



Microinsurance Catastrophe
Risk Organisation

Lessons for Replication: MiCRO's Catastrophe Insurance for Vulnerable Populations

Savings and Credit Forum

Agriculture and Catastrophe Insurance: Potential and challenges in reducing the vulnerability of smallholder farmers and low-income households

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Microinsurance Catastrophe Risk Organisation (MiCRO)

Vision

The vision of MiCRO is a world in which the uninsured have access to the affordable and appropriate risk management tools that are essential to escaping poverty.

Mission

To empower those living in poverty to manage their risks in a sustainable and fair manner by bridging the divide between global markets and the most vulnerable. MiCRO is a social enterprise committed to operating in a financially sound manner.



Microinsurance Catastrophe Risk Organisation (MiCRO)

What is MiCRO?

MiCRO is a licensed [re/insurance company](#) (domiciled in Barbados) which can do business globally. It issues [unique re/insurance protections for catastrophic \(cat\) events](#).

What makes MiCRO important?

MiCRO acts as a bridge between the international reinsurance market and base of the pyramid end users.

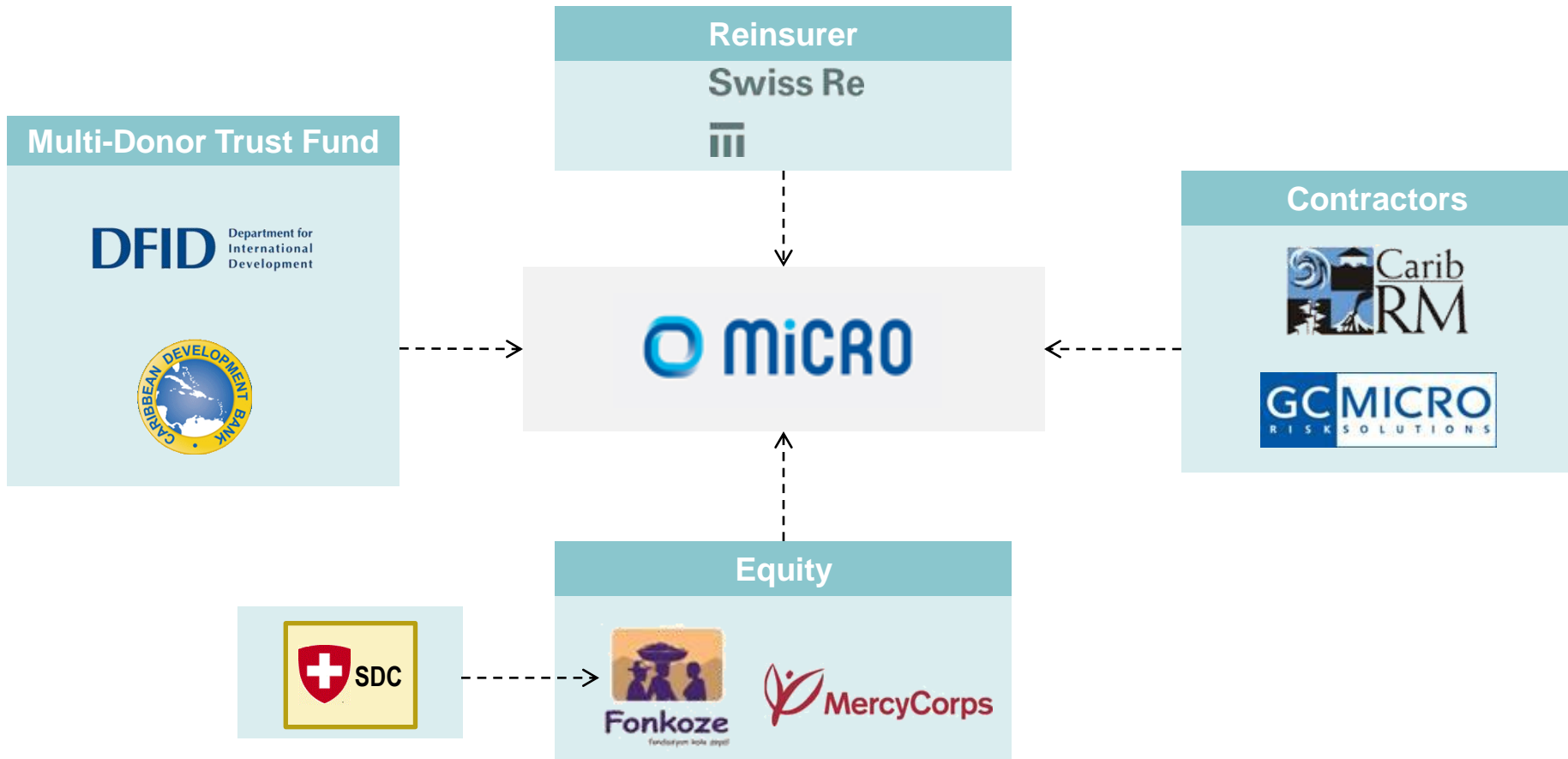
What makes MiCRO unique?

