

Christmas Eve Storm Triggers Payout in Saint Lucia

An unusual late-season low pressure trough passed over Saint Lucia on Christmas Eve, bringing 216 mm of rain over only a 24 hour period. The heavy rains caused landslides and flooding, damaging roads and homes across the island. Especially hard hit were the regions of Castries, Cul De Sac and Bexon; where flooding stranded holiday shoppers and severely damaged



A bridge in western Saint Lucia after the Christmas Eve storm

homes and businesses. Saint Lucian authorities report that five people lost their lives as a result of the storm.

The rainfall from this storm triggered payouts to

beneficiaries in both the northern and southern zone of the island. Those who lived in the northern region received 100% payout, while those in the south received 40% payout. The percentages are based on trigger levels, which are relative to each region's exposure to storms.

After receiving notification that the trigger was met, local insurer EC Global began processing the payouts. Less than two weeks after the storm occurred policy holders in both the north and south of the island were able to pick up their money at their local credit unions.



Damage to the main highway, north of Vieux Fort, Saint Lucia.

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The LPP Helps Walter Edwin Recover from Christmas Eve Storm

On January 7th, Mr. Edwin, a local beekeeper and honey producer in Saint Lucia, received the first LPP payout. We were eager to hear about his impressions of the LPP and index insurance, so we called him for an interview.

Q: How was your experience with the payout process of the LPP?

Excellent! After the storm arrived on Christmas Eve I received an SMS within several days notifying me that I would be receiving a payout and that I could come claim it at my local credit union. The whole process was very quick and efficient which enabled me to buy the food I needed for my bees. If I had normal insurance this process could have taken up to a month, which would have made for a much more difficult recovery and impacted my honey production.

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Q: Was the parametric aspect of the LPP an important part of your decision to buy a policy?

Yes, very much so. I have had traditional insurance before and was always very frustrated and upset by the claims process. When I filed a claim the insurance company would tell me that I was missing some form or try to find some other way to avoid paying me. These experiences have made me wary of traditional insurance products.



Walter Edwin (left) receiving the first LPP payout

Q: Has this positive experience helped you build trust in the LPP and index insurance?

For index based insurance, yes, but I still do not trust normal insurance companies to quickly and fairly process my claim. Many of my friends are also very skeptical of insurance due to their own negative experiences, but I am trying to convince them to sign up for the LPP.

Working with the Delivery Channel

Before the first payouts were made and before the LPP was launched, the local stakeholders had to first be introduced to the idea of microinsurance and to the potential of the LPP.

Between 2012 and 2014, Weijing Wang, Microensure, travelled throughout Saint Lucia, Grenada and Jamaica, holding over 42 workshops explaining parametric insurance and building excitement around the product launches. We invited Ms. Wang to provide us with some her favorite experiences from her time as a capacity builder for the local delivery channels...

"I remember when the local partner, St. Thomas Credit Union, organized a training in the community of Golden Grove, Saint Thomas Parish, Jamaica in July 2013. The Jamaican International Insurance Company (JIIC) and myself went to present the LPP to local stakeholders.

The LPP as a Complementary Product

Mr. Hopeton Morrison is the General Manager at the St. Thomas Cooperative Credit Union in Jamaica. In this capacity he is responsible for the selling of LPP policies to credit union members.



"The LPP product is positioned as microinsurance in our portfolio, and complements the other microfinance products that we currently offer. Together with our quality customer service, our suite of microfinance products, including the LPP, form the competitive advantage of our company. Although, the LPP can be sold independently of our other products, the market has not yet shown the appetite for it as a stand-alone product, but we remain vigilant of any new opportunities on the horizon."



The training was held in a shelter with simple roof, concrete floor and enclosed by a gate with bars and a small door. As JIIC and myself were presenting the LPP some community members, who hadn't invited to the training, were attracted by our discussions and stood outside the fence listening to the presentation. Most of them were women and teenagers. They were curious and extremely interested in the LPP. Myself and Robert, the organizer, invited them to enter the venue but they were too shy, so instead we distributed the brochure to them and they eagerly read about the LPP."



Community members listening from outside the fence in Saint Thomas, Jamaica

The payout process after the Christmas Eve storm was the first chance for Ms. Wang to see how all the stakeholders she worked with would respond following an actual disaster...

