

# POLICY BRIEF

## 'SAVING FOR A RAINY DAY': MICRO-INSURANCE AS CLIMATE CHANGE ADAPTATION STRATEGIES FOR SIDS

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### POLICY HIGHLIGHTS

- 7 Loss and damages resulting from climate hazards and natural disasters necessitate the need for supplementary risk management options for low income and vulnerable coastal communities.
- 7 Demand analysis and stakeholder workshops demonstrate the unique role that micro-insurance plays in securing income and capital assets, and reducing household vulnerability through short-term coping programs and long-term financial security.
- 7 Superior product design, client education and marketing, hybrid governance arrangements, and robust monitoring programs are required for effective piloting and scaling-up of micro-insurance models as adaptation strategies.

### GAPS ON COPING STRATEGIES AND CLIMATE CHANGE RISKS

Climate change impacts and weather related risks have financial ramifications on the economies of SIDS especially in vulnerable coastal sectors such as tourism, fisheries, and agriculture. The economic losses from these impacts have been estimated in millions of dollars and mostly affect livelihoods in small and medium coastal communities as their incomes are low and their coping strategies limited. Risk perception in these instances is not only about the probability or rate of climatic incidences but also about cultural norms that resonate with loss and damages and the long-term socioeconomic impacts of indebtedness and isolation. Insurance towards coastal flooding and natural disasters are mostly non-existence in these local contexts. If they exist, the programs are often unfathomable by locals, and the benefits are perceived contrarily to intended goals (see chart below)

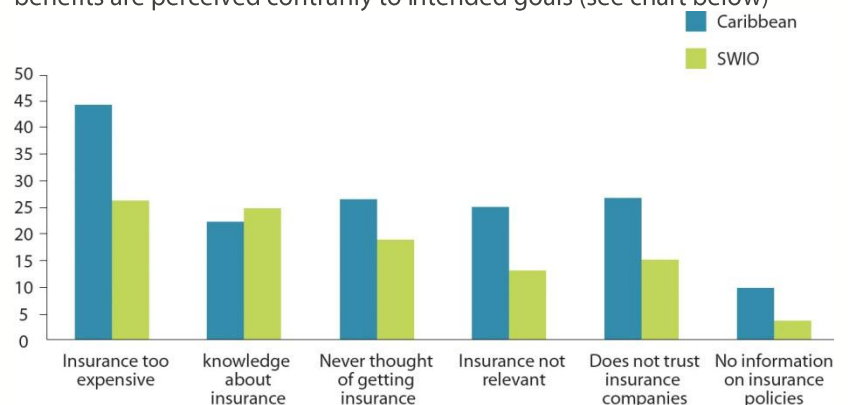


Figure 1: Main reasons for not having insurance (% of cases) in two SIDS regions

Household savings and informal credits are insufficient in the short-term (coping mechanisms) and unsustainable in the long term, as it perpetuates a vicious cycle of dependence by covering only a small portion of the losses. Even in developed economies, flooding and weather related insurance coverages vary considerably and comprises of bundled state programs, disaster reliefs, and property insurance.

Consequently, micro-insurance is gaining recognition as a financial tool to address household and livelihood vulnerability within resource dependent communities and across supply chains. It is defined as the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risks involved (Churchill 2006: 12). They are important as risk-sharing schemes whereby a pool of people pay premiums into a common insurance program. The aim of this component of the GIVRAPD project is two-fold: i) assess and identify community demand and willingness to buy locally tailored insurance programs as adaptation strategies and risk pooling interventions; and ii) consult and engage key stakeholders on the design, feasibility, protocols, and implementation of micro-insurance as adaptation interventions in SIDS contexts.

## THE DESIGN AND FEASIBILITY OF RISK MANAGEMENT ALTERNATIVES

Given the socioeconomic profiles of SIDS and the high level of vulnerability of coastal economies to climate change and natural disasters, demand surveys were undertaken in view of various stress levels and coping mechanisms. The field research was undertaken in several Caribbean and SWIO countries targeting stakeholder needs and various community attributes. These entail risk profiles, demographics, livelihoods, household expenditure, insurance types, assets, networks, kinships, and the extent of external support.

