

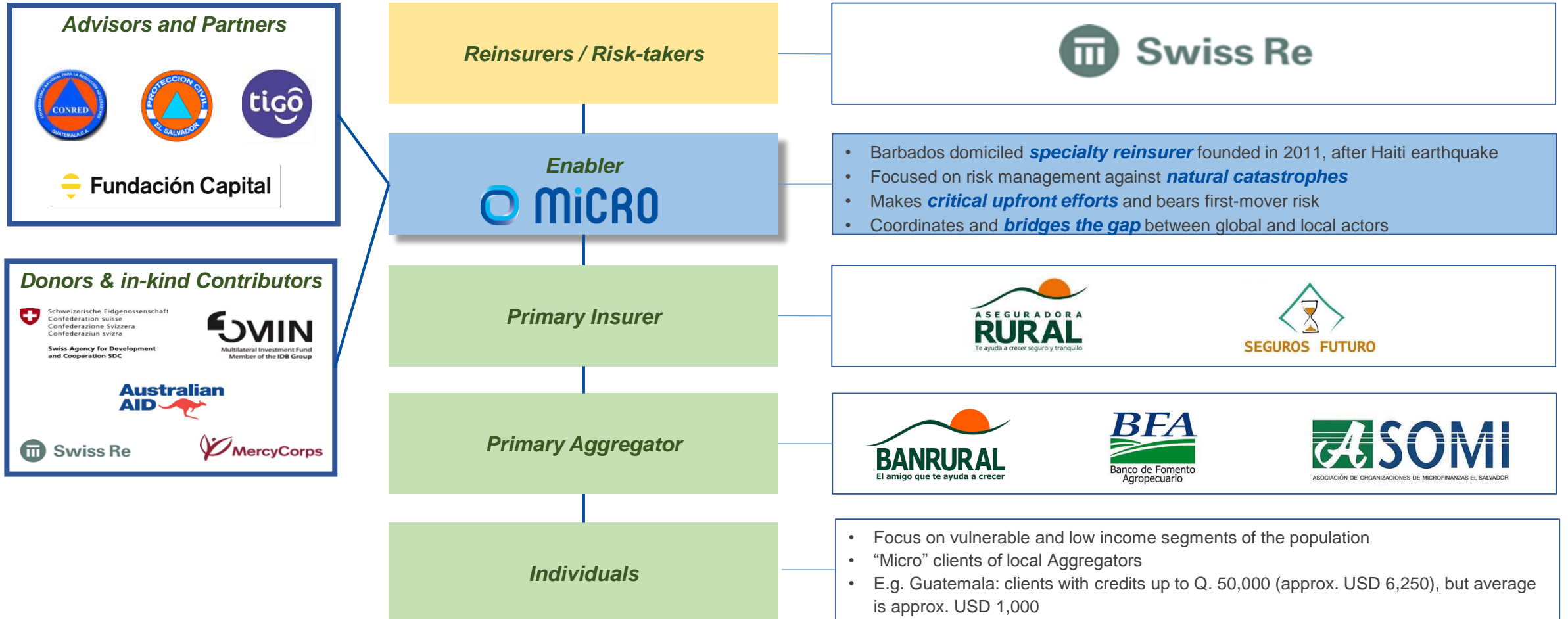


Microinsurance Catastrophe  
Risk Organisation

**INSURING SMALLHOLDER FARMERS IN CENTRAL AMERICA**  
SAVINGS AND CREDIT FORUM, SDC, MAY 11<sup>TH</sup> 2016

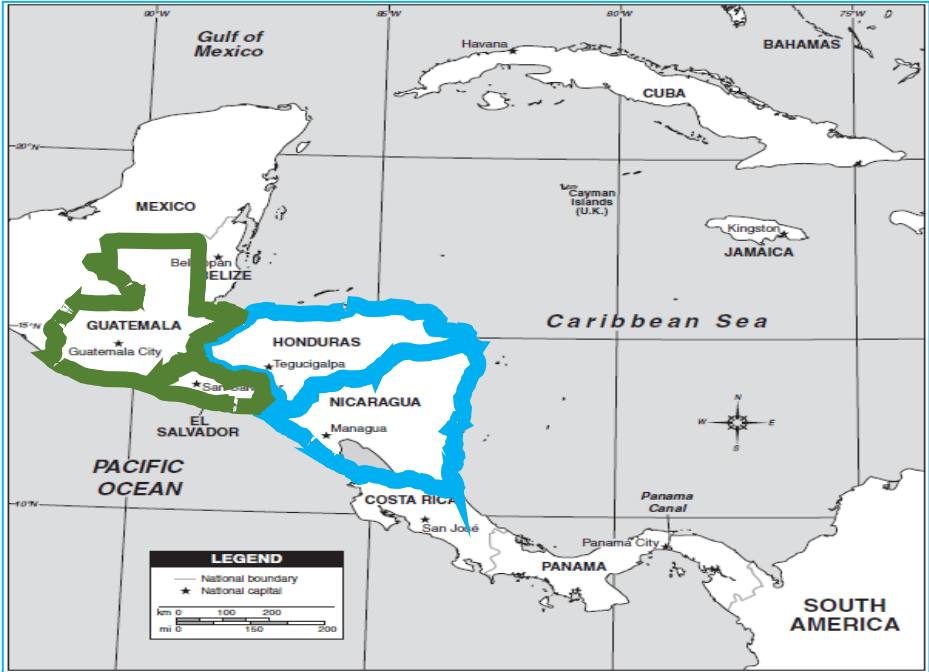
CONFIDENTIAL

# A global-local public private partnership

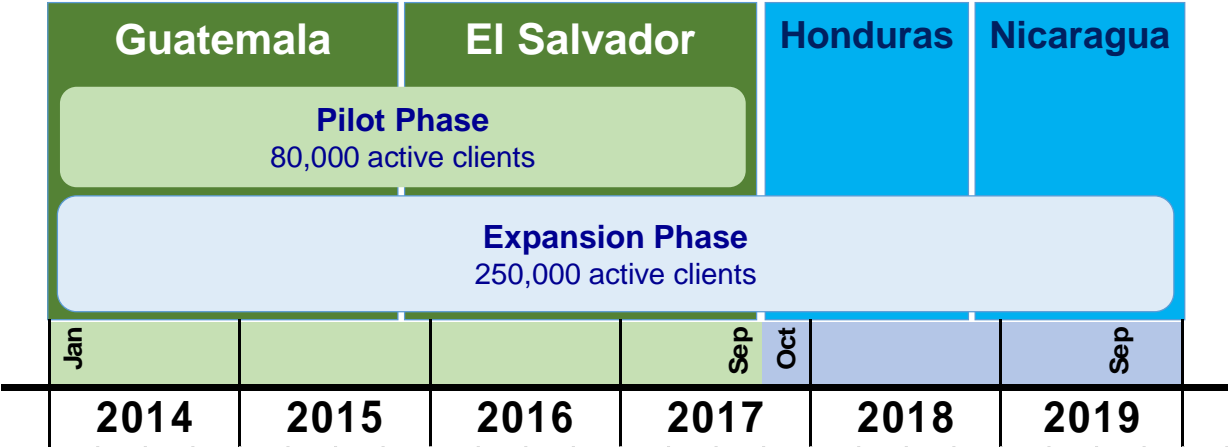


# Current focus

MiCRO will strengthen the **natural disaster resilience** of **vulnerable households**, notably smallholder farmers in **Central America**, through access to appropriate catastrophe (property and/or agricultural) **insurance cover on a sustainable basis**.



