Micro-Insurance for Post-Tsunami Scenario in Andaman & Nicobar Islands

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Micro Insurance

• Micro insurance is the provision of insurance to low income households

• Types
  – Life insurance
  – Health insurance
  – Property insurance
  – Disability insurance
  – Agriculture insurance
Benefits of Micro-insurance

- Effective risk transfer mechanism
- Post-disaster liquidity to low income households
- Break the “cycle of poverty”
- Securing livelihood
- Providing for reconstruction
- Promote investments in productive assets and higher-risk / higher-yield crops
- More dignified means of coping with disaster than *ad hoc* generosity of donors
Limitations

• High cost
• Individuals may not take proper precautionary measures because they are insured
• High risk of insolvency of insurer
• High risk of defaults on claims
Delivery Models

• Full-service model: Commercial or public insurers
• Partner–agent model: Commercial or public insurers + Microfinance institutions or NGOs
• Community-based model: Local communities + MFI + NGOs
• Provider model: Banks or other providers of microfinance
Characteristics of Disaster Risk

• Disaster risks are difficult to estimate
• Disasters can affect large portions of the population or risk pool at the same time
• Informal safety nets (family and friends) tend to break down during disasters
• Disasters cause multiple losses simultaneously to life, health, and property (covariant risk)
Micro-Credit Scheme for Post-Tsunami Andaman & Nicobar Islands
Indian Ocean Tsunami

2004 Sumatra Earthquake 010 min

Earthquake M=8.9

26 Dec. 2004

A&N Islands
Tsunami Impact in A&N

- Human loss 3,513
- Agricultural land lost
- Fishing sector, tourism, livelihood affected
- Ecosystems affected – forests, groundwater, rock formation
- Marine resources damaged – coral reefs, mangroves, sea grasses
Micro-credit in post-tsunami Andaman - SWAYAM

- Implemented by SEEDS
- Supported by CAP Solidarités & Force of Nature Aid Foundation
- Objectives
  - Address livelihood needs
  - Support income generating activities
  - Self development of beneficiary
  - Disaster preparedness & risk reduction
Micro credit process

• Submission of application & project proposal
• Assessment of project & sanction
• Start of beneficiaries’ projects
• Repayment of loan / Monitoring of project
• At end of loan repayment, accumulated interest returned to beneficiaries
Conditions for credit

- Eligible: individuals, self help groups, cooperatives, cottage industries
- Only income generating activities
- Only short-term projects
- Returns within 1-4 months
- Minimum loan Rs. 4,000 (US$ 100)
- Recovery starts after first income
- Recovery period 6-18 months
Loan process

- Beneficiary opens a savings bank account
- Loan disbursed through bank
- Repayment of loan made to bank
- After complete repayment of loan, interest amount paid by beneficiary is returned as savings
Loan Beneficiaries

- Fish retailers
- Restaurants
- Retail garment shops
- Electronic repair shop
- Stationery shop
- Computer coaching class
- Seafood export
SHG: Fish retailers
Petty Shop keeper
Managerial training at the Bank
Small restaurant Owner
Insurance of assets

- Livelihood assets created by beneficiaries out of the loan should be compulsorily insured
- Project to pay insurance premium for first year
- Future insurance premium to be paid by beneficiaries
Challenges of credit scheme

- Introducing a culture of loans & savings in a free-aid scenario
- Awareness generation – by community meetings
- Lack of infrastructure – training & capacity building of stakeholders
- Total beneficiaries = 99
  - Organisations = 02
  - Self Help Groups = 23
  - Individuals = 74
- Total loan = Rs. 4,194,800 (US$ 100,000)
Challenges of insurance scheme

• Most of the beneficiaries from coastal belt
• Insured assets of only 17 out of 99 beneficiaries
• Initially insurance company agreed for low premium rate; but hiked the rate 10 times
• Coastal regulation zone (1993), strict implementation after tsunami: No structure allowed within 500 m of coastline
• Insurance for coastal area still under legal dispute