Implemented by:

Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia III)

Promoting climate risk insurance in three Southeast Asian countries

The challenge

The partner countries Indonesia, Philippines and Vietnam, are increasingly affected by climate change. They rank 33rd, 3rd, and 18th, respectively, among the 171 most at-risk countries (World Risk Report 2017). With the agricultural sector as their main source of employment, these countries are home to the extremely poor, poor, and poverty-endangered households.

Many micro, small, and medium enterprises (MSMEs) are particularly affected by climate change and the consequences of extreme weather events, resulting in the destruction of assets, income deprivation, and huge losses. Around USD4.4 billion (2.7% of GDP) was lost by MSMEs to floods caused by typhoons *Ondoy* and *Pepeng* in 2009 in the Philippines. Eighty percent of the losses came from the retail and wholesale trade sector, due to foregone revenues valued at USD1.7 billion (PIDS: Building Philippine SMEs' Resilience to Natural Disasters).

When natural catastrophes occur, low-income families use their savings deposits, refrain from investing, or go into debt. Even if financial service providers unlock their reserves, that will not be enough for all. Formal insurance products against extreme weather events have so far been offered mainly for public assets and infrastructure. Meanwhile, the protection gap between the actual losses and the insured ones is increasing. The need to develop and introduce effective and sustainable insurance solutions for households and MSMEs is more pressing than ever.

Project name	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia III)
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Project region	Indonesia, Philippines, Vietnam
Lead executing agency	GIZ-RFPI
Duration	01.2019 – 12.2021 (3 years)

Our approach

RFPI Asia I and II were implemented from 2013 to 2018 with the aim of promoting inclusive insurance in seven Asian countries. RFPI III continues to support the region's poor, focusing on the provision of risk protection through insurance solutions to cover extreme weather events due to climate change. Jointly with our partner countries, concepts for climate risk insurance (CRI) are being developed and made available using a holistic capacity development approach based on systems thinking by building upon the increased willingness of governments and populations to hedge against extreme weather events, and targeting individuals, organizations, and the society as a whole. The project will qualify government representatives to develop joint CRI concepts. They will analyse various CRI options and integrate them as complementary instruments into a comprehensive Disaster Risk Management (DRM) approach as described in the chart DRM phases (Page 2). This strategic approach is complemented by trainings for private insurance providers focusing on product development, supported distribution, and digitally enabled payment platforms for innovative CRI policies. The oversight for these newly created digital payment and distribution technologies, as well as for customer protection, is the responsibility of insurance supervisory authorities. Their regulatory capacities are strengthened, and peer learning improved via the Mutual Exchange Forum on Inclusive Insurance (MEFIN).

Storm surge and flooding in Asia

Photos: Ernie Lacsamana Penaredondo Jr.

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Expected results

The strategic and technical requirements for high-quality climate risk insurance for extremely poor, poor, and at-risk people will be created.

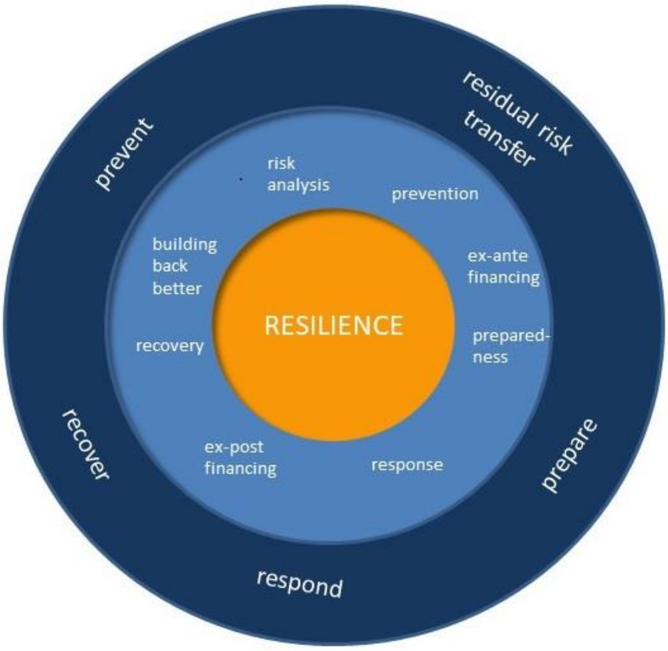
- Partner governments have included CRI explicitly targeting the extremely poor, poor, and at-risk populations in their national resilience strategies.
- 4 Million poor, poorest, and most at-risk populations in three partner countries, 50% of whom are women, are covered by new CRI products offered by governments.
- New digitally supported business models, some of which focus on payment modalities, have been introduced with insurers.
- International standard implementation plans for the regulation of CRI solutions have been developed by insurance supervisors of the partner countries.

Success factors

- **USE INSURANCE**: To meet the needs of the target group and secure development goals, insurance approaches for the poor should address the most pressing needs – uncertainty to livelihoods, food security and development aspirations – that get in the way of opportunities to reduce poverty.
- **PARTICIPATORY APPROACH**: Successful insurance schemes are based on the effective involvement of all relevant actors, providing the basis for a meaningful long-term partnership. Target group ownership is essential for effective use of insurance as a risk management tool.
- **CAPACITY BUILDING**: Reaching poor and vulnerable people with climate risk insurance requires significant capacity building measures, often involving actors not yet familiar with the tools or principles of insurance.
- **SUSTAINABILITY AND VIABILITY:** To effectively chart climate resilient pathways, activities need to be sustainable and viable, both in economic and social terms. Applying risk adequate premiums are one of the central elements for ensuring the viability of approaches and incentivisation of risk reduction measures.

Disaster risk management phases

Source: GIZ MC II 2017



NOTE: Residual risk can be transferred to third parties using financial instruments for DRM. Here, classic risk transfer solutions, such as insurance, are differentiated from alternative risk transfer mechanisms, such as catastrophe bonds.

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