"After working intensively with stakeholders across the three islands for years, I was extremely anxious to see how customers reacted to the first payouts in Saint Lucia. Following the Christmas Eve storm, Ms. Dundas Thora of Saint Lucia, who had bought two policies, one in the north and one in the south, received the 40% of payout for the north and 100% for the South following the storm. Due to the quick and efficient pay out process, she was pleased enough with the LPP to purchase two more policies, again one in the north and one in the south ensuring full coverage in both regions. I was

thrilled to see that all of the hard work was finally paying off and not only were customers livelihoods protected, but they were pleased enough with the product to expand their coverage."

Interview the Nicholas Grainger, CCRIF

CCRIF has worked with MCII from the beginning of the project as an important partner. As a regionally based risk insurer, CCRIF has years of expertise in the field of microinsurance. Nicholas Grainger, along with Tara James and Stacia Yearwood, were an important factor in having the LPP reach the target customers. In 2011, CCRIF undertook the Economics of Climate Adaptation (ECA) study to enable the development of a quantitative fact base for developing sound climate change adaptation strategies. This study provides the foundation for climate risk management work in the region, including the *Climate Risk and Adaptation in the Caribbean* project.



From left to right: Tara James, Nick Grainger, Stacia Yearwood

Q: How do you feel the results of the ECA study enhance the understanding of the risk landscape in the Caribbean?

The results of the ECA study allow for policy makers and



Disaster Risk Reduction (DRR) specialists to determine where and from what a country is most at risk.

The findings show that climate change poses a grave threat to the nations of the Caribbean. Expected losses could reach as much as 6% of GDP in the current climate and when climate change is factored in that increases another 1 to 3%. However, on a positive note, the study also shows that taking action now by implementing cost-effective DRR measures countries can avoid up to 90% of expected damage.

The results from the also study illustrate the importance of a balanced portfolio of measures for each country however it is important to note that the findings are based on economic decisions. Therefore, decision makers need to consider further important elements, such as safeguarding life and the human cost of misery through approaches such as risk transfer. The



Project region in Dennery, Saint Lucia

findings do not suggest that risk mitigation should not be pursued in all countries, but rather, that the focus of an adaptation strategy in countries where only a small share of the damage can be averted cost effectively. Such countries should rely on using suitable risk mitigation initiatives to protect human lives and risk transfer solutions to protect economic assets.

At the time of the study, many countries were in the process of finalizing their National Adaptation Programmes of Action and the fact base from the ECA study could be used to augment the development and review of these national strategies.

Q: Do you feel that the ECA study has helped to motivate governments and organizations to become more pro-active towards climate risk?

As a result of the first ECA study there has been intense interest in applying the methods to other islands around the region. Currently we are working together with the Inter-American Development bank on applying the same methodology to Trinidad and Tobago. We expect following this study that the ECA methodology will continue to be scaled up across the region.

There has been interest by members of the private sector with regards to whether the ECA methodology can be used to determine the risks to which their portfolios may be exposed.

Additionally, since the completion of the original study, the Inter-American Development Bank (IDB) has funded another ECA study specifically for Trinidad



and Tobago which was not one of the countries chosen for the pilot project. The project focuses on the risks to which Trinidad and Tobago are exposed and the mitigation measures which can be implemented to reduce their impacts. Once this project is successfully completed it is expected that the methodology developed for this ECA study will be integrated across the various countries across the Caribbean. The ECA study in Trinidad and Tobago should be completed prior to September 2014.

Q: After the completion of the ECA study have you seen more interest in insurance based solutions against the impacts of climate change?

I am not sure whether there has been an increase in insurance based solutions, but I would say that there is an increase in awareness with respect to the use of insurance with other disaster risk reduction initiatives in enhancing resilience. So, in that respect, there is interest in how insurance, particularly parametric insurance products, can be applied not only at the macro level, but also at the micro level (with projects such as the MCII-led Climate Risk Adaptation and Insurance in the Caribbean project), which provide insurance protection for vulnerable people who have difficulty gaining access to insurance and to those organizations that provide financing to individuals operating in at-risk industries.

Q: Where do you see the future of risk management in the Caribbean region?

