



# Earthquake Index Insurance

*Providing Protection to Ensure Sustainable Business*

## What is Index Insurance ?

Index insurance is a relatively new but innovative approach to insurance provision that pays out benefits on the basis of a pre-determined index (e.g. rainfall level) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors. It also allows for the claims settlement processes to be quicker and more objective.

Before the start of the insurance period, a statistical index is developed measuring deviations from the normal level of parameters such as rainfall, temperature, earthquake magnitude, wind speed, crop yield and livestock mortality rates.

Insurance is important because uninsured losses lock vulnerable populations in a vicious cycle of destitution. Unfortunately agricultural insurance and insurance against catastrophes are either unavailable or prohibitively expensive in many developing countries.



*Many residences and micro, small and medium enterprises (MSMEs) in particular are most vulnerable to natural disasters.*

## Why Is Earthquake Index Insurance Important for Indonesia ?

More than 12 million Indonesians live and work in earthquake-prone zones, with economic exposure reaching an estimated \$79 billion. Earthquakes are by far the most severe form of natural disasters, accounting for more than 80 percent of total losses from such catastrophes. Various studies revealed that in the most affected regions, banks lost income due to an increase in non-performing loans and rising costs for bad-debt reserves, particularly where damages to homes reduced their collateral value to below their outstanding credit amount.

- Insurance against a disaster acts as asset diversification that can limit the effects of the disaster on the banks.
- Insurance against a disaster pays when many of the banks' other assets (loans) are performing poorly. It protects the lenders' capital base and improves their lending ability after a disaster.
- By protecting the banks' ability to lend after a disaster, insurance can contribute to the financial performance of the banks and help them deliver services when their clients need them the most.
- Insurance provides an effective means of transferring risks and increasing credit supply. Banks with solid risk-management mechanisms are thus able to expand their lending to benefit more people that previously had problems getting access to credit in disaster-prone areas.

The Role of IFC

The Global Index Insurance Facility (GIIF) is a multi-donor trust fund supporting the development and growth of local markets for index-based insurance in developing countries, primarily in Asia Pacific, sub-Saharan Africa and the Caribbean. The facility is managed by IFC and jointly implemented with the World Bank.

Its objective is to expand the use of index insurance as a risk management tool in agriculture, food security and disaster risk reduction.

GIIF Helps Establish Local Index Insurance Markets Through :

- Support for capacity building, which includes training for local insurers and financial institutions on the design of index insurance policies and claims processes
- Technical advice on products and pricing through a team of GIIF technical specialists and GIIF technical partners
- An enabling regulatory and policy environment (World Bank/IBRD)
- Premium Support, to help borrowers access insurance on a broader scale and to create commercially attractive markets.

In Indonesia, IFC cooperates with PT Asuransi MAIPARK Indonesia, the specialist reinsurance company for earthquake and other catastrophe risks in Indonesia, to develop a new insurance product to protect banks that provide loans to individuals and micro, small and medium enterprises from losses caused by earthquakes.



Success Story in Sri Lanka

Sanasa Insurance, part of Sri Lanka’s largest federation of thrift and credit cooperatives with more than 1 million members, is pioneering weather-index insurance products for rice paddies and tea plantations in Sri Lanka. In the last planting season, Sanasa insured 2,600 rice- paddy and 1,400 tea-plantation farmers. Annually, there are two payouts for rice paddies and 12 for tea farms – the coverage amounts are smaller for the more frequent payouts.

In partnership with :



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