

InsuResilience Investment Fund (IIF)

Developing insurance markets
to build climate resilience

December 2019



Photo courtesy of Agros International



BlueOrchard
Impact Investment Managers

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InsuResilience Investment Fund (IIF)



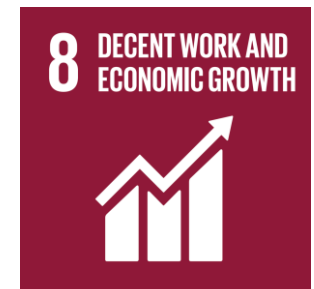
Contributing to climate change adaptation.

IIF is part of the G7 InsuResilience Global Partnership

Core SDGs Contribution



Indirect SDG Contribution



The InsuResilience Investment Fund (IIF)

The IIF has been set up as a public-private-partnership

Initiators



- Initiated in 2013 by KfW on behalf of the German Ministry for Economic Cooperation and Development (BMZ).
- Start of activities in January 2015, under German G7 presidency.
- Part of the InsuResilience Global Partnership.

Objectives

- Facilitating the **adaptation to climate change** by improving access to and use of climate insurance solutions in developing countries.
- **Improving the resilience of poor and vulnerable households** as well as micro, small and medium enterprises (MSME) to weather events.
- **Financing of qualified companies** along the value chain of insurance (e.g. insurers, brokers, aggregators) with main operations in Official Development Assistance (ODA) recipient countries.
- Crowding in **private investors**.

