

Insurance for Long-term Post-Disaster Recovery and Adaptation

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Risk Insurance in Post-Disaster Recovery?

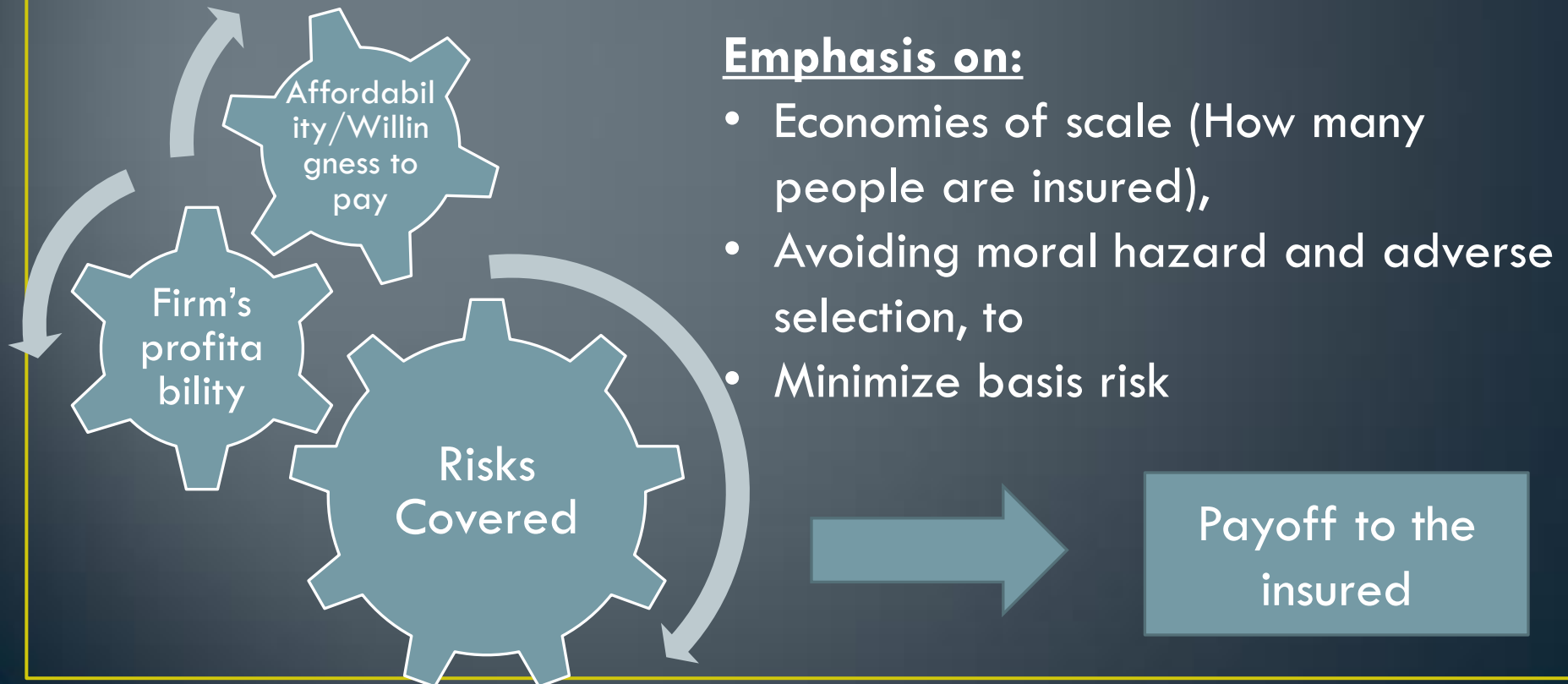
- Typical view of disaster recovery:
 - Infrastructure
 - Health
 - Education
 - Transportation
 - Livelihoods
 - Agriculture
 - Fisheries
 - Manufacturing
 - Social capital
 - Community building
- Insurance?
 - Though insurance is purchased before disaster, its actual role is in post disaster recovery.
 - Insurance can be effective when it is combined with post-disaster reconstruction.
 - However, insurance has largely been missing from the portfolio of post-disaster recovery approaches.

What is limiting the potential of risk insurance in post-disaster recovery?

How can Insurance be effective?

The Notion of Insurance Effectiveness vis-a-vis Recovery

- Traditional understanding of insurance effectiveness:
 - Has the insurance delivered the contractual obligations i.e. payoffs as agreed in the contract.



What is Limiting Risk Insurance Role in Post-disaster Recovery?

