

**THEMATIC SESSION D3: DISASTER RISK FINANCING AND
MICRO-FINANCE**

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ABSTRACTS

**ROLE OF MICROFINANCE INSTITUTIONS IN THE WAKE OF
NATURAL DISASTER**

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Microfinance is the provision of relevant and affordable financial services such as deposits, loans, payment services, money transfer ,insurance etc .to poor and low income house holds and their micro enterprises that don't have access to the services offered by traditional financial institutions .Microfinance Institutions (MFIs) are the institutions whose major business is the provision of microfinance services. Many microfinance institutions operate in communities and regions where natural disasters are an annual event. It is the poor and low income people who are normally affected severely by the destructive effect of natural disasters and they are found to be the clients of MFIs. Hence MFIs have to play a vital role in the wake of natural disaster.

The following matters related to the role of MFIs in the wake of Natural disasters have been discussed in this paper.

- Why, when and how can MFIs be engaged in relief, rehabilitation, reconstruction and emergency services without downgrading their credibility as a financial institution.
- Pre- disaster planning of MFIs to protect their clients
- What financial products can be extended to clients in a post disaster situation
- How can MFIs deal with post- disaster liquidity problem
- How can MFIs accommodate for their clients inability to repay following a natural disaster

RISK FACTOR IN MICRO-FINANCING

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Risk and Risk Management is an integral party of life. There is hardly anything that goes without any risk. The progress of humanity to a large extent depended up men's courage to take calculated risk. The safe policy for Risk Management has to be prevention is better than cure.

New Millennium has witnessed a tremendous growth of Micro-finance. Spearheaded by the time tested and successful Grameen Banking System of Bangladesh, the poor rural women, hitherto considered as risky and vulnerable have been suddenly transformed as risk-free, reliable and credit-worthy. What is the secret of this sudden transformation? Has the risk has been reasonably transformed to any entity? A middleman has appeared to bear the brunt of risk? Or simply, has the attitude of our society undergone a sudden transformation? It is worth pondering what are all those key elements and characteristics that have contributed the poor rural women to be risk free and credit-worthy? Traditionally, women, especially poor rural women have been shut out by our regular banking system from the credit delivery channel in the name of physical collateral. The success of micro-finance system, delivering small credit to the poor rural women without any collateral, and their prompt repayment of almost 100% open new corridors to discuss and debate the definition of risk and risk management, and our approach towards it..

EFFICIENT FINANCIAL PLANNING AND RESOURCES UTILIZATION FOR DISASTER MANAGEMENT

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Disasters are inevitable and the nation comes across innumerable losses in terms of human as well as capital in aftermath of disasters. Floods are one of the most frequent disasters of India, because of which we face annual loss worth 7.351 million hectares of agricultural land and 40.9 million human population are affected by it. Due to floods an average of 1793 human life and 85599 cattle are lost every year in addition to 1452904 houses being damaged. The present paper, in terms of the aforesaid facts, attempts to develop a roadmap for effective and efficient financial planning and resources utilization and sharing strategies in coordination and collaboration with Government agencies and various financial institutions of India for disaster affected areas and rehabilitation of population in India, by

- classifying the geographical area of India based on the dimensions of nature and kind of disasters, its frequency and related human and capital loss;
- Estimating disaster related loss based on areas, and its nature such as human displacement, loss of cattle population, crop
- ~~Devising~~ **Designing** financial resource planning and utilization map for mobilizing credit / loan, crop, cattle and human life insurance and resource financing for rehabilitation of displaced population.

**DISASTER RISK FINANCING, RISK TRANSFER, INSURANCE
AND MICRO FINANCE**

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Occurrence of ‘disaster’ and risk’ are common in any disciplines / subjects and in any field of activity and the Micro- finance / financing activity is not an exception to this. BWDA has been facing many problems / disasters as Default in loan repayment, absence of DCB system initially and increase over dues (O.D) of loan, bad debts, lack of knowledge among the borrowers / clients about the entrepreneurial / economic activities they are going to venture and lack of technical know-how services ,lack of knowledge among them regarding financial management & financial literacy causing them poor finance management and loss in their business, lack of marketing opportunities to borrowers goods, less priority to ‘ internal inspection’ and possibility of financial fraudulences, non- assets creation of borrowers initially.

To alleviate these problems / disasters, BWDA has been undertaking the following protective / Disaster Mitigation / Management activities like sanction of loans to SHGs on the basis of ‘Group Surety’, ‘Insurance coverage’ to borrowers / their property, provision for ‘bad debts’, organizing of ‘Financial Literacy & Financial Management’ trainings to borrowers for enabling them to utilize / invest and handle the money efficiently wisely and economically, organizing of vocational / entrepreneurship / skill development trainings to borrowers for enabling them to venture profit and demand oriented entrepreneurship

/ economic activities and run them in a successful / profitable manner which will generate income and enable them to repay the loans promptly, provision of ‘ Timely Credit Facilitation Services at nominal interest’ to its target population, technical know-how support & guidance services to clients regarding their micro enterprises, creation of ‘ internal inspection team’ and cross checking / inspecting the accounts of the M.F. to prevent any financial fraudulence, ‘Asset verification visit’s to ensure prompt utilization of loan amount for the relevant purpose by the borrowers, maintaining of DCB (Demand Collection Balance) schedule for preventing / reducing ‘Over Dues’ and loan repayment defaults, organizing of marketing support exhibition and workshops, introducing of ‘ incentives’ to the staff and leaders of SHGs, etc.