Instruments

Private Debt Sub-Fund

open for public and private investors

Private Equity Sub-Fund

open for public and private investors




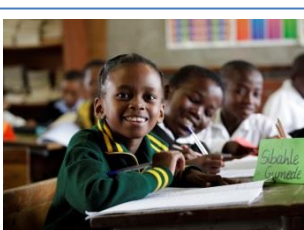
Technical Assistance Facility

funded by BMZ, open for donations

Premium Support Facility

funded by BMZ, open for donations

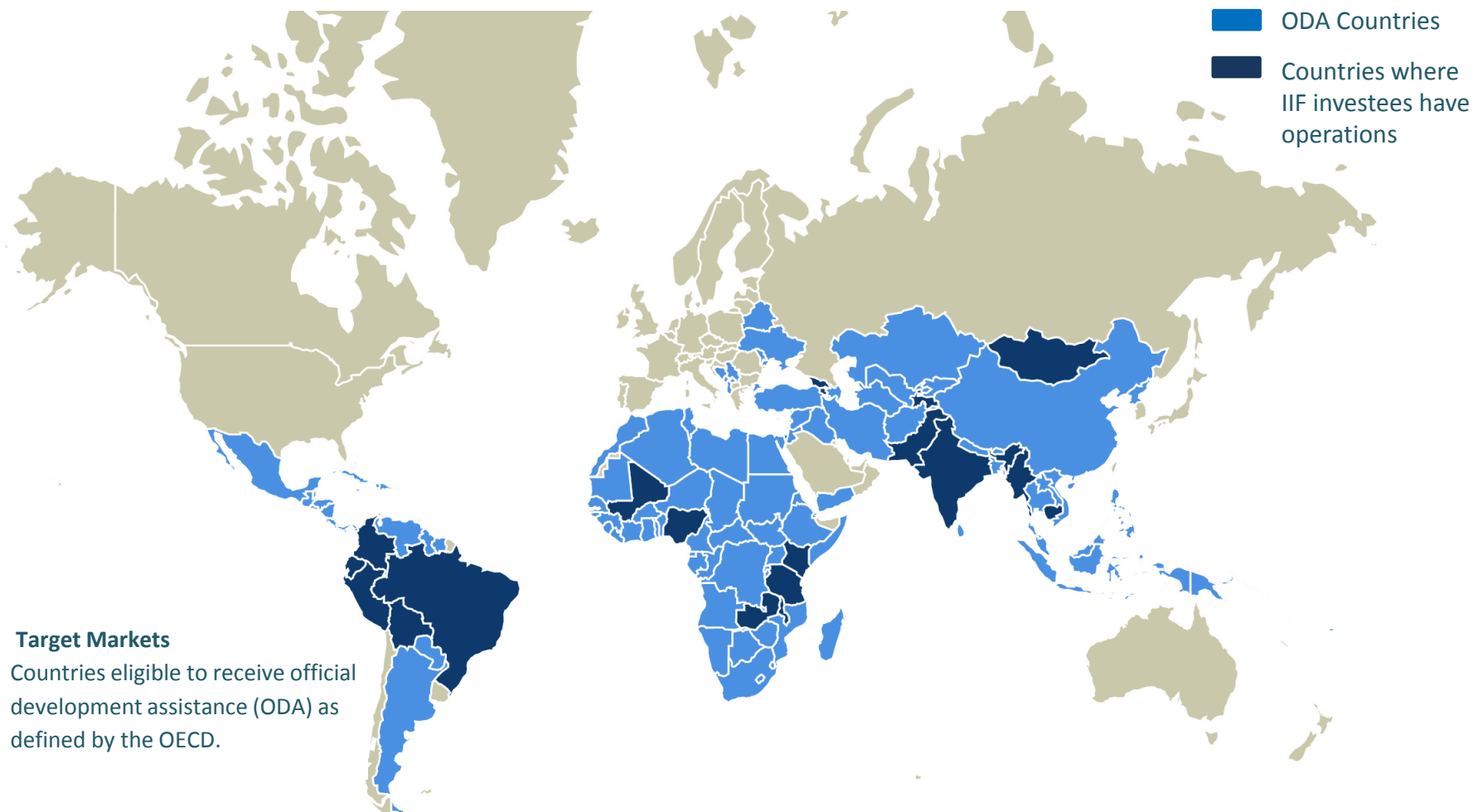
Positive Impact of Climate Insurance

Benefit		Description
Financial stability and resilience		<ul style="list-style-type: none"> ▪ Farmers are able to better manage their risks; they are not forced to resort to negative coping strategies such as selling their productive assets, reducing food consumption or migration ▪ Climate insurance allows farmers to sustain their income and to continue farming even if a harvest is lost
Better access to funding		<ul style="list-style-type: none"> ▪ Climate insurance at the household level allows farmers an easier access to credit, providing partial security ▪ Favourable funding of MFIs insuring their portfolios may indirectly benefit farmers through better terms
Productivity and innovation		<ul style="list-style-type: none"> ▪ Better credit availability allows farmers to invest in technologies that boost their productivity ▪ Improving farmers' risk taking capacity can lead to investments in higher quality seeds and crop protection, ensuring a more stable harvest
Better future		<ul style="list-style-type: none"> ▪ Farmers are not forced to remove children from school during periods of financial stress; they can provide their children better education ▪ As farmers are not forced to start from scratch each time but rather are able to invest in their productivity and innovation capability, climate insurance enables them to create savings in the long run

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IIF's target markets & current investees: active in 20 countries (Dec 2019)



IIF Debt Sub-Fund – Promoting the distribution of climate insurance products

Target investees

Aggregators			
Microfinance Institutions	Cooperatives	Input Providers	Telecom Operators
Activity concentrated in target markets			
Presence and distribution in agricultural regions			
Currently distributing or looking to distribute climate insurance products			
Sound governance and sound financial situation / credit risk			

Investment objectives

1. Promote the distribution of climate insurance products in agricultural areas
2. Distribute insurance in non-agricultural areas (e.g. landslides affect SMEs in urban areas)
3. Source attractive risk-adjusted returns
4. Social (number of climate insurance beneficiaries) and financial value creation

IIF's current investees – IIF Debt Sub Fund (Nov. 2019)



- Banco Pichincha is the largest microfinance provider in Ecuador.
- IIF helps expand the bank's service offerings to its customers by intermediating climate insurance products



- CMAC Sullana has a large percentage of its portfolio – specifically its agricultural portfolio – located on the coast of Peru.
- The IIF loan aims at enhancing the commercialization of a crop yield insurance



- Crezcamos is a microfinance provider in Colombia.
- The IIF loan finances 1) the expansion of its crop insurance and 2) the launch of a new parametric insurance tailored to meet the specific needs of the agricultural market



- Kashf was established in Pakistan as a specialist microfinance provider with the objective of alleviating poverty and empowering women
- IIF financing is used to extend loans to farmers with climate risk insurance



- Credo Bank is a leading bank in the Georgian microfinance market.
- Credo offers crop insurance to clients to protect their agricultural yields against risks posed by environmental conditions.



