being developed in the Philippines (a meso-level scheme for municipalities), Nepal (livestock) and Sri Lanka (crops), and others are at exploratory stage in Pakistan, Burkina Faso and Vietnam.

# NOTES

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