

REGULATORY FRAMEWORK PROMOTION OF
PRO-POOR INSURANCE IN ASIA PHASE III
(RFPI ASIA III)

**Climate Risk Insurance in
Indonesia, Philippines and Vietnam**

Capacity Development Module 4:

**Climate and Disaster Risk Insurance as
a Risk Financing Option: Advocating
through Financial Literacy**

23 July 2020



Module 4: Climate and Disaster Risk Insurance as a Risk Financing Option: Advocating through Financial Literacy

No. of Participants: 61

Opening:

Module 4 focuses Financial Literacy for creating more awareness on CDRI. It is an ever evolving area which deals with addressing risks. It is important that all stakeholders are engaged in FinLit campaigns including the regulators in order to provide assistance to entities which provide CDRI coverage and payouts. RFPI Asia III would like to harmonize the work that it does with other similar initiatives and hopefully through this webinar, be able to identify the particularities in terms of FinLit to create a mindset on protection against natural catastrophes through risk transfers.

Module Objectives and Guidance:

Mr. Jimmy Loro, the moderator, presented the webinar objectives as follows:

- Explain the value and use of CDRI, in contrast to other disaster financing instruments such as Government subsidies/assistance, loans, credit, savings, and international aid;
- Present the financial literacy approaches of insurance providers, and knowledge intermediaries to support the uptake of CDRI products for MSMEs, low income groups like farmers, and, identify their commonalities and differences;
- Know the challenges in mounting the FinLit campaigns and how these were addressed;
- Discuss improvements/measures concerning CDRI products and their advocacies that account for recent developments, including the COVID19 pandemic.

As overview to the ensuing panel discussions, Mr. Loro presented the various FinLit initiatives of the panelists' organizations, with the underlying message that "Climate change leads to primary, secondary, and tertiary impacts – all of which have implications for insurance". For the Microinsurance Center at Milliman, it was on their initiative in Ethiopia on dry land farming which is index-based on rainfall and enhanced vegetation index (EVI). La Positiva in Peru, it was for Sustainable Farming through Climate Risk Insurance for Farmers. Both the Microinsurance Center and La Positiva have adapted measures to reduce face-to-face activities and ensure safety in view of the Covid19 pandemic. For GIZ Egypt, their approach was to integrate insurance into Risk Management trainings for MSMEs and for Vietnam, their Agriculture Insurance program. From the overview, it can already be seen that each initiative have implemented different approaches based on the needs in their respective areas and these were further expounded on during the panel discussion.

Panel Discussions:

The panelists-presenters for Module 4 were the following:



Mr. Michael J. McCord
Managing Director
Microinsurance Center at
Milliman



Ms. Lourdes del Carpio Gómez de la Torre
Gerente Adjunto de Agrario
Gerencia División de Negocios
La Positiva
Lima, Peru



Mr. Nguyen Khac Toan
Director of Economic Department
Vietnam National Farmers Union



Ms. Noheir Khairy
Head of SME Insurance
GIZ Egypt

Lead Question 1: *What CDRI products for MSMEs and the low-income sector are you currently developing/offering, and how do you explain and promote the value and distinct features of these products to your target population in layman's terms; as well as to Policy Makers, through FinLit sessions?*

Microinsurance Center at Milliman

The Microinsurance Center (MC) has a project with IFAD in Ethiopia for insurance on dry land farming. The focus is more on household crops, not cash crops and it is not subsidized. The people already recognize the problems of climate change – the changing climate season, what seeds to plant and where to grow them. Their FinLit component was to increase product literacy which basically starts with peer to peer discussions – people who have availed of insurance informing another of its benefits, thus generating interest or curiosity about insurance. An elaboration of the activities and topics involved in financial literacy was provided and the flow of FinLit activities. Aside from face-to-face activities, videos were also used. The importance of proper communication was stressed particularly on using tools/methods which the market could relate to. An example is the use of satellites to get data. The people found difficulties in understanding this concept but MC also noted that practically every household has a satellite dish. By using the process of how satellites allow them access to media and communication, they were able explain how data is gathered from satellites which allows them to develop the insurance product. It took some time before the market understood the concept but through the analogy, they were able to turn a complex issue into something understandable and straight forward. Likewise, MC used community leaders to educate their respective communities and as such the element of trust also facilitated the transfer of information. Finlit should be able to build the appropriate knowledge and expertise on the different levels of stakeholders. And to do so, they talk to people to gauge how effective it was and the feedback is used to re-design or improve the product.

