Could micro-insurance help the poorest communities deal with climate change?

Dramatic storms like Haiyan are becoming normal and affecting the poorest populations; micro-insurance promises to increase their resilience

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Micro-insurance schemes could help some of the world's poorest communities develop resilience against the effects of climate change. Photograph: AP

When the largest cyclone ever recorded hit the Philippines and forced the evacuation of thousands of people on Friday, it no doubt laid waste to huge swaths of agriculture.

Typhoon Haiyan's 195mph sustained winds and five-meter-high waves threatened much of the Pacific nation, yet after threatening life and limb, they may have done the most damage to the estimated 87% of Filipinos who lack insurance.

The role of insurance

Dramatic storms like Haiyan may represent the new normal, which is partly why the global insurance industry and civil society organisations are turning to programmes such as MicroEnsure and the Coop Life Insurance and Mutual Benefit Services. These kind of insurance schemes linked to climate indices, are not to specific headline-grabbing catastrophes, but the ongoing damage global climate change is doing to rural economies.

Motivated by the chance to expand markets, cultivate corporate responsibility — or both — the world's largest re-insurers are partnering with non-governmental organisations and regional financial institutions to sell climate insurance coverage to the poorest populations in developing countries.

When satellites recorded drought conditions in Ethiopia last year, for example, more than 12,000 farmers received a total of $322,772 (£200,00) in payouts through the R4 Rural Resilience Initiative, one of the new crop of programmes combining "index insurance" with climate adaptation work in developing countries. It's a microscopic sum compared to the $4.6tn insurance industry, but a leap from the $17,000 R4 paid the previous year.

Climate resilience

R4, a partnership between reinsurer Swiss Re, the UN World Food Programme (WFP) and Oxfam America, initially launched in Ethiopia's Tigray region and expanded to Senegal late last year. Instead of paying for specific losses policy-holders experience after a drought or storm, these new micro-insurance policies pay when satellites capable of sensing climate patterns hit pre-agreed triggers.

Individual farmers don't have to prove their losses. They pay into the system based on expectations of how drought will disrupt their harvests, and if rainfall dips below predetermined levels they're paid. Cash-strapped participants can pay for their premiums through labour contributing to local climate resilience efforts.

"Instead of rushing in after a catastrophe, (it's about) doing something to strengthen those populations and make them more resilient," Christina Ulardic, head of market development at Swiss Re Corporate Solutions, said. "Yes, insurance plays an important role in that programme, but it doesn't play the only role in that programme."

Public-private partnerships are another key piece. "After a disaster," said Anthony project coordinator of climate-related insurance partnership RIICE . "Do we want to scrape together some funds from our other commitments to other budgets or do we want to, against a fee, an insurance premium, transfer this risk to insurance companies?"

He said RIICE needs governments' consensus to switch their focus to pre-disaster insurance instead of post disaster recovery funds, while NGO partners are better trained than insurance companies at actually getting the insurance in the hands of smallholder farmers and educating them about the products and what they can expect.

Lawrence Berkeley scientist Evan Mills has studied the insurance industry's vulnerability to climate change for more than two decades. He's aware of at least 40 climate-related insurance products. "In (insurance's) highest form, insurers become agents of loss prevention in a physical sense and not just paying to make people whole after a loss," Mills said. "Both are important to a poor farmer because climate change can wipe you out economically and so the claim payment does enhance their adaptive capacity to climate change."

It's not just farmers who have to adapt. When the Munich Climate Insurance Initiative (MCII) and the Jamaica International Insurance Company launched the Livelihood Protection Policy last month, they reached out to anyone whose earnings might take a hit in violent storms. "Your housekeeper or gardener or the person who takes the produce to market is as much affected as the farmer because they're not able to go to work," said Liz Chung, JIIC's manager of customer experience and innovation. "This is something that will help them get compensation."

Philanthropy or business model?

Though the initiative targets some of the world's lowest-income people, Ulardic said she is personally excited about R4 because of its ability to scale. It's not about philanthropy for Swiss Re. She said companies that want to have a social impact might trim their margins a little, but otherwise they should play to their strengths and look at new markets as just that ... markets.

Motivations differ. Peter Hoeppe, head of Munich Re's Geo Risks Research division and chair of the (MCII), said corporate social responsibility was a stronger driver for the company's development of the MCII than potential business opportunities.

"People in developing countries are suffering most as they do not have the capacity to adapt to the changes and there is no insurance available to provide money after an extreme loss event," Hoeppe says. "The main task of MCII is the development of risk management schemes and bringing them into the climate negotiation process supporting the people in developing countries, not the deployment of insurance covers."

Still, Mills added that his "broken record mantra" is that the future for insurers is the developing world. The entire micro-insurance segment is growing and now worth about 15% of the worldwide insurance industry.

"Most of these aren't rural farmers," Mills said, "But still, the developing world is where the growth is going to be and that's where this industry has to figure out how to get a foothold and how to have a product that's relevant to their needs and affordable."

The future for climate-related micro-insurance

Climate-related micro-insurance programs are maturing, but they aren't going to thrive independently any time soon, said Zurich financial services chief climate officer Lindene Patton. "Insurance has at terrific capacity to be able to improve people's lives but not alone," Patton, who also advises the World Economic Forum and other bodies on financial products and climate change, said.

"The insurance instrument itself can deal with the symptom, but it can't fix the core problem (of climate change)," Patton revealed. "So if you can't fix the system and it keeps getting worse and worse and worse, then in some cases that becomes not affordable. You have to go to the root cause of the loss experience and figure out how to make the local experience more affordable in the long term."

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