Adaptation planning in anticipation of various climatic risks is important in building the necessary capacity for communities to deal with short and long-term climate impacts. How local communities cope and adjust to these risks is determined by the type of shocks and stressor levels and options for risk management. Thus the demand for micro-insurance is determined by these factors, types of responses, management context, and their long-term effects. For instance, under low stress levels, evidence from the field demonstrates that low income coastal communities can cope by burrowing through their social networks in the short-term and make an adjustment in their lifestyle in the long-term. With medium or high stress levels such as frequent weather episodes, other external assistance

and response strategies are needed (including government aid or remittances). This can lead to longer term implications such as isolation if resources become unavailable or depleted. These social challenges necessitate an alternative risk management approach that addresses marginalized groups and vulnerable sectors by assessing current and future labour markets, income and assets, frequency of weather events, and coping options.

## MICRO-INSURANCE: OPPORTUNITIES AND CHALLENGES

Research findings confirmed a high level of livelihood vulnerability in coastal resource sectors such as tourism and fisheries and across the agro-commodity supply chains in the two SIDS regions (Figure 2). In fact, about one third of the sample population were being assessed to be at risk, either living in poverty or vulnerable to poverty with median expenditure per capita.



Figure 2: Categories of main livelihood activities across the two SIDS regions

However, there is a high level of satisfaction with basic material wealth and opportunities for disaster relief and other social investments, through access to savings and credits. Notably, about 20-25% has applied for loans in the past few years with high success rates predominantly due to possession of financial and agricultural assets as shown in Figure 3.

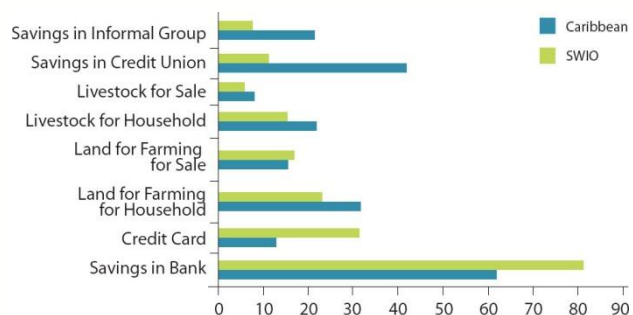


Figure 3: Possession of assets as percentage of respondents in the two SIDS regions

For those who are ineligible for credits (10-20%), lack of collateral and poor knowledge of risk management options are the main reasons for exclusion and higher vulnerability. The findings further demonstrate that more than one-third of respondents had experienced one extreme climatic event within the past five years. Thus, various coping mechanisms were identified including the use of savings, formal and informal borrowing, and selling possessions as shown in Figure 4. Even more, future climatic impacts will influence these coping behaviours as assets are depleted for those with line of credit and for also for those without.

Additionally, one-quarter of respondents' savings from both study areas was intended for educational purposes. This suggests that without the burden of saving used towards emergency situations, more resources could target education and skills development, thereby increasing human capital in SIDS.