1. Can promote emphasis on risk mitigation especially when insurance is made mandatory, proper insurance price signals are given and combined with risk mitigation measures: **Insurance is largely subsidized in developing countries when present (especially in agriculture sector); In urban sector, insurance is either not mandatory or largely absent.**
2. Can stabilize rural incomes: reduce the adverse effects on income fluctuation and socio-economic development: **Delayed payments, insufficient coverage of hazards and losses, high basis risks**
3. Can reduce burden on government resources for post-disaster relief and reconstruction: **Heavy subsidization.**
4. Provides opportunities for public-private partnerships. **The culture of PPPs is still in infancy in most developing countries**

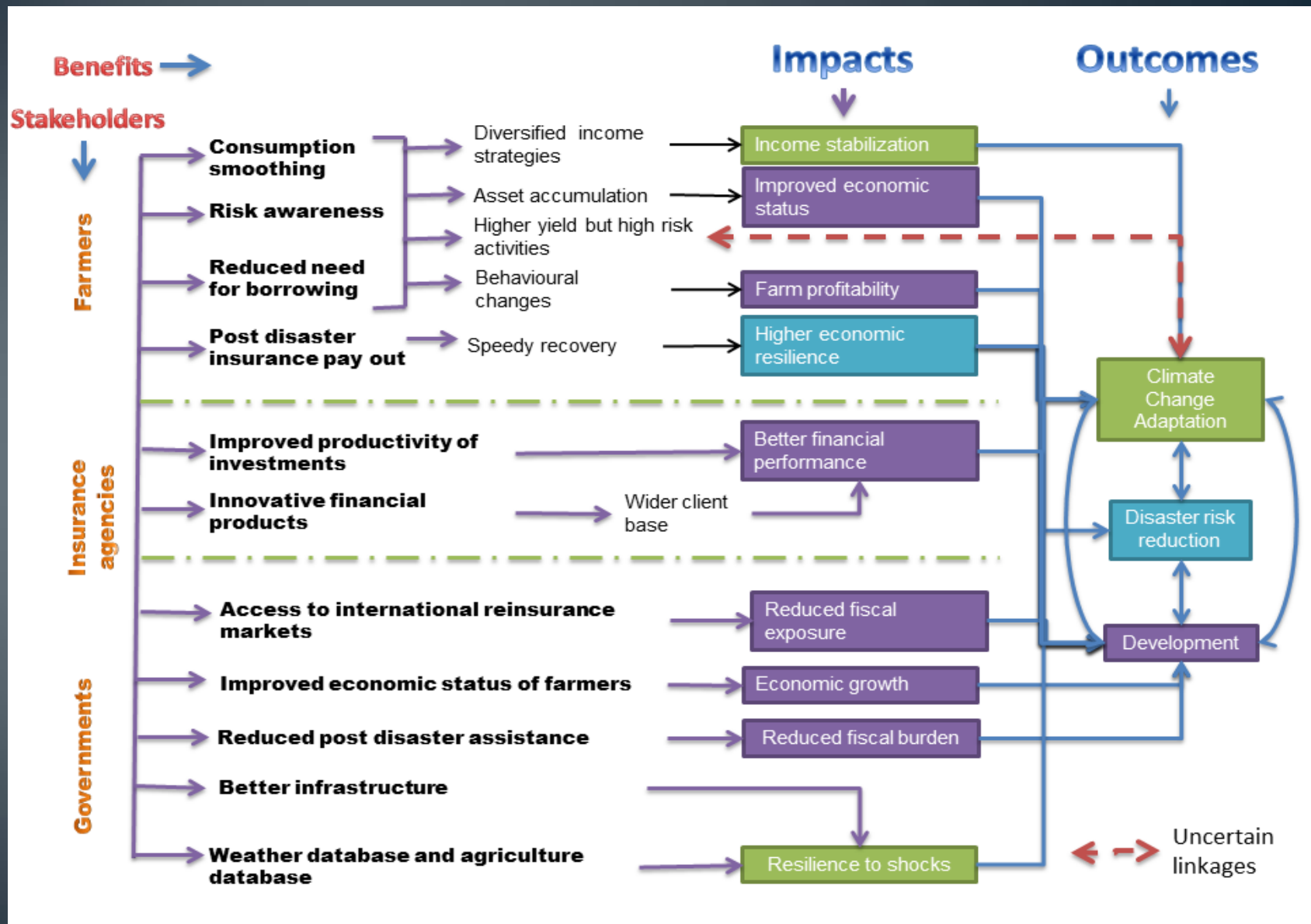
E.g. Sugarcane Insurance in Japan

- **Farmer 1:** Okinawa mainland, has <100 acres
Premiums: ¥9,000×7 years=¥63,000
Indemnities: ¥83,000 (in 2012)= **NET BENEFIT!**
- **Farmer 2:** Okinawa mainland, has area of 338a
Premiums: ¥70,000×10years=¥700,000
Indemnities: ¥1,470,000 (in 2012)= **NET BENEFIT!**
- **Farmer 3:** Irab island
Premiums for 24 years= ¥3,000,000
Indemnities: ¥5,000,000 (in 2012) = **NET BENEFIT!**