- CMAC Piura is the fourth largest specialized microfinance institution in Peru.
- IIF financing helps them to expand its portfolio of productive loans bundled with a multi-risk insurance policy, including climate insurance risks



- Banco Solidario's provides financial products targeted at micro-entrepreneurs and salaried workers.



- Vision Fund Tanzania works to financially support micro businesses, small holder farmers and urban clients.
- The purpose of the IIF loan is to help grow its agricultural portfolio and scale the uptake of insurance products



- The MFI delivers loans and reaches more than 180,000 clients and has presence in more than 32 Mexican states. The purpose of the IIF loan is to support Progresemos in developing a climate insurance product for its direct and indirect clients.

IIF Equity Sub-Fund – Promoting the distribution of climate insurance products

Target investees

Well-run companies with a strategic focus on climate insurance

Insurers

Reinsurers

Brokers

Service
providers

Active along the value chain of insurance

Credible strategic interest or existing business in agricultural and natural catastrophe (NatCat) insurance

Fast-growing and profitable, select start-ups with strong sponsors

Sound governance, professional management, aligned shareholders

Investment objectives

1. Support or accelerate the development of climate insurance offerings.
2. Value creation through board participation and leverage of Fund's network of MFIs
3. Social and financial value creation

IIF's current investees – IIF Equity Sub Fund (Nov. 2019)



- Skymet Weather Services Private Ltd provides weather and crop-yield related information services to the insurance sector in India with over 6,000 automatic weather stations (AWS) across the country.
- The IIF investment helps expand its AWS network and secure new contracts in both weather data and crop yield measurement. Through its activities, the company is reaching more than 2,000,000 farmers.



- Global Parametrics, established in the UK in 2016, is a for-profit social venture start-up with IIF as a founding investor.
- The company seeks to catalyze the development of markets for Financial Disaster Risk Management (FDRM) solutions in low and middle income countries to benefit poor and vulnerable populations.



- Asia Insurance Company Ltd is an insurance company in Pakistan. It is a leading player in agriculture, livestock and farm implements micro-insurance. It offers agriculture insurance to over 100,000 farmers.
- The IIF investment aims at increasing the company's risk capital and supporting its underwriting capacity in agriculture, hereby extending its outreach to low income farmers.



- Established in 2008, Agritask is a leading Ag-tech company providing data-driven decision support tools for end-to-end agronomic management of businesses throughout the agriculture eco-system.
- The IIF invested USD 6mn in Agritask in May 2019. The investment will help it to scale up its global expansion, and to spur development of agriculture insurance markets, extending its outreach to small-scale farmers.



- Inclusive Guarantee is a leading microinsurance broker in West Africa and a pioneer in climate insurance products. Inclusive Guarantee promotes socially inclusive insurance products with a current focus on farmers and index-based crop insurances.
- The IIF acquired a 29.1% equity stake in Inclusive Guarantee, with an initial investment in February 2016.



- Royal Exchange offers the full range of general and special risks insurance products. With 100 years in the Nigerian market, Royal Exchange has an enviable reputation for reliability, integrity, professionalism, technical competence and financial strength.
- The IIF and Royal Exchange have signed an agreement according to which the Fund will acquire a 39.25% equity stake and appoint nominees to the Board of Directors. The investment will help Royal Exchange extending its outreach to low income farmers.

IIF Technical Assistance Facility (TAF) provides technical assistance and expertise to launch and accelerate climate insurance access and uptake

Technical Assistance Funds



CelsiusPro

Technical assistance
manager

- Eligibility criteria: IIF investment signed, or occasionally stand alone (negotiable)
- Amount: EUR 10,000 to 200,000 (negotiable)
- Cost share: between 25% and 35% of total TA spent, including in-kind contribution

