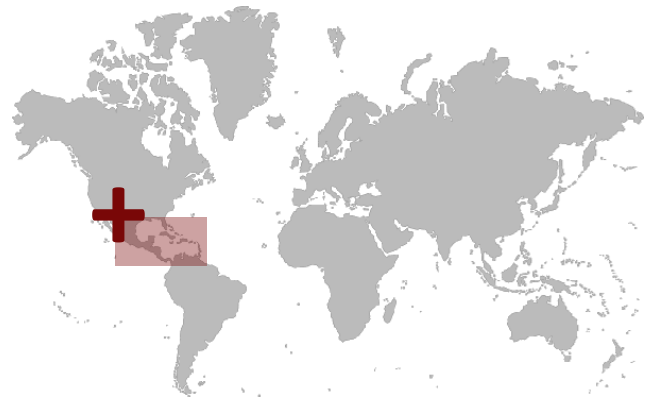


Climate Risk Adaptation and Insurance in the Caribbean (Phase II)



AT A GLANCE

Name

Climate Risk Adaptation and Insurance in the Caribbean (CRAIC) II

Duration

Effective start date September 2017 – October 2019

Focus Area

The Caribbean (Jamaica, Saint Lucia, Grenada, Belize and Trinidad and Tobago)

Target group

All individuals, cooperatives and businesses at all income levels that are threatened by climate risks with a special focus on farmers and day wage laborers whose livelihoods are very sensitive to extreme weather events in the Caribbean, development finance sector.

Funds available

The project is funded by the International Climate Initiative (IKI) of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) with EUR 2.6 million.

The project is jointly implemented by ...

Munich Climate Insurance Initiative (MCII) e.V. (lead), CCRIF SPC (formerly the Caribbean Catastrophe Risk Insurance Facility), International Labor Organization Impact Insurance Facility (ILO), Munich Re, GK Insurance, EC Global and DHI (formerly Danish Hydraulic Institute).

The overall aim of the project is ...

to upscale, refine and integrate climate risk insurance (CRI) solutions (launched in phase I) within a broader framework of disaster risk reduction (DRR) strategies and facilitate public safety nets and public-private insurance solutions for vulnerable people. Particularly, the focus is to refine and expand the index-based Livelihood Protection Policy (LPP) to make it more affordable and accessible to all people in the Caribbean, especially individuals and communities vulnerable to climate risk.



BACKGROUND

The United Nations Framework Convention on Climate Change (UNFCCC) underlines that the Caribbean is particularly vulnerable towards climate related hazards and the projected impacts are expected to be devastating due to the limited adaptive capacity of small islands and low-lying coastal states.

The Caribbean region is located in an area prone to tropical cyclones and is highly exposed to hurricanes, weather hazards and naturally induced disasters. Regional losses from extreme weather events alone over the past 30 years have been estimated to reach USD 3.3 billion. According to a regional adaptation strategy by the Caribbean Community Climate Change Centre (CCCCC), “the very existence of the Caribbean Community and Common Market (CARICOM) countries” is threatened by climate change.

Naturally induced hazards already represent a significant risk to inhabitants and economies in the Caribbean. In terms of damage incurred, hurricane induced wind damage has the largest damage potential, accounting for up to 90% of the overall damage in some of the Caribbean countries. The annually expected losses from wind storm, storm surge and inland flooding amount up to 6% of the GDP.

According to the MCII-GIZ demand study on microinsurance in the Caribbean (2012), the existing coping strategies of vulnerable populations were negatively impacting their long term resilience.



OUR APPROACH

The CRAIC II project aims to refine, revive and upscale the LPP by making it affordable, valuable and accessible in the Caribbean region. The project also aims to help target countries increase social resilience and incentivize adaptation measures by incorporating CRI within a broader framework of DRR strategies.

The LPP is a weather index-based parametric insurance policy designed to help vulnerable people recover from the damage caused by strong winds and/or heavy rainfall during hurricanes and tropical storms. As payouts are linked to an index, disbursements can be made quickly, within seven days from the triggered event, providing immediate liquidity to the policyholders. The technical feasibility of 72-hour payout was identified. The project consists of four major work streams.