Follow up Question 1: Can you explain more on the use of video recordings?

The video recordings are not the only tool used for the market. MC also uses focused group discussions (FGDs) and the results are used not only for improving FinLit initiatives but also to inform the stakeholders in the capital – government, regulators, insurance companies. As per their experience, these stakeholders don't much about what is happening on the ground and these tools enable them to acquire knowledge and information which are important for decision making.

Follow up Question 2: How do you monitor success?

MC does more of a qualitative approach in monitoring the effectiveness of their FinLit initiatives. After each season, they go back and talk to the people on their understanding of the product. It is done on a random basis and the feedback they gather are used to implement changes.

Follow up Question 3: Where do you see the relation of CDRI FinLit to the MI level? How do they go against the business-making mentality?

The major difference is that in CDRI, it takes a broader group of players who have to take part in this. Government and donors need to take a stronger role as these are bigger issues. There has to be more intervention on the part of government, donors, and also insurers. They should think of the broader level and not only of the premiums that has to be taken care of. Adaptation and structural levels have to be revised. As for the business case, typically the products are heavily insured, with insurance retention of 10-20%. It helped in their case that reinsurers seem to have an appetite for this and that the local insurers were already able to figure out the business aspect. On their own, local insurers would find this difficult to do.

La Positiva

La Positiva has agriculture insurance for MSME and farmers all climate risks. One is for sustainable farming which is subsidized by the government and the other is for small and medium sized farmers with access to micro credit. When they get a loan, then an insurance is also acquired. The value of CDRI is when they get the payout, they are able to pay the loan and so they can get another loan for the next season and be able to continue their economic activity. As per their experience when there was still no insurance provided, farmers debts are increased. La Positiva does workshops with farmers and also filed workshops on how insurance works and its benefits. It is important to have person to person contact with farmers in order to build trust and knowledge. Another way La Positiva does FinLit is through SMS. Through SMS, they are able to remind farmers that they have insurance to cover losses due to CDRI. Through SMS reminders, farmers are more aware and in recent times have managed to send back videos of their crops that were flooded to facilitate insurance processing. La Positiva has also recognized the importance of focusing on the credit officers of MFIS in order to have more access to farmers. They train these credit officers through the La Positiva website. This online training is now more used as it is cheaper and MFIs get better access. They also practice continuous communications with the MFI managers. Another important stakeholder in FinLit are the policy makers. They do this through Round Table Discussions (RTDs) with public officials and has been a regular activity over the past 3 to 4 years. At present, the RTDs with policy makers are done every 2 months wherein La Positiva shares information on the needs not only of the clients but also of insurance companies for better regulations. With the RTDs, policy makers are enabled to make sound decisions based on the

information they acquire. Proof of this is since the RTDs were done, government has been increasing the subsidy for CDRI insurance for sustainable farming each year. This year, the Ministry of Agriculture approved commercial insurance to small and medium farmers with access to micro credit. Public officials have a better understanding that private insurance can't do it alone on FinLit and it needs government support.

Follow up question 1: Where do you see the particularity in what you do and the current approach when it comes to create awareness of the affected population and the role of some stakeholders?

In urban areas, La Positiva works with the MFIs since it is difficult to do one-one-one selling. MFIs in Peru are strong and acts as the main distribution channel for multi-risk insurance products. During the strong 2007 earthquake in Peru, MFIs were able to effectively facilitate the payout to policy holders. La Positiva paid out these compensations allowing people with small businesses to have cash for food, housing, and to re-start business. La Positiva has been helping the low income for many years now. To create awareness and understanding, it is important to do workshops and have the appropriate support materials which are easy to understand. From their experiences, they were able to determine that word of mouth is also effective. When people use and benefit from insurance, the tendency is to tell/inform their peers on its importance. It could take some time but it is really effective since it is practically an endorsement from people who have benefited from insurance. Proof of this is that now farmers were requesting MFIs to have crop insurance when they get a loan. The approach takes time and if government makes insurance mandatory insurance then it can further help in making the people understand the meaning and value of insurance.