Usually catastrophe insurance is offered as a traditional indemnity product or more recently as a parametric product. MiCRO [combines the two](#) in a unique way by developing an [basis risk transfer solution](#).

Where does MiCRO work?

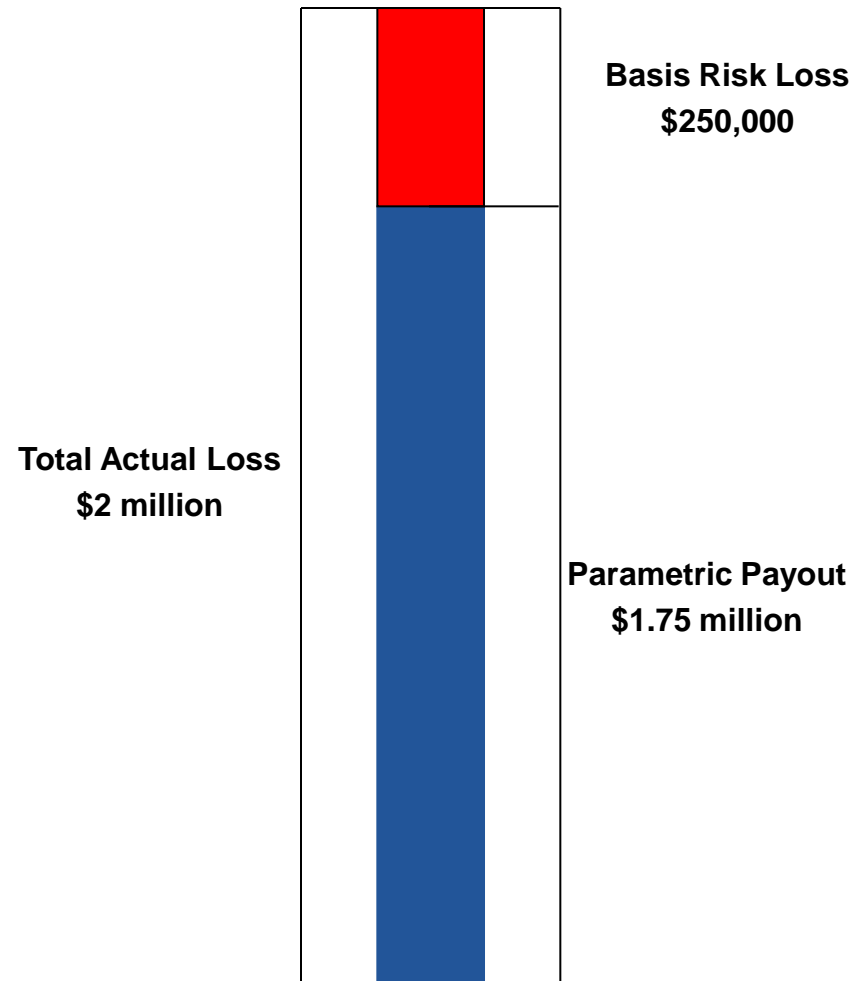
MiCRO can create customized policies anywhere in the world for almost any kind of entity,