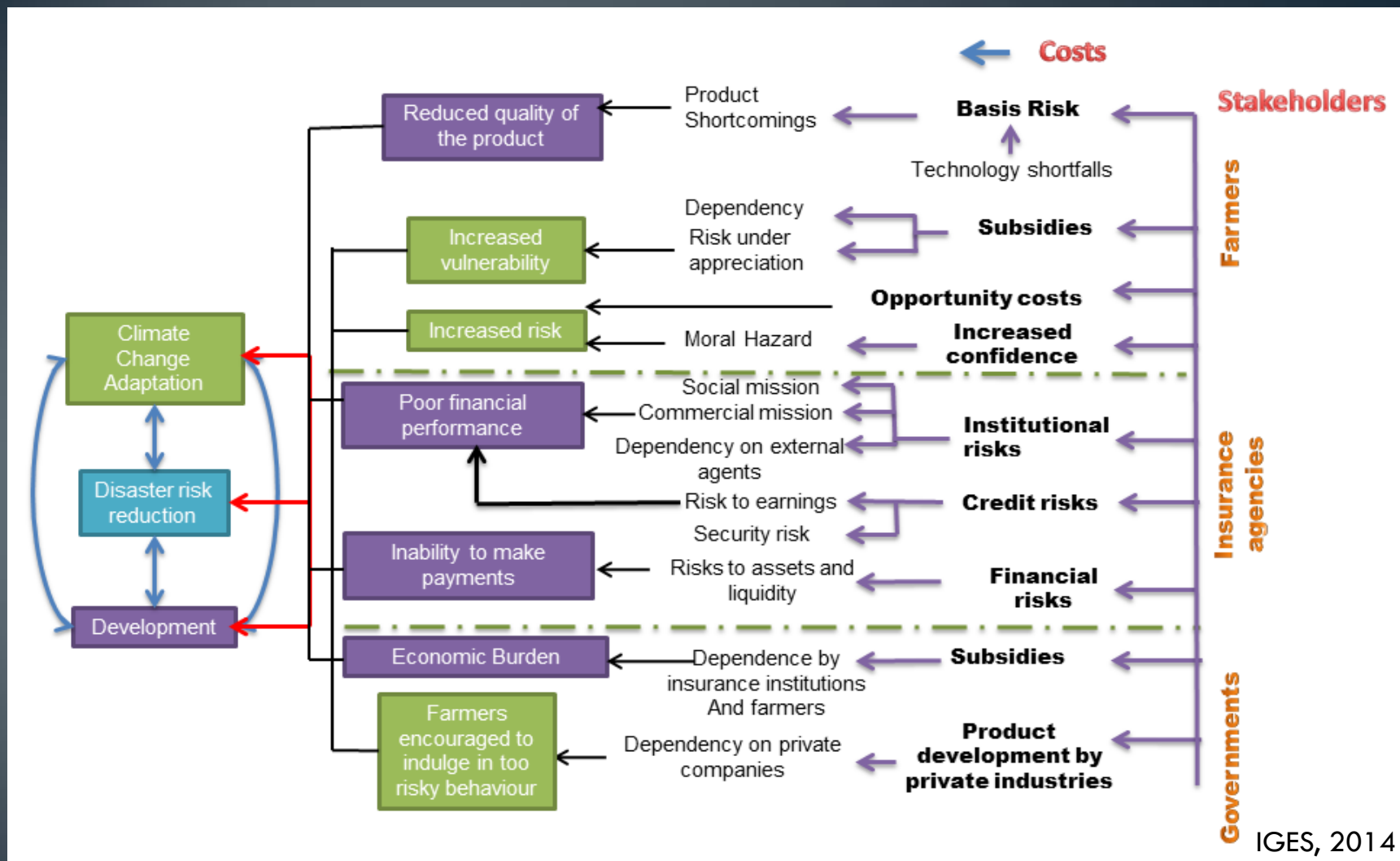


Evidence for farmers investing in better management practices?