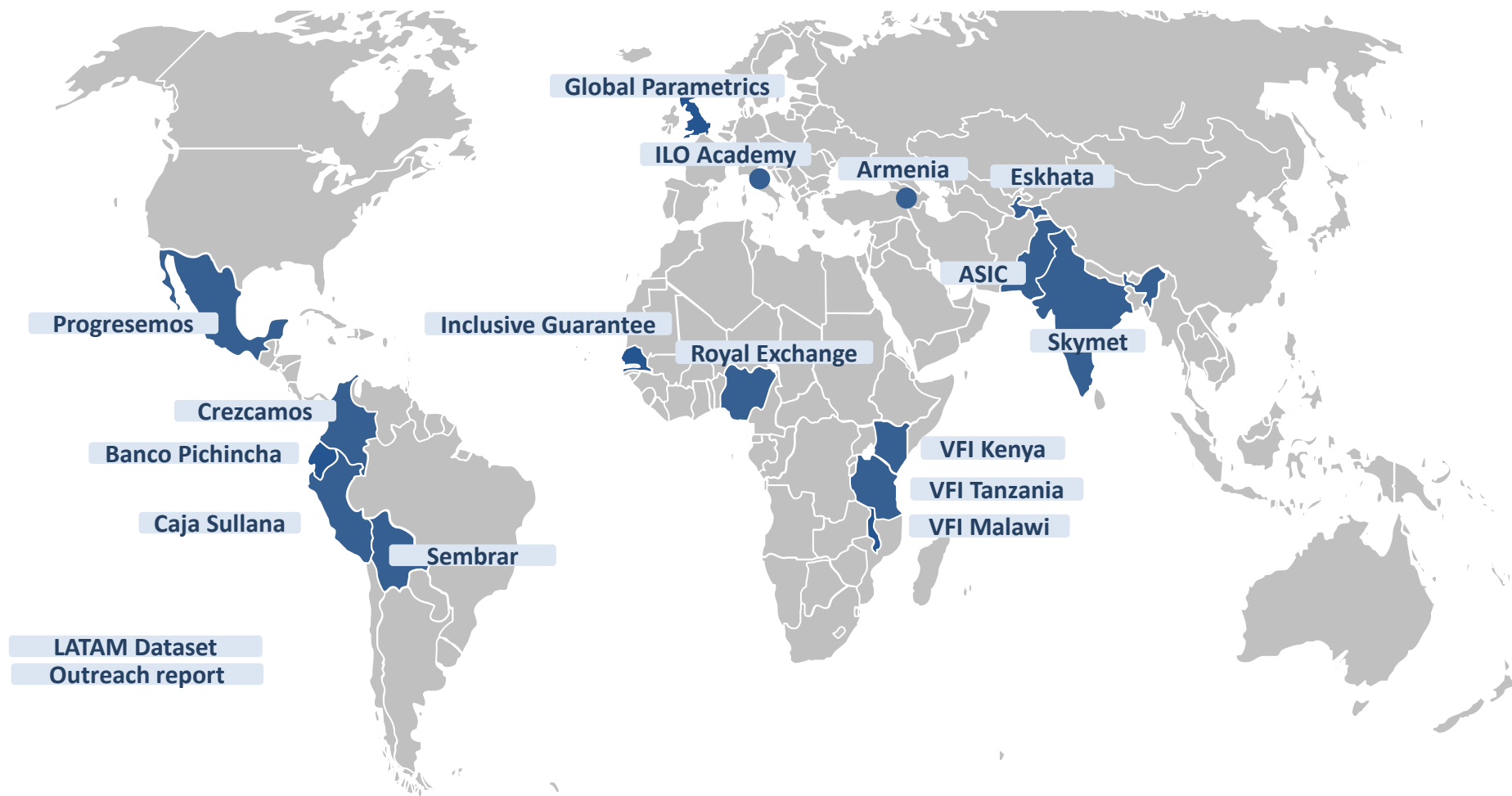
TA Services

1. Marketing and distribution support
2. Education of investee and stakeholders
3. Insurance product design
4. Data sourcing
5. Feasibility study
6. Operations support and insurance platform

TA Objectives

- Accelerate growth of investees
- Reduce time to market and investees' set-up costs

IIF TAF has executed more than 20 Technical Assistances across the globe



IIF Premium Support Facility (PSF)

The PSF provides temporary subsidies to reduce the climate insurance premiums paid by the clients of any of the Fund's portfolio companies.

Premium Support funds



- **Amount:** up to EUR 750k per investee, declining tranches over time
- **Duration:** up to 5 years
- **Principle:** Reimbursement of costs

Premium Support Facility Rationale

1. **Overcome (initial) information asymmetries** between the insurance company and its clients (e.g. the value of insurance product);
2. **Increase demand for climate insurance products** in order to reach critical mass and promote the sustainability of climate insurance solutions;
3. **Make insurance policies more affordable** in the introductory phase of climate insurance products when uncertainty and according risk premiums are high.