1. National Policy and Insurance Regulation

The CRAIC II project strives to build capacity among relevant stakeholders including but not limited to government institutions, policy makers and ministries. Building capacity provides support to develop the market for innovative extreme weather insurance and adapt the regulatory and institutional frameworks, so that these kinds of insurance products can be promoted. These actions foster the growth of CRI.

2. Product Refinement, Market Development and Expansion

The CRAIC II project performs a technical review for the LPP to ensure that it meets the needs of the people at climate risk, and expand its availability into the entire Caribbean region. Further, a focus area is building capacity of local insurers and aggregators for index insurance products. Additionally, the CRAIC II project implements processes to monitor the operational phase as well as document lessons learned and good practices.

3. Linking Community Resilience with Livelihood Protection

The CRAIC II team provides disaster risk management educational materials and illustrated guides to implement preparedness measures as well as early warning alerts. Additionally, an empirical analysis of the impact of CRI on household resilience is being performed that will contribute to the scientific literature on linking community resilience with livelihood protection. Moreover, it is essential to build capacity with local communities on linking insurance with DRR measures to help target countries increase social resilience.

4. Awareness Raising and Outreach

The CRAIC II project performs local and international awareness raising and provides information on project achievements, lessons learned, opportunities, challenges, outcomes and ways forward for policy makers to expand risk management capabilities for medium-level weather-related risks to the lower to middle income population.



CHALLENGES

1. There are affordability constraints for the low income segment due to the high price and taxes on the product, along with additional transaction costs.
2. Even with this high cost structure, insurers and distributors are not sufficiently incentivized to push the product in the market.
3. Intensive marketing efforts and consumer education is needed to increase the scale of the LPP. Technology interventions are capital intensive.

OPPORTUNITIES

1. The LPP is an unique approach very simple in design, targeted at people of all income, regardless of sector. The LPP is a pioneer and currently the only index micro-insurance solution of its kind that is available in the region.
2. There is a well-balanced variety of partners, representing the private sector, technical sector, United Nations, non-governmental organizations as well as local organizations (public private engagement).
3. Payouts in St. Lucia proved the concepts and lead to demand for the LPP in the region.

4. Product refinement is a lengthy and complicated process and the market is slow in responding to a changed CRI product.
5. The LPP should specifically also target the agricultural and fishery sectors in order to provide a holistic risk coverage.

4. Disbursements are quick and can be made within seven days currently. However, our experience proves the feasibility to reduce it to 72 hours.
5. The integration of DRR principles into the LPP and increased community resilience is essential.
6. The use of alternative distribution channels offers the potential of technology solutions to upscale and intervene across the value chain for providing better solutions to underserved populations.
7. The results from the CRAIC project inform international and regional political agendas, such as in the UNFCCC and CARICOM.
8. There is potential for a replication of the LPP in another region/or scale-up by local insurers across the Caribbean.

OUTCOMES

The MCII research on “demand for weather-related microinsurance and risk management approaches in the Caribbean” (2011) has shown that there is an implicit demand for microinsurance in Grenada, St. Lucia, Jamaica and Belize. In these countries (on average) approximately 31 per cent considered themselves at a high risk of losing income due to extreme weather; while 23 per cent of respondents stated a high/very high explicit demand. The design and marketing of the products is expected to have a large effect on the realized outreach.

Affordable and easily available CRI products, incorporated within a broader framework of DRR strategies, will help secure the livelihoods of vulnerable communities in the post-disaster time period. Through the introduction of these products, the local capacities of insurers, regulators, government officials and end users will be enhanced through awareness raising and training activities.

The project will serve as a lighthouse activity in the UNFCCC climate negotiations, illustrating how fast track adaptation financing can be used in strategic ways to leverage adaptation (i.e. through risk reduction and insurance). The project will illustrate the development of public-private insurance solutions to extend financial support for the most vulnerable groups.





CONTACT

Dirk Kohler

E kohler@ehs.unu.edu

I www.climate-insurance.org

<https://ehs.unu.edu/>

Photo credits

Picture 1: MCII

Picture 2: MCII

Picture 3: MCII

Picture 4: MCII

November 2018