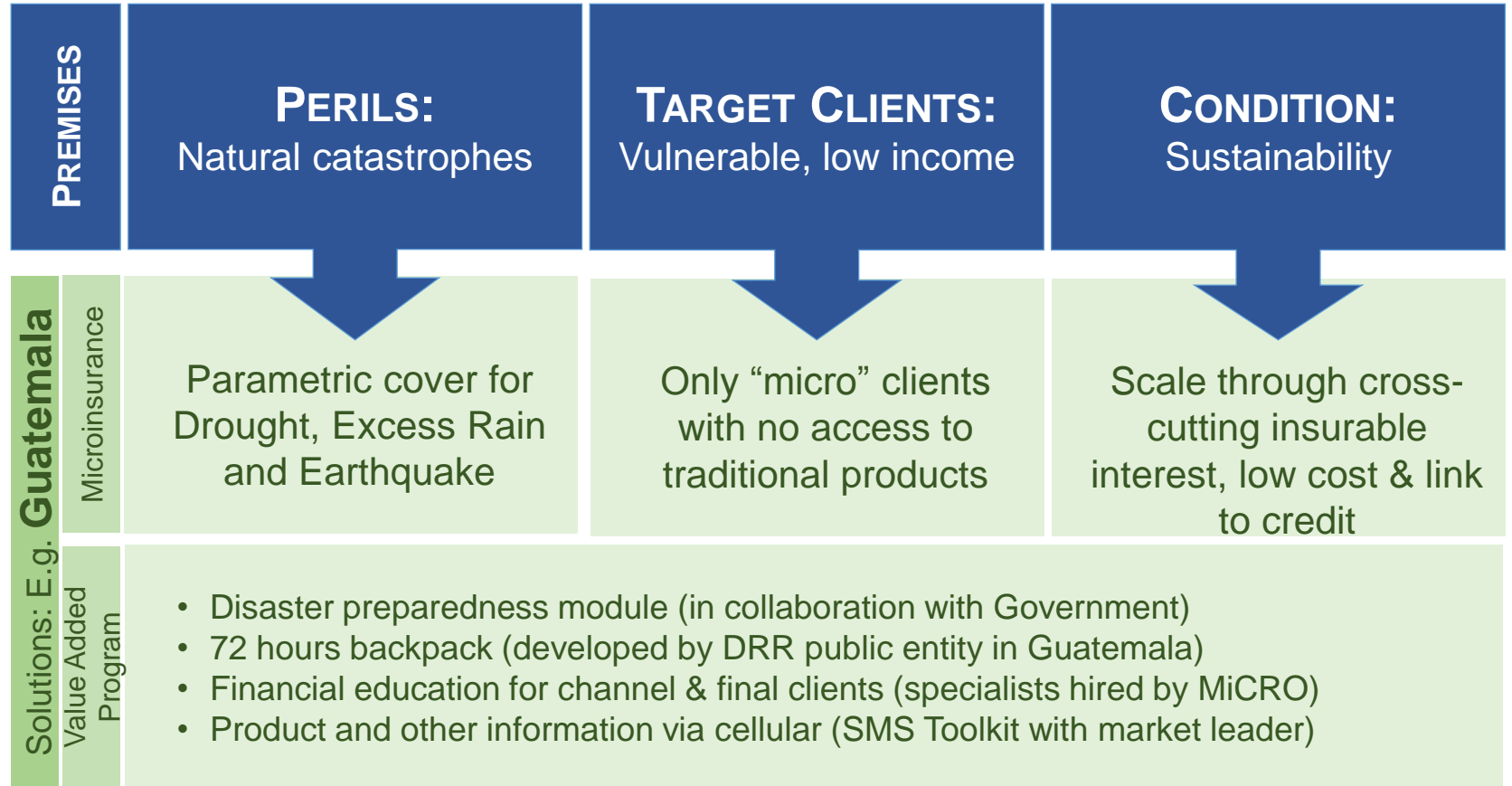
## Timeframe



# Solutions within given boundaries

## To consider:

- Low income of target clients
- Lack of “insurance culture”
- Distribution in remote areas
- Regulatory framework
- Diversity in topography & hazards (challenging to model)
- Diversity of client’s activities (relevance of products)
- Quality & access to local data



# “MiCAT”, the microinsurance product for Guatemala in detail

Risks covered	Max. payout per risk	Trigger parameter	Payouts starting at	Sum insured	Premium
<b>EARTHQUAKE</b>	Up to 100%	Modified Mercalli Scale	Gradual increases, starting from MMI VII	Initial loan amount (for productive activities only)	5% of the sum insured
<b>DROUGHT</b>	Up to 50%	Vegetation Index (EVI)	Gradual increases, starting from an EVI 20% below historical average		
<b>EXCESS RAIN</b>	Up to 100%	Millimetres of rain	Gradual increases, starting from 150 mm accumulated rainfall in 3 consecutive days		