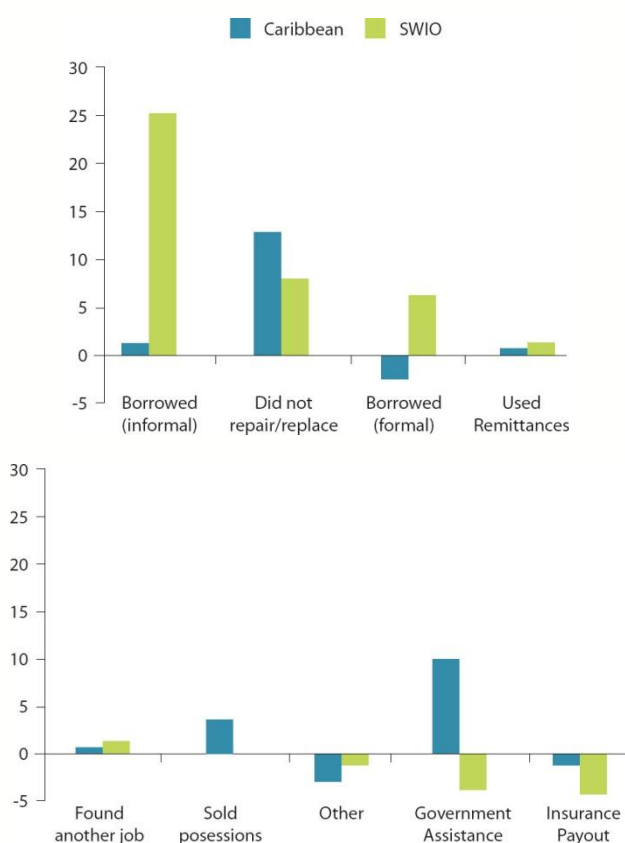


Figure 4: Coping mechanisms with and without savings in the two SIDS regions

Legal requirements and client education on the benefits of micro-insurance were policy windows identified in promoting public participation and encouraging financial institutions to devise premiums, pilot, and replicate better micro-insurance products. The possession of other forms of insurance such as life, housing, and vehicle, demonstrates the need to explore such options for loss of assets and livelihood (Figure 5). There seems to be mistrust, concerns regarding cost, and poor understanding amongst some respondents in terms of eligibility and repayment conditions. Respondents with insurance were not satisfied with wait times for pay-outs. Further, survey respondents stated that the pay-out is most beneficial if it was received within two weeks of an emergency. These are future barriers to tackle.

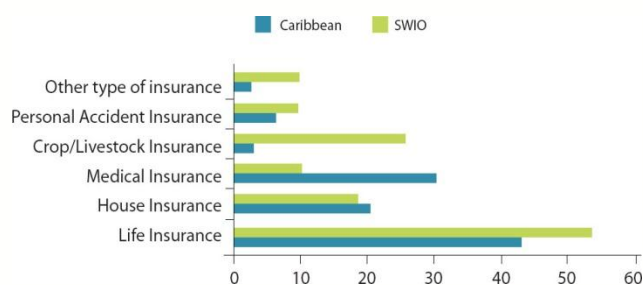


Figure 5: Types of insurance programs from sample survey (in%) in the two SIDS regions

## POLICY OPTIONS

The opportunities for micro-insurance schemes as long-term adaptation strategies is defined by the types of hazards and intensity levels, local risk perception, coping strategies, and institutional mechanisms in place. It is recommended that the design of new insurance products consider barriers and limiting conditions and to explore opportunities towards premiums in vulnerable areas. The provision of state subsidies for low income families, linking premium levels to mitigation types, and leveraging support through hybrid partnerships are potential entry points for piloting. Public private partnerships with credit unions and domestic commercial banks could provide opportunities to work with farmer and fisher associations and their social networks. Further inputs towards best practice guidelines, socioeconomic indicators, and robust monitoring frameworks could assist in evaluating product development, implementation, and replication at the local community level.



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## ABOUT THIS BRIEF

This policy brief is a product of research undertaken by the GIVRAPD project, a two year interdisciplinary research project funded by the Climate & Development Knowledge Network (CDKN) in collaboration with government agencies, community stakeholders and universities. The participating universities include University of Cape Town, University of Waterloo, University of Mauritius and University of Oxford. The project was led by INTASAVE/CARIBSAVE in partnership with the African Climate and Development Initiative (ACDI), Global Climate Adaptation Partnerships, in addition to the Governments of Saint Lucia, Jamaica, Mauritius and Seychelles. The project seeks to understand the multi-scale socio-economic, governance and environmental conditions that shape vulnerability and capacity to adapt to climate change in four learning sites. Brief 3 focuses on the rationale, development, and implementation of micro-insurance schemes as climate change adaptation strategies in SIDS.



## ACKNOWLEDGEMENTS

CDKN Disclaimer and other acknowledgements to be added