WFP
World Food Programme

SAVING LIVES
CHANGING LIVES

Reasons why WFP supports access to climate risk insurance

WFP integrates insurance into its operations to confront the growing frequency and intensity of climate-related disasters

In 2021, extreme weather events and natural hazards cost the world US$343 billion in economic losses, the fourth highest year on record. Of these losses, only US$130 billion was compensated by insurance, meaning 60 percent of those losses were not recovered. If you consider that the covered losses are primarily in high income countries who are largely responsible for climate change and where infrastructure and population are better insured, you can start to get a picture of the level of injustice underlying the climate crisis. Lack of insurance when a climate-related disaster hits can force families into selling productive assets or push them into a food crisis. Access to insurance can be an efficient tool for financial protection from these risks.

To ensure that both WFP and the people it serves have financial resilience in the face of increasing climate-related disasters, WFP has tested and developed climate risk insurance solutions to both protect and improve people's livelihoods as well as finance rapid recoveries.

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What exactly is climate risk insurance?

Insurance is a financial tool that compensates people for the financial losses from a specific risk or peril, such as droughts or floods in the case of climate risk insurance, in exchange for paying a small fee called a premium. By pooling premiums across many people with different risk profiles, insurance companies can rapidly bring together a large sum of money when a catastrophic disaster occurs. Payouts that people or institutions receive support in recovery and prevent even worse impacts down the road, and are much higher than the premium cost, creating a multiplier effect that ensures more money is available when it is needed most.

The World Food Programme (WFP) helps countries to access climate risk insurance and implement it into their climate adaptation policies. Currently, WFP supports climate risk insurance programmes in 18 countries in Africa, Asia, and Latin America and the Caribbean. Sovereign insurance works with national governments to buy policies that will finance WFP's assistance when triggered by a climate shock, WFP's microinsurance programmes help farming and pastoral households to access insurance through an integrated risk management approach.

Here are four reasons why climate risk insurance is an effective tool for WFP to build resilience, protect livelihoods, and enable people to not just survive, but thrive.

US$ 4.7 million in payouts have been distributed to fight the effects of climate shocks in 2021.

2.7 million people reached through climate risk insurance and other integrated climate risk management tools in 2021.

The reasons why WFP uses climate risk insurance for resilience building

TIMELINESS AND INSTITUTIONAL STRENGTHENING

In any disaster, time is of the essence. Traditionally, when an extreme climate hazard results in a disaster it must first be evaluated, followed by a call for funds, which are then distributed to the people targeted for assistance. These processes can take several months for slow-onset events, such as droughts, or weeks in the case of fast-onset storms or flooding, during which affected people will be struggling to get by. With WFP's climate insurance in place, support reaches households quickly through real-time monitoring and support services.

Under WFP's sovereign risk insurance programme, WFP and the partner government's disaster response agency work hand in hand to develop a response strategy and operation plan that directs how the assistance will arrive after payouts are triggered. With microinsurance, WFP works with local insurance companies and private sector partners to establish delivery channels in advance, allowing for quick payout delivery to the households who are subscribed to the policies. These proactive approaches mean that people receive assistance quickly after a climate shock, saving more lives and livelihoods and ultimately being more cost-effective.

Mali suffered a severe drought in the 2021 rainy season. More than three million people were affected but thanks to WFP's support securing climate risk insurance, a US$7.1 million payout was triggered in October, enabling WFP to reach those in need with cash transfers for early food assistance, nutritional support and services for vulnerable groups, and engaging communities in building infrastructure assets that will reinforce their resilience This meant that families were able to buy food, top-up their incomes and plant new crops.

Read more about Mali here.

SHOCK-RESPONSIVE SOCIAL PROTECTION

As WFP helps governments, smallholder farmers and pastoralists to access climate risk insurance for managing their financial risks, these mechanisms provide rapid finance for social protection systems that allow for scaled-up support when an extreme weather event occurs.

The Somali region of Ethiopia is currently struggling through a record-breaking drought due to three back-to-back failed rainy seasons. Luckily, thousands of families had access to WFP-supported insurance policies to protect livestock in the event of extreme drought. An initial payout of US$900,000 was distributed in December 2021 to more than 25,000 families in the region to help protect their herds and meet their immediate needs. Another payout was triggered as the drought conditions persisted, providing cash to the same families in March 2022. Knowing that insurance provides a protective safety net throughout drought, pastoralists can feel comfortable investing in equipment such as water tanks or new irrigation systems.

Read more about the Ethiopia drought here.

FINANCIAL RESILIENCE THROUGH RISK LAYERING

WFP's flagship microinsurance programme, the R4 Rural Resilience Initiative builds resilience through four integrated pillars: risk reduction, risk transfer, risk retention, and prudent risk taking. These pillars complement each other and provide support for different risk severity levels, known as a risk-layering approach.

Mary is one of the many R4 beneficiaries in Malawi, where drought is a current and severe risk. She takes part in the Food Assistance for Assets (FFA) Programme, where she spends 20 days working on making compost, planting trees, and restoring riverbanks. She then receives 50kg of maize, 10kg of pulses, and 2k of vegetable oil, or the cash equivalent. This is of great immediate help to her and her family, but it is also part of the **risk reduction** strategy as these assets will reduce climate risk in her environment. She then works additional days on asset creation, in this case checking dams, to purchase an insurance premium that will serve as a **risk transfer** mechanism. This guarantees that if there is a poor harvest, she will be compensated.

Mary is also part of her local village savings and loans (VSL) group and receives training on finance and risk management that allow her to make more prudent risk taking choices and investments. Through these **risk reserves and prudent risk-taking components**, she can now build a financial base to retain smaller but more frequent shocks. She can save individually, but also as a group with her village. She can use her saving history to take out loans and invest in her future. Mary's life has completely turned around, she has now bought a new house and bicycles that help her sell veggies at the market more easily.

By layering these components of risk reduction, savings and insurance, a more comprehensive financial protection is created, covering a wider range of issues. As farmers increase their resilience to shocks of these different risk layers, they can feel more confident to increase their investment capacity and progressively generate more income. This can create a positive feedback loop, further improving their saving capacities, ability to pay the premium, and ability to adapt to the impacts of the climate crisis.

Learn more about R4 here.

ESTABLISHING NEW INSURANCE MARKETS

The long-term sustainability of climate risk insurance programmes allows vulnerable policy holders to build their resilience to potential climate shocks. This requires strengthening financial resilience through risk layering, expanding shock-responsive social protection, private and public sector capacity building, and the assurance of efficient and quick distribution of payouts in the case of a disaster. WFP strives to create new markets for climate risk insurance so that the most vulnerable people can access and understand these tools, and insurance companies can continue to provide these products independent of WFP's support. This involves working with local insurance companies and partners to develop strategies to support farmers or governments with contributing to the cost of the premiums on a gradual basis, so the insurance market will not depend on WFP but on local ownership.

In Senegal, WFP developed a well-designed graduation strategy that resulted in 62 percent of participants paying part of their premium in cash in 2021. The country is a great example of both successfully growing the number of covered households and fostering local ownership of the insurance product design.

Cover Photo: WFP/Badre Bahaji

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