**TERM:** Follows credit duration (max. 18 months)  
**PREMIUM:** Annual premium discounted at the moment of credit disbursement  
**PAYOUT:** Paydown of outstanding loan with any excess deposited in the client’s account  
**TRIGGER:** By branch

# How it works: Agile payment process

**1**

Extreme event registered by scientific agency

**2**

Calculation platform determines impacted locations and payout

Reinsurer pays its share of the claim

**3**

Insurer identifies impacted policies, payment amounts, and pays to the bank

**4**

Aggregator (e.g. MFI) receives payment and credits it to individuals

**5**

Insured receives payout

**THE CALCULATION PLATFORM REPORTS OCCURRENCE OF EVENTS**

**DROUGHT**

- Frequency: Monthly
- Source: MODIS from NASA

**EARTHQUAKE**

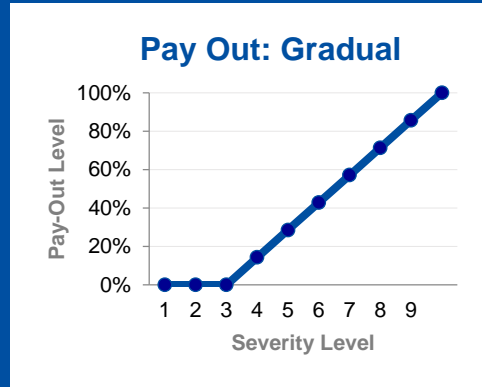
- Frequency: After each event
- Source: ShakeMaps from USGS

**EXCESS RAIN**

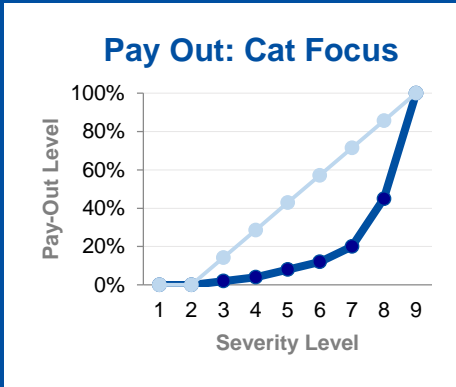
- Frequency: Daily
- Source: TRMM from NASA

# Micro & Meso policies to maximize affordable risk protection

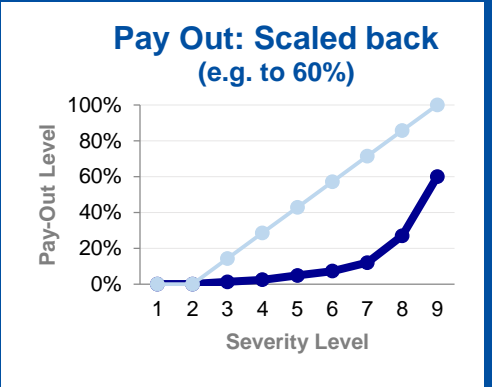
MiCRO makes protection affordable to **individuals** through adjustment of payout covers...



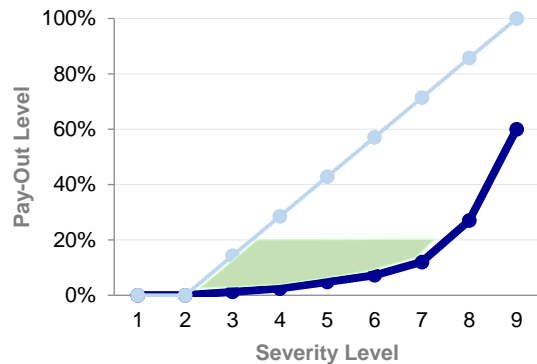
Focus on severe events



Reduction of coverage



... and offers a meso coverage that further strengthens resilience of the **institution**



- Covers same perils as micro policy
  - Can trigger before micro policy
  - Protection limit is flexible
- 
- Protection against credit losses to institution (e.g. MFI)
  - Strengthens institution when most needed by its clients (loan restructuring / forgiveness, soft loans, etc.)