IIF investee example: Caja Sullana



IIF made a subordinated loan in March 2016 to Caja Sullana in Peru.

Investment Purpose

Enhance the commercialization of crop yield insurance that Caja Sullana intermediates.

Starting on December 2015, Caja Sullana intermediates a crop-yield insurance product on behalf of **La Positiva**, a non-related insurance company.

The investee offers 2 products

1 - Crop insurance

Mandatory for all agriculture linked loans. The insurance pays out when production is affected by weather conditions such as drought, heavy rains, landslides, hailstorm, snow, etc.

2 - “Multi risk” insurance

Covers climate risks for MSME



José Jiménez Berrú, farmer in Valle de Chilaco

TA Mandate

Caja Sullana completed the 1st phase of the Technical Assistance (TA) intervention, focused on improving sales of the existing insurance products. It included training of staff, marketing support and education of end clients

A 2nd phase of TA has started and is focused on the insurance product itself; to have a climate insurance product that responds to the needs of end clients.

Recent experience

Three climate-related extreme weather events affected the MFIs borrowers since the inception of the insurance policy:

- inundation and rain (Mar 16)
- drought (Dec 16)
- inundation/rain (Feb 17)

The investee received over 1,000 claims and total pay-outs in 2017 reached USD 0.62 million.

IIF investee example: ARDIS Scheme



Vision Fund International (VFI)

- VFI is a microfinance network, wholly controlled by World Vision International.
- The primary activity of VFI is to provide commercially oriented microfinance services aiming to alleviate poverty and stimulate the creation of employment opportunities for the poor.

Global Parametrics (GP)

- Sustainable social venture that develops risk-transfer solutions designed to protect investments and humanitarian actions in developing countries from climate and seismic risks.
- Manages the Natural Disaster Fund (NDF), which specialises in structuring and selling Financial Disaster Risk Management (FDRM) products.

ARDIS Scheme

ARDIS is thought to be the world's largest non-governmental climate insurance programme. GP's advanced climate-based data modelling verifies the climate event and triggers access to both contingent liquidity and risk capital by VFI's network institutions.

How it works

In case of a climate disaster, VFI will provide disaster recovery loans to their borrowers, whereby the end-borrowers will use the credit to rebuild their businesses. Parameters for the trigger event to activate either recovery lending or insurance pay-outs are based on catastrophe-risk modelling data provided by GP.

Impact

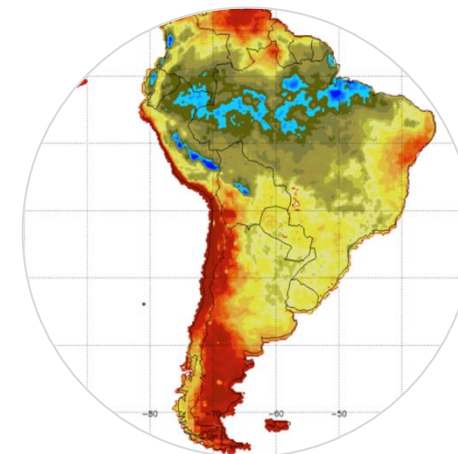
ARDIS objective is to increase access to finance and provide post disaster recovery lending to rural families and smallholder farmers who live below the poverty line and participate in VFI's network (in the 6 countries mentioned above).

IIF TAF example: LatAm Dataset

IIF investment

The IIF TA created a new climate dataset to support the development of parametric insurance in Latin America. The dataset is useful for farmers, local insurers and reinsurers, public entities and academics, and is free to access. Ultimately the Lat Am Dataset will allow for better management of agriculture risks over the continent.

TA was provided to the Centro de Gestão de Pesquisa, Desenvolvimento e Inovação (CGPDI), Brazil and the International Research Institute (IRI), Earth Institute, Columbia University, New York.



Why a new dataset?

Latin America suffers from a lack of data especially in remote places and has complex interactions between topography and phenomena such as the ENSO.

The Lat Am dataset provides precipitation data from a combination of rain gauges and satellites.

Validation

The LatAm Dataset has been validated using statistical comparison against other existing datasets. This was done using:

- Field experience and interviews with farmers)
- Extreme events data taken from official reports.

Assessment

The LatAm Dataset is one of the best rainfall dataset covering the region offering daily data on a 25km x 25km spatial resolution. Data is available with one day latency.

