

Global Index Insurance Facility (GIIF)

An innovative IFC-led program is expanding access to insurance for natural disasters and weather risks in developing countries.

Insurance providers in developing regions rarely offer the hazard insurance familiar to industrialized countries. Developing countries are particularly exposed to weather and catastrophic (CAT) risks such as droughts, earthquakes and windstorms due to poor infrastructure, dependence upon agriculture, low financial safety margins and lack of access to insurance. Insurance is a critical requirement for development as uninsured losses can lock entire populations in vicious cycles of debt and loss of productivity.

IFC, together with IBRD, has established the **Global Index Insurance Facility (GIIF)** to address this problem. The main goal of GIIF is to support the development of local markets for indexed/parametric insurance products in developing countries. GIIF takes an innovative index-based approach to insurance that aims to expand access to insurance products in developing countries, and particularly to farmers and people in agrarian communities.

With traditional insurance, a farmer insures crops for loss, so if e.g. 20 percent of crop yield is damaged, the insurance company pays damages. This system creates moral hazard and requires that claims are individually checked for actual yield loss leading to high transaction costs and the frequent need to subsidize premiums. Results of this type of insurance are often poor for the insured and the insurer, and the complexities involved provide little incentive to expand such insurance provision into the emerging or frontier markets where it is needed most.



Under an index-based insurance scheme, losses resulting from weather and catastrophic events are assigned values on a pre-defined basis, using an index. When one of those events is triggered the insured party receives an insurance payment according to the pre-defined payment formula. For example, insurance will be paid out in the event of drought as a result of less than an anticipated amount of rain, a wind storm of certain category, or an earthquake registering a certain Richter scale, occurring within a fixed distance from a location.

This innovative approach to insurance provision means that policyholders qualify for pay-outs as soon as the statistical indexes are triggered, without having to wait for claims to be settled in the traditional way. Insurance will pay out if the index is triggered, irrespective of the actual loss. Index-based insurance reduces moral hazard and adverse selection, ensures timely payout, reduces administrative costs, and provides a standardized and transparent structure. The product is also versatile and can be combined with other financial products such as loans. Subjectivity is removed from payment decisions because the payout is based on whether an easily measurable event has occurred or not.

The European Commission is the primary donor to the GIIF Trust Fund and has committed EUR 24.5 million to facilitate reaching the objectives of the facility. The GIIF Global Trust Fund (GTF) is also supported by **Japan's Ministry of Finance** with an initial grant of \$2 million, and the **Dutch Ministry of Foreign Affairs**, which provided \$500,000 to establish the facility.



Working with GIIF

IFC and its partners in GIIF would like to work with **local insurers and financial institutions, as well as regulatory bodies and organizations from the private sector** to build capacity for index-based insurance products.

GIIF is an open, multi-donor funded trust fund that will provide eligible recipients and beneficiaries with grants, in accordance with its policies. GIIF is open to working with multiple partners to maximize its contribution to the objective of the Facility, wherever possible taking a pluralistic approach. Activities fall within the ambit for the following four key components/areas for which it can consider financing in the form of development grants with specific performance-based outcomes:

- Support for local capacity building
- Work with and support Participating Financial Institutions (“PFIs”) such as reinsurance companies
- Work with local regulators on legal and regulatory policies in collaboration with the World Bank, and
- Facilitate the introduction of market solutions for indexed CAT-risk products for a limited period within pre-defined parameters.

GIIF aims to achieve the following key objectives:

- Develop sustainable local markets for index-based insurance to mitigate against weather and natural catastrophe risks in developing countries
- Establish a platform to accumulate knowledge and exchange practical experiences on index-based insurance
- Support for scaling up existing insurance programs
- Improve lending in the agriculture sector through mitigation of weather risk
- Training for key stakeholders (potential end-users, regulatory authorities, financial institutions)

GIIF in Action

The index-based approach to insurance has been successfully piloted by a number of World Bank pilot projects preceding this project, including World Bank Group initiatives in India, Malawi, and Mongolia.

In Malawi, drought insurance is sold to small-scale peanut farmers with loans for high yield seeds. If rainfall does not meet historical averages, the farmers receive an insurance payment. Banks provide loans for high yield seed to the farmer only if insurance is bought mitigating the risk for both the farmer and the lender.

In India indexed weather insurance is being sold by several providers to farmers, including BASIX and AIC, the state agricultural insurer. In 2003, 250 farmers were insured and by 2007 around 700,000 farmers were estimated to have bought policies.

In Mongolia indexed livestock insurance is being provided based on local livestock mortality rates. Policies are sold during the spring before the quality of the pasture gives herdsmen an indication of expected deaths that year. If the annual mortality rate is above average, the insurance policy pays, regardless of the number of livestock deaths a farmer incurs. If farmer incurs deaths, and the annual rate is below average, no payout is given.

Since its formal launch in December 2009, **a total of seven grants have been conferred under the GIIF initiative**. It is expected that these grants in Kenya, Rwanda, Mozambique and the Francophone West Africa will help expand access to index insurance in Africa. While GIIF sustains its growth in Africa, it has commenced expanding to other regions including Latin America and Caribbean, South Asia, East Asia and Pacific. Immediate pipeline projects are expected to commence shortly in Bangladesh and Sri Lanka.

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