(Policy structures here are examples with imaginary triggers to illustrate)

# MiCRO's roadmap: from proof of concept to broad scale

## 1. GROUNDWORK

### AFFORDABILITY, OPERATIONAL EXCELLENCE, VAP

#### MANDATORY BASE PRODUCT PROVIDING INITIAL REVENUES AND A TESTING GROUND

- **Affordable product**, linked to loans
- Product targets **low-income vulnerable** population

#### HOW TO BUILD A MINIMUM VIABLE PRODUCT

##### NOT LIKE THIS



##### LIKE THIS



image by blog.fastmonkeys.com original idea: spotify product team

- **Parametric package** for relevant natural catastrophe risks
- Broad **insurable interest** (Business Interruption)
- Complemented by **meso cover** for the offering institution

## 2. BUSINESS BUILDING

### SCALE, BROADER CUSTOMER BASE, MORE OPTIONS

#### VOLUNTARY MASS-MARKET PRODUCTS ADDRESSING SPECIFIC NEEDS

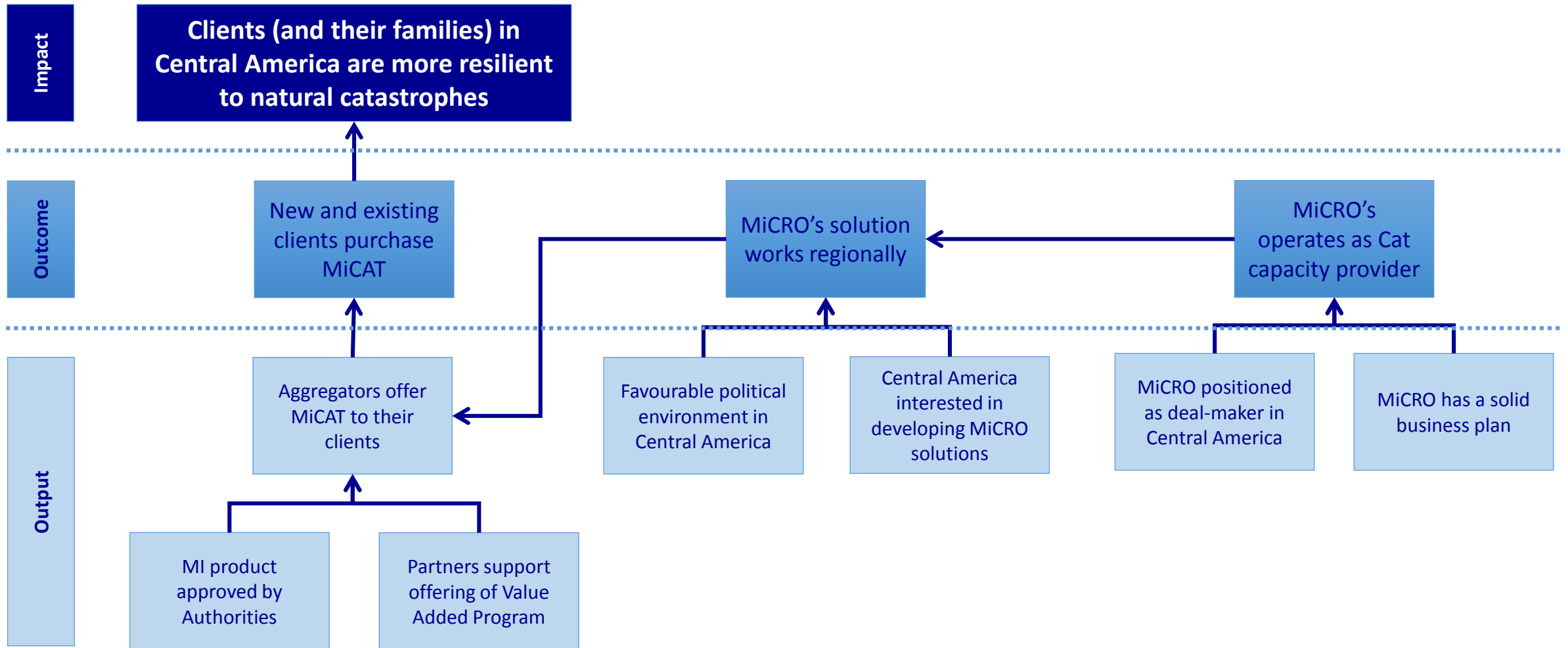
- **Top-ups** to “base” product, re-packaging
- New developments linked to **savings, remittances**, etc.
- New developments through **other channels**
- Enabled by **broader insurable interest** (life conditions)