Data is available to everybody and downloadable here

<http://satelite.cptec.inpe.br/latamdataset>

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IIF aims to reach up to poor & vulnerable beneficiaries

Number of
Beneficiaries

=

Number of Eligible Policy Holders

X

Household Size

To count against IIF targets beneficiaries must be poor and vulnerable, as defined by the MCII report¹. This states that:

- Beneficiary is extremely poor or poor: has an income of less than USD 3 per day, or
- Client is vulnerable: has an income of less than USD 15² a day AND either
 - Resides in high risk areas, or
 - Income is heavily impacted by extreme weather events.

Where policy holders' income data is not available, the IIF Fund Manager proposes a set of plausible proxies based on the Beneficiaries Counting Procedure.

¹ United Nations University (October, 2016): MCII Policy Report 2016, No 1

² The MCII report states that vulnerable clients has an income of less than USD 10.0, but IIF Board decided to broaden this definition up to USD 15.0

IIF Climate Insurance Beneficiaries

May 2019

By December 2025

16 million
beneficiaries

estimated increase

IIF has
the potential to
reach between
100 and 145 million
beneficiaries by
December 2025*

*Once the Fund
reaches its target size
of USD 250 million

Assumptions: These indicators are calculated on the overall IIF Fund and include clients from both the Equity and Debt Sub-funds, given their complimentary nature. Number of poor or vulnerable clients multiplied by 6 (estimate of average household composition). For group policies or portfolio hedges, end clients are considered. Projected beneficiaries on current portfolio are based on business plans of investees and BOF estimates.

ITS ABOUT PEOPLE – Example of a parametric crop insurance

Mr. Faustin Thiaw, farmer in Senegal



Climate event

A **rainfall deficit** in 2018 triggered compensation pay-outs.

Mr. Thiaw's losses amounted to CFA-Franc 51,094 (USD 90), which is his average monthly income.



How insurance helped

- Parametric insurance triggered by rainfall deficit.
- Payout of CFA-Franc 40,875 (USD 72), after a deductible of 20%.
- Mr. Thiaw was able to buy seeds for the next harvest season.

"Previously I had never heard of agricultural insurance, but I became aware of index insurance products through Planet Guarantee (...)"

Crop insurance is really important for us because it allows us to secure our business with a very affordable premium (...)

This compensation allowed me to buy the inputs to prepare the next agricultural campaign."

Faustin Thiaw



IT'S ABOUT PEOPLE

Maria Chiroque Yarleque – Multi-risk insurance in Peru



- **Name:** Maria Chiroque Yarleque
- **Town:** Cuncungara – Cura Mori, Peru

THIS IS HER STORY

Mrs Chiroque has a small shop that sells groceries. She has started 17 years ago and has grown the business a little each year.

LOAN:

In order to buy merchandise, she took a loan of the amount of PEN 25,000 (USD 7,500) payable in eighteen months.

INSURANCE:

Mrs. Chiroque took a PEN 10,000 (USD 2,900) **MULTI-RISK INSURANCE**, with climate insurance as one of the risks covered. The insurance was mandatory to take the loan and was provided by La Positiva.

IIF Investee: CMAC Sullana

IT'S ABOUT PEOPLE

Maria Chiroque Yarleque – Multi-risk insurance in Peru cont'd



Climate event

“A sudden and abnormal warming of the Pacific waters of Peru unleashed the deadliest downpours in decades, with **landslides and raging rivers** sweeping away people, clogging highways and destroying crops” Reuters, March 2017¹.

Mrs. Chiroque's business was flooded and she lost most of her merchandise.



How insurance helped

- Payout of PEN 10,000 (USD 3,000; full insured amount).
- The claim received has allowed Mrs. Chiroque to pay her remaining loan instalments on time and to reinforce the ceiling of her business (also with the help of a new loan and an additional job)

First hand account

“I will definitely take insurance again. It has helped me repay the loan”

- Maria Chiroque

Climate insurance not only is helpful in the agricultural sector it is also a component of the “multi risk insurance product” Caja Sullana offers to its clients (mandatory insurance clients have to take with each loan). In 2017, 116 clients were benefitting from it.

After the El Nino a large number of clients did not remember or didn't know they had insurance. Caja Sullana has been working to continually educate their staff and clients.