Follow up Question 2: Do different levels of subsidies affect the impact of insurance?

Yes it does. In Peru, catastrophic insurance is 100% subsidized by the government but farmers are not really aware where the money comes from. They do not link it with the private insurance companies or with the subsidy that government is giving. Probably making the farmers pay for a symbolic/token amount will make them realize that they are acquiring insurance and where the subsidies come from. When catastrophe insurance started in 2013, the loss ration was 66% and became higher in 2017 due to the El Niño. That's why it is important that government participates in order to make this sustainable. Subsidies are important for CDRI.

Follow-up Question 3: Are you the only one providing agriculture insurance or is there already a consortium?

More insurance companies are now willing to join in a consortium. There is now more interest since now there is enough information/data on crop insurance. La Positiva focuses on the low income segment and the farming sector; others focus on the other segments of the population.

Follow-up Question 4: Could you comment on the reported moves in Congress to discontinue the subsidies?

There was more than one proposal from Congress on this issue. What they wanted was Just have direct transfers to those affected by disasters. La Positiva and the insurance sector were able to address these issues through the RTDs where these were thoroughly discussed, follow-up letters sent to Congress on the impact that this has on the insurance sector, farmers, and MSMEs. Through these

efforts, the subsidies still exist and the Ministry of Agriculture actually increased the subsidy. By sharing the right information with the policy makers in RTDs, sustainability of subsidy was achieved.

Vietnam National Farmers Union

VNFU gave a background of Vietnam as far as agriculture, insurance, and the hazards are concerned for a more comprehensive understanding of the situation. Of the 96 million population of the country, 25 million are farmers and 8.6 million household are in forestry, livestock, fisheries. The climate hazards differ depending on the area; in the north, cold weather and hail destroyed a lot of houses and rice fields. Central Vietnam, storms and droughts and in the south it's rising sea levels. Climate insurance was implemented in 1982 and at that time 1% of the areas of plantation and livestock were insured; there was only 1 insurance provider implementing the program which was the reason why it was not that successful. In 2011 a new program was implemented in 21 provinces and cities. From 2011-13, over 135,000 HHs participated in the program of which 85,000 are poor. The government provided 100% subsidy and the participating insurance companies did not experience any profits. In 2018, another insurance program was implemented and it covered rice, buffaloes and cows, shrimp and tiger shrimp. The level of subsidies were lower than previous programs. For the poor HHs, it was 80%. For the non-poor, 20%. There was also a 20% subsidy for enterprises or cooperatives in the agriculture sector. However, the support for enterprises and cooperatives was only for 20 provinces and focused only the specialty product of the province. The duration is mid 2019 until 2020 and the program has just approved new insurance products. As for the VNFU, which represents 10 million farmers and households, it was able to conduct a training of 200 key personnel of the union in north and south Vietnam with the support of GIZ. VNFU also used its own resources to organize training for 2,000 staff at the district and provincial levels in implementing agriculture insurance. There was also a Training of Trainers (ToT) for 100 staff. All the trained trainers from the ToT go to the communes to organize training for farmers. They also carry out research/survey to identify the insurance products for farmers. For VNFU, 2 main points need to be further discussed. 1st, a needs assessment on farmers through the union since Vietnam's political system is different from other countries. Under the law, the VNFU represents all farmers. So assessing the farmers through the union is more effective than through insurance companies. 2nd, insurance products and its benefits must be suitable for the enterprise, farmers and the organization that represents the farmers.

Follow up Question 1: Where do you see the cross cutting or common challenges we face and the particular challenge you face to meet your objective?