#### REPLICATE USING OTHER CHANNELS AND EXPANDING TO OTHER COUNTRIES

- CADME expansion countries and beyond
- Other financial institutions and transactional platforms like mobile networks



# Intervention approach



# Brief overview of MiCRO's current & future business model



Revenues - A social business model



Expense structure



Net income outlook

## COMMERCIAL REVENUES FROM LINES OF BUSINESS

- **Now:** earning *commissions* on premiums as a service provider
- **Future:** *risk carrying* as a registered reinsurance company (*as conditions allow, estimated early 2018*)

## GRANT FUNDING

- Finances startup and market development costs for MiCRO's products

## GRANT FUNDED KEY POSTS

- Central America team through at least September 2017

## IN-KIND CONTRIBUTIONS

- Swiss Re (until 3Q/2017) and Mercy Corps

## MINIMIZED, SIMPLIFIED OVERHEAD

- Outsource accounting, finance and administration to Marsh Barbados

**SUSTAINABILITY IN 2019 (BASE CASE), OPERATIONAL PROFIT IN SUBSEQUENT YEARS**

# MiCRO's approach to challenges of disaster microinsurance

CHALLENGES	MICRO SOLUTIONS
<b>MEETING ACTUAL HAZARD NEEDS OF EACH CLIENT</b>	<ul style="list-style-type: none"> <li>• Cutting-edge remote sensing data</li> <li>• Meso-insurance riders to complement individual protection</li> <li>• Vulnerability-adjusted products based on historical analysis</li> </ul>
<b>MINIMIZING ADMIN &amp; ACQUISITION COSTS</b>	<ul style="list-style-type: none"> <li>• Index insurance (no individual underwriting, no loss adjustment)</li> <li>• Well built management information systems</li> <li>• Adequate partner selection (sustainability through scale, instead of higher commissions)</li> </ul>
<b>SCALE &amp; RENEWAL</b>	<ul style="list-style-type: none"> <li>• Focus on marketing and sales</li> <li>• Replicability of base product and broad market reach</li> <li>• Bundling</li> </ul>
<b>REGULATORY FRAMEWORK</b>	<ul style="list-style-type: none"> <li>• Early engagement with Authorities and constructive dialogue</li> <li>• Credibility of MiCRO and its partners</li> </ul>
<b>AFFORDABILITY</b>	<ul style="list-style-type: none"> <li>• High percentage of premium allocated as risk premium (= built-in claims ratio)</li> <li>• Risk transfer limited to initially viable levels</li> </ul>
<b>ACCESS TO LOCAL DATA</b>	<ul style="list-style-type: none"> <li>• Use of reliable international data sources (e.g. NASA, USGS), at least for initial base product</li> <li>• Engagement of partners (e.g. IADB) to establish constructive dialogue</li> </ul>

# Reaching CADME's objectives

MiCRO will reach 80,000 policyholders by Q1 2018 (six-months-delay) and more than 250,000 by Q3 2019

## STARTING WITH A BASE PRODUCT IN GUATEMALA...

- Pilot launch in **2-3Q/2016** to 4,547 clients
- Launched in two departments, 10 branches