The future of risk management requires a holistic approach with respect to DRR and climate change initia-

tives; it must be a participatory process which involves stakeholders from both the private and public sectors.

Insurance and risk transfer mechanisms can definitely play a vital role in enhancing risk management in the Caribbean as it can be applied at the macro-, meso- and micro levels, however they must be used in combination with other measures in order to provide a sustainable approach to enhancing resilience and strengthening the risk management framework across the region.

Evaluating the Successes and Challenges



MCII evaluation team meeting with EC Global Insurance Company

Along with several members of MCII, Gaby Ramm recently visited Grenada, Saint Lucia and Jamaica to undertake

an evaluation of the success and challenges of the past three years. We asked Ms. Ramm to draw upon her international experience with a variety of microinsurance programs to help us better understand how MCII and the LPP fits into the broader landscape.

Q: Where do you see the LPP's position in the young, but active, field of microinsurance?

While many other index products compensate losses of specific crops or assets, the LPP covers *any* damage caused by predefined wind speed and excessive rain.

This is a significant advantage when constructing, monitoring, and understanding the trigger compared to the multi-trigger definitions linked to growing cycles of specific crops. Furthermore, this “simplistic” approach has a high potential for scaling-up to the entire low-income population. This relatively simple trigger also was crucial for the quick payout and high customer satisfaction after the heavy rainstorm in December 2013 in Saint Lucia.

Q: After your visit to Jamaica, Grenada, and Saint Lucia what challenges and opportunities for the LPP did you see?

One of the major hurdles in index insurance is the inherent basis risk. Basis risk implies that, due to nature of index insurance, payouts are not exactly matched to the actual damage and sometimes may exceed or be below the actual damage. Although this inherent risk can never be fully overcome, studies show that index insurance is most effective when linked to other DRR measures.

For example, Hurricane Tomas dramatically increased the amount of silt in many of the rivers in Saint Lucia. In the recovery process, however, little was done, to address this fact. If rivers in Saint Lucia had been desilted after Hurricane Tomas in 2010, the flooding in December 2013 would have been less severe, resulting in less destruction and allowing the insurance payouts to go towards covering income losses rather than reconstruction.

Although many farmers’ cooperatives already undertake preventative activities against excessive rain and storm, these individual measures would be more effective as complementary parts of government DRR programs.

Impact on Regulation

The LPP marked the first microinsurance product to be introduced in the Caribbean region. As a result, at the beginning of the project, neither the regulators nor legislators were familiar with micro- or index insurance. Mr. Angus Smith, insurance regulator for Grenada, remembers that when approached by MCII about the LPP, “micro-insurance was a term we were not familiar with at the time”. Through close cooperation over the past three years, including two trips to the Microinsurance Conference, the local regulators have gained a fuller understanding of microinsurance and the role it can play in managing risks relevant to the Caribbean region. Mr. Smith says that now he and other regulators see that microinsurance products, “can help to mitigate the shocks which would otherwise worsen a financial situation.” This recognition by important local decision makers has created ripples which are spreading throughout the Caribbean region and beyond.

For example, in Jamaica, the Financial Services Commission (FSC) is currently developing a regulatory framework for microinsurance, which they hope to have in place by 2015.

On June 27th, Christine Lagarde, Managing Director, IMF, delivered a speech at the University of the West Indies where she addressed the challenges faced by the Caribbean region from climate change and specifically recommended improvements in disaster management as well as a strengthening of catastrophic risk insurance frameworks.

ABOUT THE PROJECT

Developing countries located in disaster-prone regions such as the Caribbean are particularly hard hit by the consequences of global climate change. As extreme weather events increase in frequency and/or intensity, vulnerable populations are made even more vulnerable by the increased risk changing weather conditions place on their lives and livelihood.

The Climate Risk Adaptation and Insurance in the Caribbean project seeks to address climate change and social vulnerability in this region by developing weather-index based insurance solutions that help vulnerable populations cope with the adverse impacts of severe weather events. The project is implemented by the Munich Climate Insurance Initiative (MCII) and its partners, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and MicroEnsure, with reinsurance capacity provided by Munich Re. Funding for the project has been provided by the International Climate Initiative of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

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