Founding Stakeholders



Parametric Payout & Basis Risk Loss

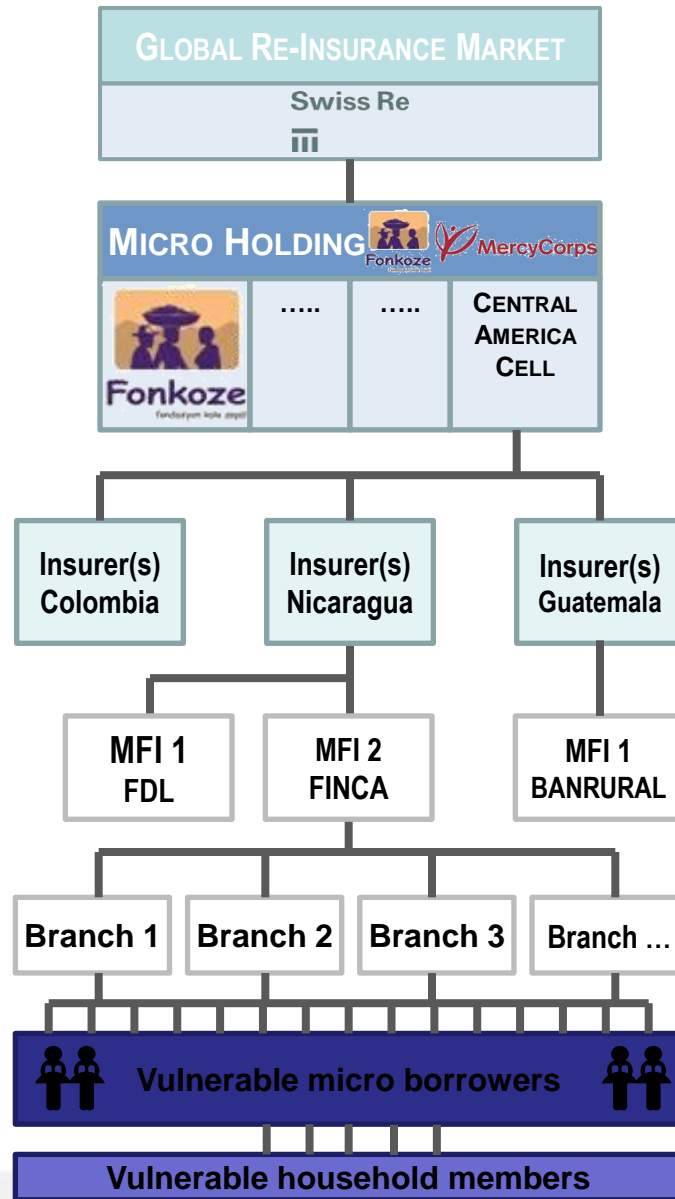
- For example, **very heavy rains and wind cause \$2 million in actual losses**, but trigger only \$1.75 million in parametric payout
- **And \$250,000 in actual losses remain** – the basis risk loss – are not covered by the parametric payout
- **MiCRO can cover these residual losses** through a unique basis risk coverage addendum to the parametric product