## REPLICATING IN EL SALVADOR...

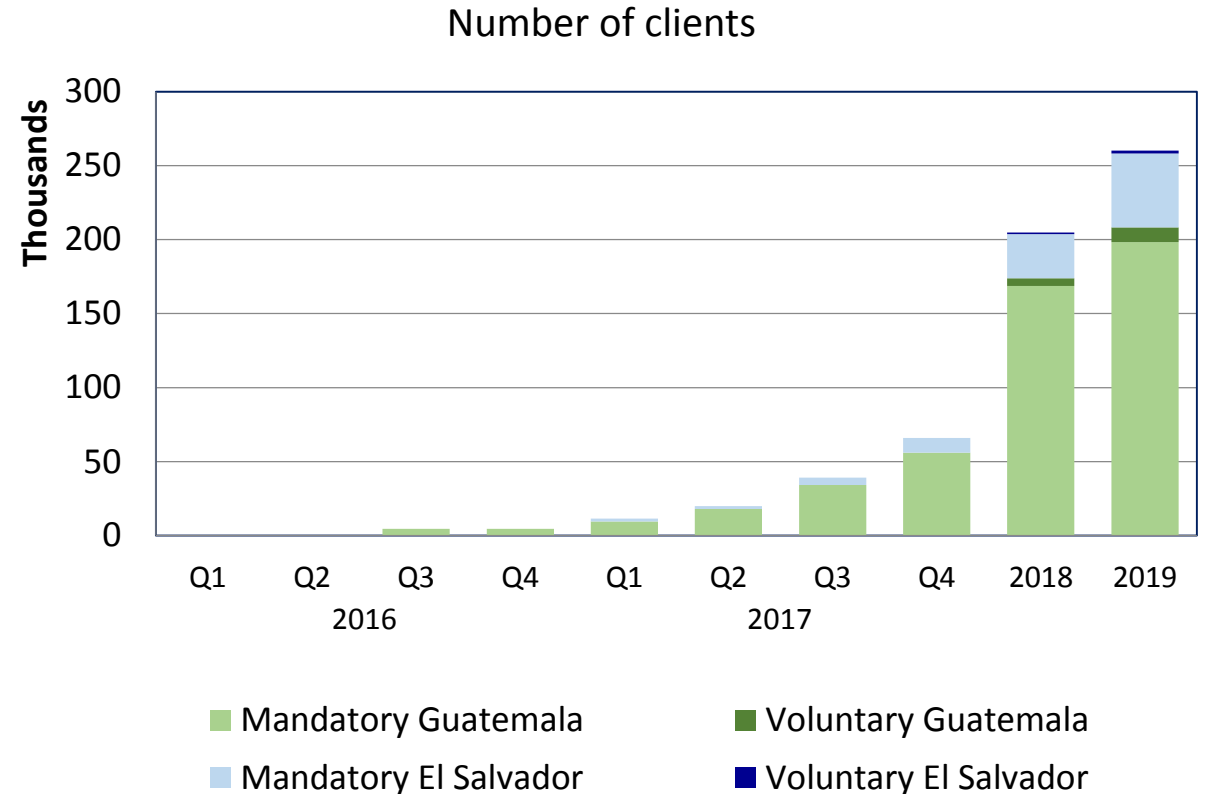
- **Local partners** selected in 2015
- Base product to be launched during **2H/2016**

## EXPANDING ADJUSTED BASE PRODUCT

- Starting in **1Q/2017** in Guatemala
- Starting in **3Q/2017** in El Salvador

## LAUNCHING VOLUNTARY PRODUCTS

- Starting in **both markets** in **2017/18**



# Continuously monitoring and improving

Aggregators offer MiCAT to their clients

New and existing clients purchase MiCAT

**Clients are more resilient to natural catastrophes**

## INITIAL KPIs:

- % of channel staff participating in training sessions
- Rating of training by participants
  
- Number of insureds (by gender, location, activity)
- Market share
- Promptness of claim settlements
- Complaints ratio
  
- Increase in savings
- Increase in number and/or amount of credits

# Key Lessons Learnt

- **PARTNER SELECTION**
  - Clear priorities (scale or “spearhead”?)
  - Early discussion of “hot topics” (commissions, timing, etc.)
- **CREATION OF A MICROINSURANCE COMMITTEE**
  - Participation of all relevant stakeholders and areas
  - Regular meetings to discuss (and decide)
- **INVOLVEMENT OF AUTHORITIES**
  - Collaborative approach
  - Entities and degree of involvement varies by country
- **PERSEVERANCE**
  - Implementing innovative solutions require lots of change management
  - Setting ambitious but realistic milestones is critical, and challenging