IT'S ABOUT PEOPLE

Gela Pshavelas - Crop insurance in Georgia



- **Name:** Gela Pshavelas
- **Town:** Kakheti village – Kistauri (Georgia)

THIS IS HIS STORY

“Three years ago I moved back to Georgia to follow our traditional family business. During these three years, I continuously worked on cultivating and restoring my vineyard. I strongly believe that this particular activity in the Kakheti region is worth investing my time and hard work.”

Loan:

Mr. Pshavelas took a USD 2,930 loan from Credo Bank to buy agricultural inputs, rent machinery and employ temporary labour force. The loan is for 30 months.

Insurance:

Mr. Gela also took a **CROP INSURANCE** for half of his harvest. Credo intermediated the insurance product (subsidised by the government).

IIF Investee: Credo Bank

IT'S ABOUT PEOPLE

Gela Pshavelas - Crop insurance in Georgia cont'd



Climate event

Mr. Pshavela owns 0.5 hectares of land and cultivates grapes. Kakheti region is famous for its winery.

In August 2018 **hail** damaged Mr. Pshavela's vineyard. He estimates losses of USD 921.



How insurance helped

- Pay-out of 80% of the insured loss.
- The claim received has allowed Mr. Pshavela to pay its loan instalment on time and to buy additional agricultural inputs.
- Mr. Gela plans to expand his vineyard and **insure its full harvest in the future.**

First hand account

"Being honest, back in time I was sceptical about insurance products and I decided to insure about half of my entire harvest. Now, as the hail damaged my vineyard and the insurance provided the coverage I needed to continue my business, I plan to insure the entire harvest in future. In my region (Kakheti) there is always a risk of sudden climate changes and subsequent harvest damages, so the insurance becomes vital to my company's growth and development."

- Mr. Gela Pshavelas



IT'S ABOUT PEOPLE

Khursheed Bibi – Livestock insurance in Pakistan



- **Name:** Khursheed Bibi
- **Town:** Sahiwal (Pakistan)

THIS IS HER STORY

As most people in the area, Mrs. Bibi is in the dairy business. She has been selling milk for over 10 years. It started when she formed a partnership with another villager to buy a cow. She earns Rs. 9,000 (USD 67) per month from selling milk.

LOAN:

In order to meet her increased household expenses and to get ownership of the cow, she took her first loan of Rs. 70,000 (USD 500), payable in twelve months.

INSURANCE:

Mrs. Bibi took a **LIVESTOCK INSURANCE** of 80 % of the loan amount. The insurance was mandatory to take the loan. The premium she paid was Rs. 1,680 (USD 12.6).

IIF Investee: Kashf Foundation

IT'S ABOUT PEOPLE

Khursheed Bibi – Livestock insurance in Pakistan cont'd



Climate event

Seven months after taking her loan, in July 2018, a contagious animal disease driven by an **extreme cold weather** killed her cow.

Mrs. Bibi not only lost her cow, but she also had to spend around Rs. 4,000 (USD 30) to the vet and medicines and lost three months of income from not selling milk.



How insurance helped

- Payout of RS 56,000 (USD 418, full insured amount).
- The claim received has allowed Mrs. Bibi to pay her remaining loan instalments on time and to buy a new cow (with the help of a new loan from Kashf)

First hand account

"I was unwilling to take animal insurance policy in my first loan cycle. But, after recovering from the loss with the amount received, I feel that the price of animal insurance is worth paying for. Some incidents are not in our control and the insurance coverage provides a little relief."

- Khursheed Bibi



IT'S ABOUT PEOPLE

Faustin Thiaw – Parametric crop insurance in Senegal



- **Name:** Faustin Thiaw
- **Town:** Tivaoune, Senegal

THIS IS HIS STORY

Mr. Thiaw was born in 1977 into a farming family and became a horticultural technician himself. In 2016 he started growing rice and corn on his own 1 ha land which allows him to provide for his family. He has a yearly income of USD 1,143.

INSURANCE:

Mr. Thiaw took a parametric **MULTI PERIL CROP INSURANCE** from Compagnie Nationale d'Assurance Agricole du Sénégal.

Sum insured: CFA-Franc 150,000 (USD 236)
Premium: CFA-Franc 7,200 (USD 13)
Event/trigger: Rainfall deficit

IIF Investee: Planet Guarantee