

Insurance

The key to safeguarding against risks

The lives of many people in developing and emerging countries are characterised by risks that they are not able to safeguard themselves against sufficiently. Illness or extreme weather events pose a risk to poor and vulnerable sections of society in particular, who often slide (even) deeper into poverty as a result of these kinds of fluctuations or shortfalls in income. Insurance can help protect against these risks. That is why KfW Development Bank works to promote insurance models around the world on behalf of the German federal government.

Background

The Sustainable Development Goals (SDGs) ratified by the international community in September 2015 highlight the great potential offered by insurance solutions in development work. Insurance companies could help to achieve the targets for at least eight of the seventeen SDGs. Last year, the G7 states established the “In-suResilience” initiative in Elmau, Germany, with the specific aim of reducing climate-related risks. The initiative has set itself the goal of offering insurance solutions for climate-related risks to an additional 400 million people in developing countries by the year 2020. In the health care sector, health insurance providers contribute to universal health coverage by offering direct payments in the event of illness, which prevents (further) impoverishment.

The poor and the vulnerable are particularly susceptible to a wide variety of risks. These include individual life risks such as sickness or death, as well as risks affecting many people within a particular region such as droughts, torrential rain or flooding. Although insurance

models cannot prevent these events from occurring, they can at least mitigate their negative consequences. Only around 100 million people in the world are currently insured against climate-related risks, for example.

A general distinction is made between direct and indirect insurance solutions. In direct models, the insurance companies' payouts in the event of a crisis benefit those affected (micro-level insurance), while indirect models protect governments and other intermediaries (e.g. banks, aid organisations and NGOs) and the victims are supported indirectly (meso and macro-level insurance).

The KfW development approach

KfW Development Bank is currently promoting both direct and indirect insurance projects on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). In the case of climate-related risks, KfW provides capital amounting to more than EUR 50 million thus far for African Risk Capacity. This is intended as a signal. Climate-related risks are insured against using an index-based approach in order

National Health Insurance Fund in Tanzania

Health insurance for poor pregnant women and their families



Source: GFA / Wanda Welker

to mitigate the consequences of natural disasters. KfW is also planning to invest in the “Caribbean and Central American Catastrophe Risk Insurance Facility” (CCRIF) in the future on behalf of the German Federal Government.

Another flagship project is the Climate Insurance Fund, in which a total of EUR 79 million has been invested to date. The fund protects small and medium-sized enterprises and households by providing financial resources and technical expertise to help insurance companies and financial intermediaries develop climate insurance products and further expand the services they offer. There are plans to expand this global fund even further still in the next few years.

KfW has also contributed a total of EUR 8.5 million to introduce the innovative “AgroProtekt” product in Serbia, with low-interest loans and technical advice. The product, which is a package comprising seed loans and bad weather insurance, supports the professional risk management of Serbian farmers and underscores the role of German FC as the initiator of and facilitator for new development.

KfW Development Bank also promotes insurance solutions in the health care sector. Pregnancy-related health insurance payments are currently being made to more than 450,000 women in Tanzania, allowing them to receive adequate advance and follow-up care in a hospital of their choice. In the long term, the intention is for the project to lay the foundation for a national health insurance system. KfW Development Bank is planning to contribute budget funds amounting to a further EUR 33 million between now and 2018.

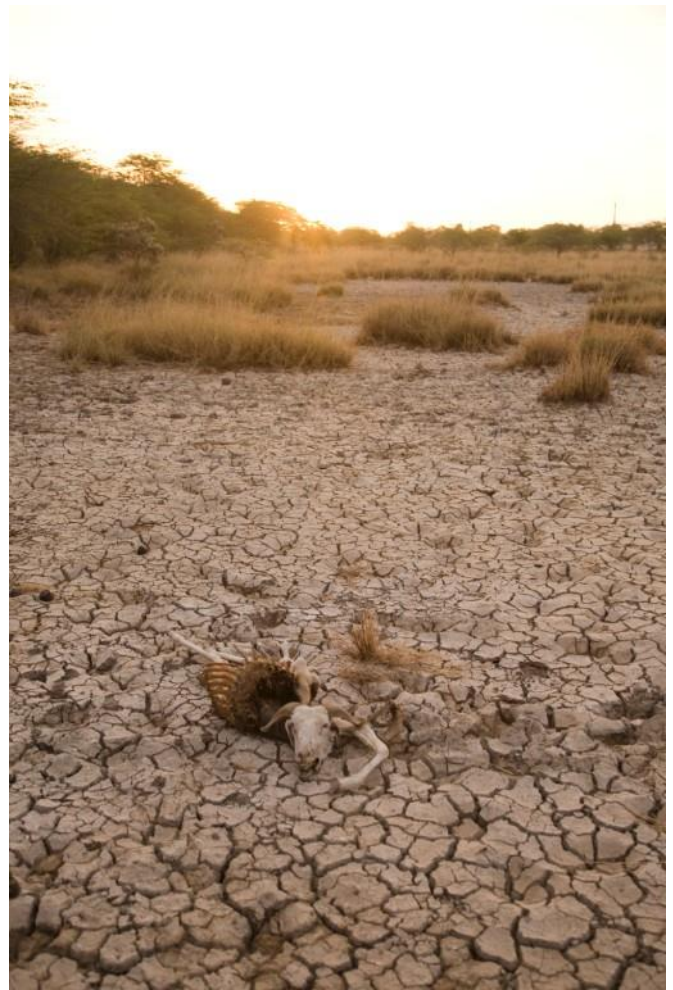
In the neighbouring country of Kenya, KfW is promoting the “National Health Insurance Fund” (NHIF) with the

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Potentially fatal drought events... ...can be mitigated using insurance models



Source: KfW image archive / Bernhard Schurian

help of a loan. People working in the informal sector in particular are to benefit from subsidised premium payments in six of the country's federal states. KfW Development Bank currently has EUR 43 million invested in this project. EUR 56 million is going towards the promotion of a project to provide social security to the extremely poor in Malawi by means of social cash transfers.

KfW is also providing EUR 10 million to support a health insurance project in Pakistan. Financed using grants, the purpose of the programme is to improve health services for the poor population in particular in order to protect them from extremely high health care costs. A basket funding arrangement in Cambodia is being used (among other things) to support “health equity funds” as an innovative, demand-side health care financing instrument.