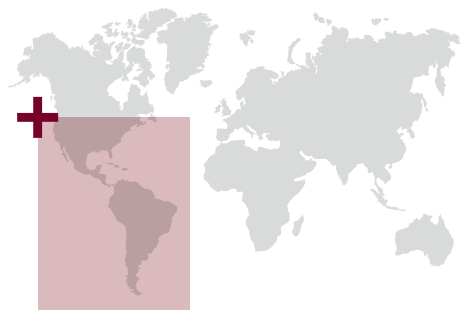


Microinsurance Catastrophe Risk Organisation (MiCRO) - Alliance on Natural Hazard Risk Transfer Solutions



AT A GLANCE

Name

Microinsurance Catastrophe Risk Organisation (MiCRO)

Duration

2011 – Present

Focus area

Central America, expanding to Latin America

Target group

Unserved and underserved vulnerable, low-income populations

The project is jointly implemented by ...

Swiss Agency for Development and Cooperation (SDC), the Multilateral Investment Fund (FOMIN) managed by the Inter-American Development Bank (IADB), Swiss Re and Mercy Corps

The core objective is ...

to design, implement and evaluate sustainable and holistic risk management solutions that increase resilience against natural disasters for vulnerable, low-income populations, and to enable and secure access to reinsurance to support the expansion of such solutions.



BACKGROUND

Central America is a region that is highly exposed to natural hazards, with the effects of climate change making natural disasters an ever more common occurrence. Earthquakes, hurricanes, tropical storms, and droughts continually cause damages that are particularly acute for vulnerable low-income populations who lack an adequate safety net. According to data from the Central American System of Integration (Sistema de la Integración Centroamericana, SICA), 250 extreme events have been registered between 1930 and 2008. The financial losses of the events between 1930 and 2008 have been estimated at US \$14 billion (CCAD-SICA, 2010). Unfortunately, despite such high exposure, access to insurance against natural disasters is extremely low across all of Central America.

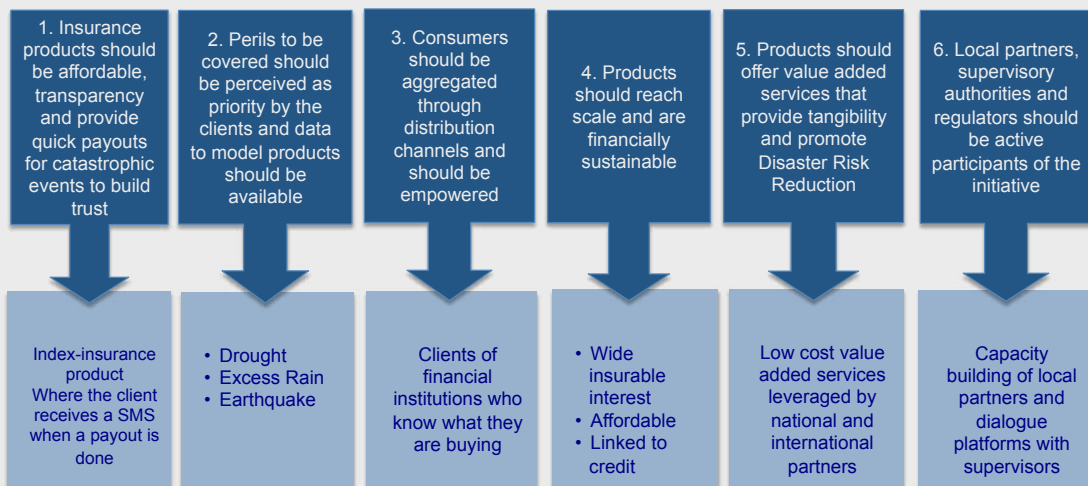
MiCRO was founded in the wake of the 2010 Haiti earthquake by the international NGO, Mercy Corps, and the largest microfinance institution (MFI) in Haiti, Fonkoze, as a reinsurance company specialising in the design of risk transfer solutions for natural catastrophes to the unserved and underserved population.

MiCRO’s objective is to design, implement and evaluate sustainable and holistic risk management solutions that increase resilience against natural disasters for vulnerable, low-income populations. From 2012 to 2015, MiCRO operated as a reinsurer for its insurance program in Haiti, providing an innovative structure that aimed to minimize basis risk for the policyholder borrowers of Fonkoze. When it was determined that the index reinsurance provided by Swiss Re overpaid or underpaid, when compared to payouts made to policyholders based on actual losses, MiCRO would retain or contribute the difference.



