



PREFEASIBILITY STUDY FOR A PARAMETRIC TYPHOON INSURANCE IN THE PHILIPPINES

CLIMATE CHANGE PUTS VULNERABLE PEOPLE AT RISK...

The low-income sector in the Philippines is exposed to substantial typhoon risk, which can devastate their livelihoods.

Climate change is expected to alter the risk profile of typhoons, affecting their frequency and intensity. Warming temperatures will also affect the risks posed by storm surges and heavy precipitation, both of which can accompany typhoons. Typhoons cause widespread destruction along, resulting in substantial additional expenditures for the poor and vulnerable population in the affected areas. They frequently resort to negative coping mechanisms to manage the expenses, increasing the danger of becoming trapped in a poverty cycle.

CLIMATE INSURANCE CAN OFFER RELIEF...

Parametric typhoon insurance can provide policyholders with immediate liquidity following a severe typhoon.

The low-income sector faces a range of additional expenditures in the days and weeks following a disaster. Thanks to remote-sensing data, parametric climate insurance can provide access to liquidity within days of an eligible event. Payouts are transferred to the affected policyholders without a cumbersome claims process. Having access to cash can help the poor and vulnerable population recover faster and minimize resorting to negative coping mechanisms.



WHAT IT TAKES TO MAKE IT HAPPEN...

A low-cost parametric typhoon insurance solution addresses a gap in the insurance and emergency relief landscape.

Typhoon risk can only be covered via indemnity-based products and bundled microinsurance solutions, which are not suited to finance emergency relief. While in-kind goods are made available following a typhoon, a relevant gap remains before cash transfers are provided by the government or aid agencies to parts of the population. Combining a low coverage limit with affordable premiums will allow for the product to be distributed as an add-on service via a national pawnshop operator. In the Philippines, pawnshops are frequently visited by the low-income sector for a range of financial services. Furthermore, developing digitalized operational structures is crucial to the roll-out of the product.

HOW DID WE FIND OUT...

Engaging with a pawnshop operator and risk partners provides valuable insights on the appeal of parametric typhoon insurance.

The study reviews the available insurance coverages for typhoon risk in the Philippines and assesses the gap between providing in-kind emergency relief and potential cash transfers provided to the population in the months following an event. A demand survey with the pawnshop's sales staff ensures the operator's interest in the product can be assessed. Crucial feedback from risk partners (reinsurers) also helps inform the product's structure. By compiling all these inputs, the study seeks to devise a roadmap for the implementation of a pilot project to launch a parametric typhoon insurance product in the Philippines.

STUDY PREPARED BY

CelsiusPro