Conceptual framework for insurance benefits



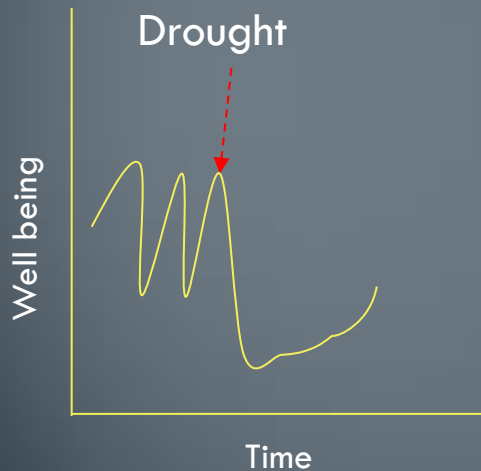
Conceptual framework for insurance costs



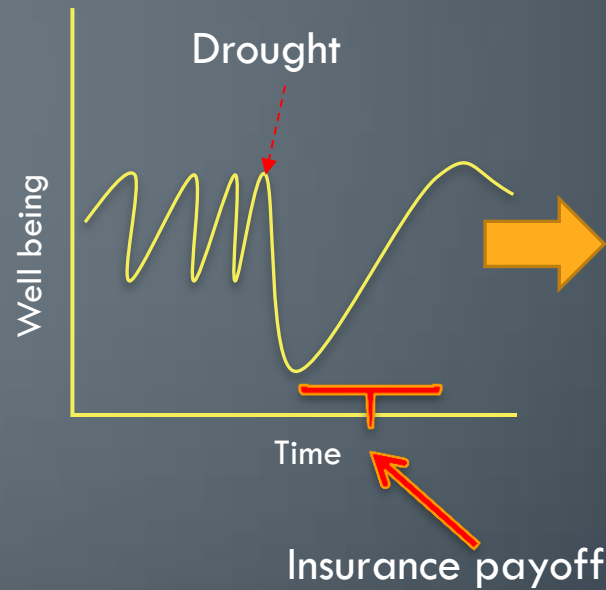
The message: Insurance can have both costs and benefits and net benefit in terms of long-term recovery is not always assured at the overall system level depending on how the insurance is designed

Can Insurance Lead to Adaptation Situation?

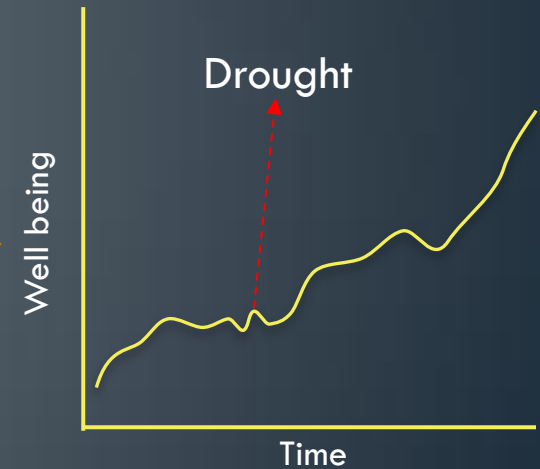
Vulnerable situation



Resilient situation



Adaptation situation



Assessing the insurance for Long-term Recovery

- How the payoffs are made and spent?
- Has there been long term reduction in risks?
- How much losses were covered?



Expectations from the Session

- How to build political consensus on an promoting risk insurance, moving away from relief mindset to mitigation?
- How to make insurance affordable to the most vulnerable while
 - still conveying the proper price signals and
 - maximizing DRR, CCA and SD benefits

Thank You!

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How Insurance Can Lead to Long-term CCA-DRR Benefits?

- When it was combined with post-disaster reconstruction
 - Combining fire and earthquake insurance with reconstruction of houses
- Mandatory requirement
 - Japan, mandatory fire and earthquake insurance with right insurance price signal has led to higher emphasis on risk mitigation leading to long-term reduction in risks
- Right price signal
 - Avoiding subsidies (e.g. agriculture) and instead spending on risk mitigation options

- Appropriate insurance and contract design
 - Multi-peril and location specific insurance approaches including weather index insurance
 - **By reducing basis risks**
 - Mandatory combination of risk mitigation and risk spreading instruments
 - **Reducing basis risks, lessening disaster losses**
 - Making female members of household the beneficiary of insurance payoff
 - **Economic empowerment and share in risk management decisions**
 - Innovative solutions such as linking savings with insurance
 - **Effectively high liquidity situation of households that can be used for nutrition, health and education**

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