Almost all farmers still don't understand agriculture insurance and its benefits so they are not yet ready for insurance. At the moment, quite a number of farmers buy small insurance so the premium is higher; so if the price is high there will be few buyers. In 2019, we organized workshops to raise awareness on insurance. And there are follow-up measures to address the problem. First is the government subsidizes HHs to get more benefits. Second, the VNFU has a fund amounting to around 3.2 billion VN Dong and when the appropriate insurance product is there, they can use this fund to provide loans to farmers for the insurance. The Policy Bank with a 62 billion VN Dong fund and the Agriculture Bank with 51 billion VN Dong could also do the same. Another possible source for supporting the acquisition of insurance are the agriculture enterprises which can include the provision of loans when they provide farming inputs to farmers.

Another challenge is the lack of policy support to farmers in general. The current insurance program focuses on special animals and plants. But in agriculture, there are still more to cover. The Ministry of Finance just approved sectors and the VNFU might ask for an extension as they can't finish the program by 2020. Also, insurance companies follow the guidelines from government but don't have any product to offer farmers. An example is pig raising which is also a big sector (30 million heads) and also entails many climate related risks. But there is no insurance product for pig raising.

GIZ Egypt

The focus is for MSMEs in the manufacturing sector and the initiative also involves other banking/financing services. One of their initiatives at the moment is the creation of a One-Stop Shop for MSMEs based on the clamor of the sector. In this One Stop Shop, MSMEs can have access to their insurance needs (marine, business interruption, 3rd party liability and others) and also for other financial services. It was explained that there is no standalone coverage for CDRI in Egypt; instead natural hazards are included in property policy. The approach they take for financial literacy is through risk management workshops for certain sectors and the role that insurance could provide. After introducing the risks, it is explained how insurance can be of value to MSMEs as a risk management option. During these workshops, insurance providers are on hand to answer questions and concerns of the MSMEs on valid claims and other problems, and have led to interesting discussions and better understanding of insurance. They also hold bazaars where banks and insurance companies are present, and MSMEs can go around the room in order to know more on how these services can help them. Given their initial success, they are now working closely with insurance companies in order to reach more MSMEs and to develop products of value for them. Last year, GIZ organized an InsureTech Hackathon in order to support start-ups to develop solutions and apps on insurance. Of interest is the 2nd placer's app which could be opened on FB Messenger and Whatsapp. It is a smart solution to educate a lot of people and enables the user to ask questions on loans, credit cards, and insurance through simple Arabic and Egyptian language.

Follow up Question 1: Are there any specific products designed for MSMEs.

There are no specific products designed for MSMEs at the moment and they are trying to work on that right now. MSMEs in Egypt don't want to deal with different departments for their insurance and financial needs, and as such the initiative on having a One Stop Shop for them as a business solution. MSMEs also don't want large limits. That's why focus is on pre-product which has coverages with value to the sector. There is also a need to have simple claims procedures and to have trust in insurance. Due to some negative experiences and experience, MSMEs don't trust insurance and they just do it because it's obligatory. Given this, they would want to maximize the benefits from obligatory insurance.

Follow-up Question 2: How is FB messenger and Whatsapp used for insurance?

The app developed during the Hackathon is an online chatbox that runs on both FB Messenger and Whatsapp, 2 popular apps which can make MSMEs more aware of insurance.

Lead Question 2: *What key challenges did you face in mounting your financial literacy initiative for CDRI and how did you overcome these?*

Microinsurance Center at Milliman

For CDRI there is a big component of risk mitigation and the risk management perspective should be more looked into, particularly on how to help people prepare and adapt to the climate change issues. There is also the “Sequencing” aspect to consider. It makes no sense to do FinLit unless you have good products and proof to support that insurance works. As for obligatory insurance, their perspective is that it does not really create a culture of insurance. There are issues with subsidies and getting people to pay their share. MC’s approach to insurance is without subsidies or with subsidies but it is gradually removed in due time which actually highlights the value placed by people on insurance.

La Positiva

The main challenge is how to reach the farmers with the information they have on insurance. La Positiva has done several approaches like workshops and field workshops but these can only reach a limited number of farmers. And the participants are the leaders of the farming community. They would want to reach as many farmers as possible but unlike Vietnam, there are no strong farming associations in Peru. Given their situation, La Positiva instead works closely with MFIs which are their distribution channels and have better access to farmers. Once the credit officers of the MFIs are trained and understand the importance of insurance, they can teach their clients on how insurance works. And as stated earlier, they also make strong use of cell phones. At first they encountered difficulties securing the phone numbers of farmers from MFIs but once they were provided with these, they were able to send messages/reminders to farmers about their insurance. It would be ideal if farmers have smart phones so that they can send more information but still SMS in their case is important to build direct contact with the farmers.