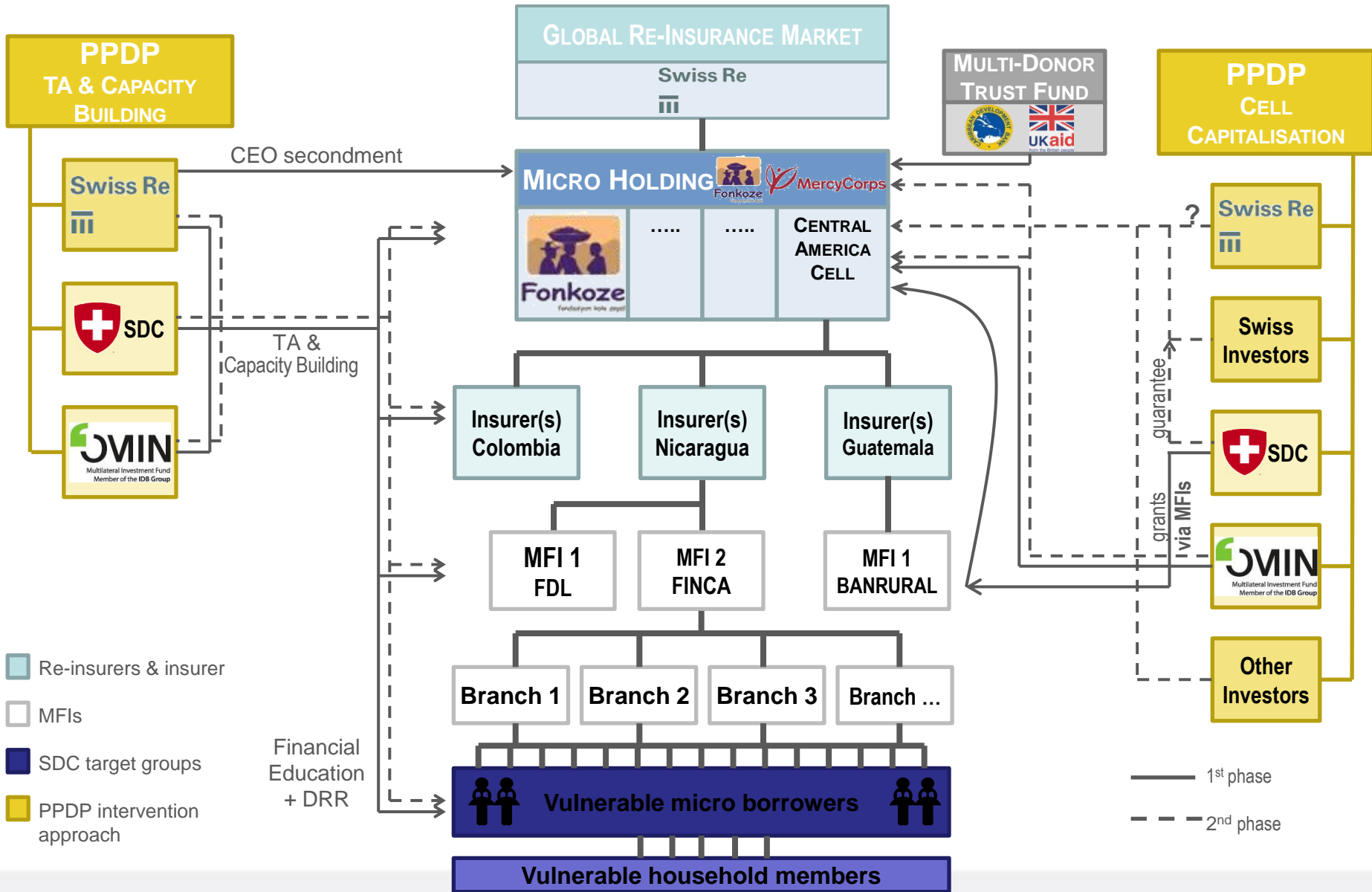


Who can bear the risk of the most vulnerable during inevitable natural catastrophes?

- ✗ Clients? **Living in poverty and too vulnerable to bear the risk**
- ✗ Donors and rescue agencies? **Slow and unpredictable; creates dependency**
- ✗ Government? **Unable to handle large emergencies**
- ✗ Aggregator (an MFI)? **Do not have the resources to help clients every time; not a scalable solution**
- ✓ International insurance markets









Fonkoze, Haiti's Largest Microfinance Institution, (and a well-placed aggregator) Implementing Catastrophe Insurance from MiCRO



Fonkoze

Largest micro-finance institution in Haiti

- 65,000 borrowers
- 250,000 savers
- 46 branches in all 10 departments



Committed to double-bottom line performance

- Be the “bank for Haiti’s rural poor”
- Provide the tools needed to climb the “staircase out of poverty”

Fonkoze's Insurance Product – Kore W

- 100% of Clients Covered
- Loss of merchandise, home, business
- When a rain, wind or earthquake event occurs, clients submit their claims through their Solidarity Center Chief
- Qualifying losses provide the following payout:
 - A US\$62 emergency cash payment
 - Reimbursement of the client's existing Fonkoze loan balance
 - A new loan to recapitalize their business when the client is ready

First-Year Events

June 2011: 3,815 flood victims in the South

August 2011: 841 victims of T.S. Emily and Hurricane Irene, etc

October 2011: Heavy rains in South affect 2,134 clients

Total Victims: 6,790



Second-Year Events

April 2012: 1,389 flood victims in the Northwest and Southeast

July 2012: 1,100 victims

August 2012: Tropical Storm Isaac affects 10,256 clients

October 2012: Super Storm Sandy victims total 15,000 clients

Total Victims: More than 27,500!!



Client Profile

Lovencia Dorenancout, 50



- Described by her credit agent as a “star borrower”
- Although flooded, her home remained in-tact but all of her business inventory was lost
- Lovencia received loan forgiveness and HG 5,000 extra expense benefit + access to new loan to restart business

Lessons MiCRO learned

1. Need years of testing to refine – and to be able to complete testing, need sufficient capital
 - a) Parametric is still new and payouts do not always reflect total of claims (basis risk)
 - b) Basis risk can be large and little understood due to lack of historical data
 - c) Sufficient capital to cover discrepancies between claims and payouts (basis risk) is a must – Limits can't be higher more than total exposure
 - d) Capital constraints may dictate size of pilot

2. Due diligence of the MFI or other “aggregator” must be thorough
 - a) Do all stakeholders have a thorough understanding of client vulnerability?
 - b) Design of their product must contain clear limits that protect the aggregator from loss
 - c) Does the aggregator have management and technology capacity to reach their clients, sell policies, collect premiums, conduct assessments, settle claims, control fraud and monitor performance? Can they educate the client?
 - d) If aggregator cannot play these fundamental roles, what are the alternatives? Third party contractor? Build capacity from scratch?

Lessons MiCRO learned (continued)

3. Solid product design is essential

- a) Know your clients: Only they can give you good estimates of client value
- b) Importance of piloting
- c) For catastrophe insurance, disaster risk reduction should be incorporated
- d) Changes to product are not easy after introduction!
- e) Need to think through carefully about all possibilities for beneficiary fraud, especially when cash payments are offered

4. Innovative ideas need to be employed to keep costs low enough for viability

- a) Can mobile technology be employed to improve sales, customer services and claims handling?
- b) How should claims be handled so that that assessment is accurate but at an acceptable level of cost?
- c) What is an appropriate level of premium subsidy and how is it paid?

Lessons MiCRO learned (continued)

5. Country risk must be thoroughly analyzed

- a) Taxation of insurance
- b) Regulation of microinsurance
- c) Regulation of the aggregator (MFI)
- d) Country topography must be taken into account (Haiti's denuded/unstable countryside likely makes it a much higher risk e.g. than the Dominican Republic next door).