REGIONAL RISK TRANSFER
Application of micro finance and micro insurance for disaster risk management

Summary

The Regional Risk Transfer Initiative (RRTI) stands for an innovative approach to risk identification, pooling, and transfer, which recognises the fact that a vast majority of the poor in India and South Asia have limited access to risk transfer schemes or programmes. The main objective of this initiative is the convergence of micro mitigation, micro credit and micro insurance to help poor people transfer risks that cannot be eliminated and have safety nets during times of disaster. The project also connects the corporate sector, in particular the insurance industry, more closely to the poor on managing disaster risks.

The RRTI, which was launched by the Disaster Mitigation Institute (DMI) on September 25, 2003 at the India Habitat Centre in Delhi, proposes the design and implementation of a risk transfer model based on experiences of micro credit, micro finance and disaster mitigation initiatives. The project is split into three phases: designing the model, pilot implementation and dissemination of the scheme.

The project builds on recent ProVention Consortium initiatives in developing innovative approaches to risk identification, risk reduction and risk transfer & sharing.

Project rationale

A vast majority of the poor and disaster affected victims – in India and across South Asia – have limited access to risk transfer schemes and disaster mitigation measures.

Risk transfer can take place either through the provision of credit, through micro insurance schemes or through proactive mitigation measures. Risk transfer allows individuals to reduce their vulnerability to the crippling impacts of disaster, which often forces communities into a state of perpetual disaster relief and recovery and trapped in a cycle of poverty.

Current thinking and practice suggests that convergence of mitigation, micro credit and micro insurance can be an effective way for poor communities to manage risk. In this regard, risk transfer can play a valuable role in helping to build safer communities.

The existing DMI model

The DMI Livelihood Relief Fund (LRF) aims to secure the food, water, shelter, and livelihood needs of disaster affected victims by protecting and reviving livelihoods through providing the basic means to work and sustain an income and therefore withstand the social and economic shocks of disasters. LRF’s livelihood allocations are demand driven and match local knowledge with services to suit the potential beneficiary. Through association with ProVention, LRF has developed its targeting, application, resource mobilisation and capitalisation strategies, which allows it to be scaled up for major disasters such as 2001 Gujarat earthquake and 2002 urban riots in Ahmedabad.
The LRF has been instrumental in linking relief, recovery and rehabilitation efforts both in human-made and natural disasters. However, it is recognised that the model can be further strengthened by incorporating micro finance and micro insurance approaches to help poor communities manage disaster risk more effectively.

Partners

Throughout the implementation of this project DMI will work with the ProVention Consortium. Key partners will include state and national government authorities, bilateral and multilateral donors, UN agencies, disaster management authorities, insurance industry and links with academic institutions concerned with risk management. The model will be used as an example of best practice to influence the development of risk transfer schemes across India and South Asia.

Main objective

To develop, demonstrate and accelerate the application of micro finance and micro insurance for mitigating disaster risk.

Specific Objectives

⇒ To investigate and document experiences and approaches in applying micro finance and micro insurance to mitigate disaster risk/transfer risk, with particular reference to the evolving UNDF guidelines for Micro Finance Institutions;
⇒ To demonstrate, through pilot testing, effective application/models of micro finance and micro insurance;
⇒ To accelerate application of risk mitigation, micro finance and micro insurance ideas;
⇒ To systematically share such innovations with a wider stakeholder group, including donors, NGOs and private sector, across the region and with other ProVention Consortium partners.

Outcome

There are three main expected outcomes from this project:
⇒ Creation and promotion of micro finance, micro insurance model in South Asia for mitigating disaster risk;
⇒ Provision of micro finance and microinsurance for safer communities;
⇒ Good practice case study example of risk transfer.