Natural Disasters: Impact on SMEs and Role of Insurance in Mitigating Shocks
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Moderator: James Scriven, Director, Global Financial Markets, IFC (10:30 – 11:45AM session)
Vijayasekar Kalavakonda, Global Product Specialist, IFC (12:00 – 1:15PM session)

The spate of natural disasters in recent years, particularly in Asia Pacific and the Caribbean, has highlighted the negative impact of disasters on the private sector, primarily SMEs. Yet SMEs have limited or no recourse to post-disaster financing. Insurance penetration amongst SMEs is very low, estimated to be less than 10 percent across many developing countries. In addition, there is very limited access to post-disaster assistance from either the government or development agencies. This session will offer a platform to share ideas/solutions to address the major challenges faced by SMEs and financial institutions (lender/credit providers). The session will draw on the experience of the World Bank in natural disaster risk management as well as the experience of international insurance/reinsurance companies, and identify the role of IFC in this area.

Vijay Kalavakanda/IFC

Natural catastrophes are increasing globally in frequency (and severity) by 29% over the last decade.

- Post-disaster assistance is very low, particularly to SMEs covering on average only 5-10% of SME estimated losses after disasters. After the earthquake in Haiti in 2011, there was a funding gap of $1.2 billion in coverage for SME losses and a funding gap of $1.9 billion for SME losses in Thailand following floods in 2011.
- SMEs lack knowledge and understanding of the risks of natural catastrophes.
- We should leverage IFC investee clients (including insurance and reinsurance companies and SME banks) to increase Nat Cat coverage for SMEs.

Dr. Alip/ CARD

- Microinsurance is an important safety net. We offer several products in life insurance, retirement savings, loan redemption and disaster (personal accident, funeral, residential).
• CARD, one of the largest MFIs in the Philippines, made one of the largest payouts following recent typhoons in the Philippines.

Martin Buehler/ IFC

• We can reach SMEs through Nat Cat insurance. IFC has 500+ bank clients and 200+ MFI clients who are lending to SMEs.

Eugene Guerenko/WB

• Governments and companies rarely buy enough cat insurance. We need to create minimum standards for coverage.

Jinchang Lai/IFC

• Insurance coverage in China is quite low, particularly in the SME sector. Only 0.2% of the direct economic costs of the May 2008 Sichuan earthquake were compensated by insurance after the earthquake. The 2008 earthquake in Sichuan China caused a direct economic loss equivalent to about 2.5% of China’s GDP at the time, and affected 40 million people and displaced 15 million people. As an indication of economic loss, among others, forty million animals died.

• After the earthquake, IFC assisted disaster-affected MSMEs indirectly by increasing the lending capacity of local financial institutions (FIs). This was achieved through a combination of investments, grant supports, and advisory services to the financial institutions. For example, IFC AS China provided technical assistance to the Mianyang City Commercial Bank to help train its staff, improve organizational structure and develop a risk management structure which resulted in approximately US$1.6 billion in financing for 2,432 disaster-affected MSMEs. Insurance is only one of many financial services but it plays an important role. One of IFC's investees took out earthquake insurance at the advice of the IFC team just before the disaster happened. Although the loss to this particular company was not large due to its distance from the epicenter, it did receive compensation of around US$45K.

• IFC works with a network of 900 financial institutions. They need good risk management practice in each of these institutions. Insurance is an element in their risk management system. For example, when a bank lends to a SME company, the bank usually needs to check the insurance coverage of the borrower/SME. Typically, SMES are required to have life insurance for principal employees, property insurance on the inventory taken as collateral, credit insurance on the accounts receivable taken as collateral, etc. The FIs themselves will also need insurance on their exposure to natural disasters, on their third party liabilities, and for their Board members, etc. IFC's insurance product line could help to promote good insurance practice to the existing FI clients among others and encourage Nat Cat insurance for SMEs.