In Central America, MiCRO continues to work towards solving the issues related to basis risk, but does so acting as a service provider to the risk takers, and a market enabler. MiCRO designs and implements innovative index insurance products that aim to minimize basis risk. However it is MiCRO’s intention to act as a reinsurance company in the near future, performing the role of an “aggregator” for international reinsurance companies, while retaining some of the risk itself.

The six premises of MiCRO to overcome the challenges





APPROACH

MiCRO supports vulnerable low-income populations to better understand their risk exposures and how to manage them. MiCRO's first insurance product in Central America is an index-based bundled earthquake, drought and excess rainfall insurance that covers business interruption. The product acknowledges that all productive activities can be adversely affected by natural disasters, whether directly or indirectly. By insuring business interruption, the product provides a relevance and applicability to a wide spectrum of the target population and does not just target smallholder farmers.

MiCRO is initially working with microfinance institutions as aggregators, but will expand to other channels that reach further vulnerable low-income populations with uninsured exposure to natural hazards. This expansion is crucial to ensuring that MiCRO's products reach scale, maximize their social impact, and that MiCRO can reach financial sustainability. MiCRO is also exploring the potential for portfolio-level insurance products (meso insurance) to provide risk protection to institutions serving low-income vulnerable populations, potentially also in ways that complement their microinsurance offerings.

MiCRO has designed a proprietary calculation platform, MiCAPP, that regularly and automatically downloads hazard data to detect any payout events, notifying all stakeholders by email when one occurs. MiCRO views technology as a crucial factor to reduce product costs and increase product scale. MiCRO is analyzing the



potential for blockchain technology and smart contracts to improve the transparency and speed of its payout process, as well as to open new possibilities for distribution and other partnerships with financial services providers that also make use of this advancing technology.

IMPACTS AND RESULTS

Through its first launch in Haiti, MiCRO provided microinsurance coverage to over 60,000 Haitians. Between 2011 and 2013, around 36,700 clients received US \$8.8 million in payouts from various climatic events. In November 2016, the organisation launched its first product in Central America, "Esfuerzo Seguro", an index-based bundled earthquake, drought and excess rainfall insurance for low-income Guatemalans, that was also approved for launch in the El Salvador market in June 2018.

After 18 months since the start of the pilot, Esfuerzo Seguro has insured nearly 5,500 borrowers of Banrural, sold by the insurance company Aseguradora Rural. In El Salvador, MiCRO partners with Seguros Futuro, and the Banco de Fomento Agropecuario (BFA).

The process of product design in both countries was supported by the following six premises:

As a result of months of collaboration and dialogue, the supervisory authorities of El Salvador and Guatemala have approved MiCRO's first two index insurance products. MiCRO provided technical assistance on index insurance to the supervisory authorities throughout the process, and facilitated dialogue with other supervisory authorities around the world. The joint collaboration will continue beyond the approval of the products to ensure that the local authorities continue to follow the development of the products and monitor and evaluate their impact.



CASE STUDY

One common challenge in microinsurance is the lack of awareness of the target market, not only about insurance, but also about other mechanisms that could serve to reduce risks and improve preparedness. The challenge is exacerbated for index insurance products, mainly because payments are based on indices rather than losses felt on the ground. To mitigate this, MiCRO created a specific Financial Education Program (FEP) and a value-added program (VAP) with the following objectives:

1. To build credibility and consumer trust by ensuring that policyholders are aware of the particularities of index-insurance products, so that their expectations are aligned with the offered coverage;
2. To provide a set of tangible services that build resilience amongst policyholders by making them more aware of

their risk exposures and the array of risk management tools available to support them. This approach supports the introduction of insurance products, as the adoption of better practices in respect of disaster risk reduction increases the “insurability” of the unserved and underserved markets.

MiCRO and its partners are conscious that risk transfer solutions are only one part of the puzzle; a puzzle that will be incomplete if a broader dialogue on risk management for vulnerable populations is not brought into consideration.

The FEP and the VAP currently being piloted are first versions that will be improved over time. A monitoring and evaluation system will assess if both programs are accomplishing their objectives, together with the social objectives of the insurance product.

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