Vietnam National Farmers Union

There are about 10 million farmers in the remote areas of Vietnam that have limited knowledge on finance. That’s about 13 provinces in north Vietnam and accounts for around 20% of population. Transport is difficult in these areas and so it is difficult to organize trainings for the farmers. In other areas, conditions are much better. As in Peru, many people now have smart phones and use Facebook so this mode of contact is also considered. VNFU also at the moment has limited documents on finance for farmers.

GIZ Egypt

The main challenge at the moment are the private insurers as most of them don’t want to invest in FinLit campaigns; they just want the public to know their products. Given the situation, more engagements with the private companies are being done to support FinLit campaigns, including the federation of insurance companies in Egypt. They are likewise working closely with the regulators in the country to promote financial literacy.

Webinar Polling

A webinar polling was done immediately after the panel discussions. Given that the participants had difficulties accessing the link for the poll, the questions prepared were integrated in the post webinar survey that will also be administered.

Major Takeaways:

- Financial literacy initiatives for CDRI involve various stakeholders at several levels. There are specific messages and responsibilities attached for each level and regular engagement is necessary;
- Government, donors, and even insurers should play a more active role in CDRI given the issues at stake;
- It is not a “one glove, fits all” approach. Each country has its particular nuances and FinLit initiatives should be able to address these nuances to be effective;
- Continuous improvement through regular monitoring and evaluation of FinLit initiatives is necessary to make it successful. Face to face discussions, FGDs, surveys and other tools are applicable; the important thing is it should capture the right information so that the appropriate improvements can be done;
- Technology as an enabler plays a growing role in educating the public about insurance as it allows for a wider access to the market and the stakeholders. In the current Covid19 pandemic environment, it becomes a very important tool for information dissemination and awareness as it eliminates face-to-face activities thus ensuring the safety of people.

Closing:

Mr. Michael McCord, Microinsurance Center at Milliman

- Financial literacy campaigns require a multi-stakeholder approach. Stakeholders have to be brought together especially since intervention on climate risks requires moral suasion and capacities of government is much needed. One of its unique issues is that it is bigger than insurance and that insurance is just one component. There has to be a number of inputs. Insurance risk needs to be identified, prevented and dealt with after, but this requires a bigger response;
- There is a need to respond to the issues identified. For one, it is critical to understand the market. The message of financial literacy becomes effective if we understand the market and respond properly to its needs. Approaches are different in different countries, and that is how it should be – people learn in different ways. Messages must be drafted so that people understand them;
- Each country has its own situation and therefore requires the proper approaches. In the case of Milliman in Ethiopia, the use of analogies for insurance is effective as it is locally understood;
- Distribution plays a critical role as players understand and have access to market. Effective examples are the VNFU in Vietnam and La Positiva’s use of MFIs in Peru as both have access to farmers who wish to produce more and who need protection;
- Sequencing is also important; if you have a good product, then you can have a good message;
- Monitoring of effectiveness of FinLit campaigns is also very important as the feedback can be used to further enhance the product. There are plenty of financial literacy campaigns that had no impact, which no one wants. Investments in FinLit should be effective;

- Technology now plays a critical role in educating the community as shown by the TechHack experience in Egypt which resulted in an app that can inform people about insurance through Facebook Messenger and Whatsapp;
- Subsidies for insurance are helpful but what they cover and how they are applied must be carefully considered. An exit strategy for subsidies must be defined early-on;
- Over-all, he is happy to be part of the webinar and he also learned a lot from the discussions.

Dr. Antonis Malagardis, RFPI Asia III

For his part, Dr. Malagardis thanked the panelists for sharing their experiences which led to very interesting exchanges. He noted the various approaches done for each initiative presented and he hoped that these experiences would contribute to the efforts of others in mounting their own. He thanked the participants for their time and looked forward to having them again in future webinars.