DISASTER RISK FINANCING, RISK TRANSFER, INSURANCE AND MICRO FINANCE

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Disaster the most dreaded event though in ages has been continuing to be the principal agent of major distraction, dislocation, desolation, severe sufferings and illusions inflecting grave painful wounds every where on its way, people by accepting defeat have never submitted to its cruelty. Disaster Risk Financing, Risk Transfer, Insurance and Micro Finance mechanisms have been developed to put in use as weapons for disaster fighting.

Risk Finance, can be availed of from the Governments, International Organization like IDA and Insurance Agencies. The practice has been popularized for covering the commercial consignments and big assets. Unfortunately the calamities destroy the belongings of the poor too, from which these facilities are still at far distance. These backwater areas can be of free play for the Micro Finance Organizations. If appropriate support is provided they can arrange for Disaster Risk Financing by tie up arrangements with suitable other financial institutions, which if done rapid whole redress of the disaster can be brought about in the affected areas.

Though the transfer of Risk Mechanism is in practice amongst the people in the higher bracket of economy, majority of our population are not even aware of the beneficial Risk Transfer methods. With a view to make the people in readiness to avail of the facilities the poor and lagging behind people should be educated about the transfer methods of risk arising from disastrous health hazard, crop failure and cattle death

etc in which walk also as Governmental efforts have not produced the full intended results, Credit and Credit plus activities of Micro finance Organizations can only be the effective tools to fill up the wide gaps. Disaster Risk Management coverage could not be availed of by majority of our population particularly those living below and on the poverty line. The shortcomings can be tackled well by appearance of Micro Finance Institutions with their Credit and Credit Plus programs in collaboration with the Insurance Organizations.

MFIs of India effectively started appearing into operations from 1980's for providing their Credit and Credit plus facilities to the poor, more particularly, as we do, to the less educated or illiterate ladies of backward poor societies.

We think Micro Finance is the strongest weapon for ultimate fighting of all disasters and to ensure sustained eradication of all ills of disasters. In Bangladesh and certain other neighboring countries the Micro Finance activities started much earlier and have been concretized firmly and uniformly in their fields. We also desire to grow alike.

DISASTER RISK MICRO FINANCING: - PRECAUTIONARY MEASURES FOR DEVELOPMENT AND FINANCING AGENCIES

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Disaster is an unprecedented occurrence causing a significant loss of human value including life, property and/or livelihood. The disasters created out of floods cyclone, earthquake, drought, heat wave, cold wave, thunder storm, hail stone, fatal road accident, etc. may be resulted with a source of danger, a peril. In any disaster prone area the vulnerability is much in the case of the female, aged group, and youngsters. Much of our experience elucidate that the needy people ask for loan only at the peak moment of their problems relating to health custom, celebrations and to meet some unforeseen incidents. Conventionally any one goes for having loan only at the time of insurgency. With the emergence of modernisation and commercialisation a person proceeds to arrange loan for the creation of money or to enhance the volume of income. Recently, Micro-Financing has got a formal recognition in our country.

Micro-Financing, starting from the Private Sector to the central government has developed some process for lending money on the scheme of Micro Credit Financing. As a result of disaster, these agencies proceed either for risk avoidance or risk retention or risk reduction or risk sharing or risk transfer. Among them the disaster is the foremost one, which has an enormous effect on people's economy, strength and their social standing. Varieties of investigation in Orissa, resulted with the fact that, "Unless the state takes adequate care to protect the poor

and the vulnerable from the adverse economic effects of disaster, any serious effort at sustainable socio-economic development will have no long-standing and favourable impact”. So the financing institutions, Govt. and other allied bodies are in a cross road, whether to lend money or not. The paper mentions the abuses of loan in the consumption or on unforeseen purposes. Besides this the paper incorporates some probable factors like accountability, psychic condition, middle men’s interference, non-cooperation from other sister organisations etc. The last portion of the paper also bears some precautionary measures like the track record of the loanee, trade training, fixation of accountability, In-Charge for recovery of money, provision of administrative cost, the liberal method in Insurance and securing compensation against micro financing etc.

DISASTER RISK FINANCING RISK TRANSFER, INSURANCE AND MICRO FINANCE

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All members of society face risks in their daily lives. Individuals work hard to establish productive lives for themselves, but there is always the fear that their security and their assets could be taken away by an unexpected event. Insurance helps to take away this fear as it allows people to prepare for the future and increases their security giving them peace of mind. Insurance helps people to be self-reliant and resilient so that when a loss does occur, they can recover without seeking outside help. ~~Despite the important benefits~~ of insurance, a large proportion of society does not have any insurance and are very vulnerable to risks. The vulnerability of the poor, which is already very high, is increased by this fact. As a result of this, when a loss occurs, they are completely dependent on external aid in order to recover. The resources of governments and relief agencies are not infinite and when a serious disaster occurs they are put under a tremendous strain. The provision of insurance services to the poor could help to relieve this strain by enabling them to be less dependent on relief. This would mean that resources could then be directed towards areas that cannot be covered by insurance.

Financial services are essential to the well functioning of any thriving economy. All individuals have times in their lives when they need to save money. They may need a larger sum of money for a special

occasion, to pay for their children's education, to provide for themselves in old age, to invest in their business or in case of an emergency in the future. Access to credit facilities, such as banks or professional loan agencies, is equally important. Entrepreneurs may have good business ideas but they cannot act on them if they do not have access to capital.

The poor are often ignored when it comes to the area of financial services. It is a common misconception that the poor are unable to save and that they are unreliable borrowers. Because of this, commercial banks are often unwilling to provide financial services to the poor. This is particularly unfortunate as access to these services could greatly help to reduce the vulnerability of these individuals by encouraging savings, which could be used in times of crisis, and by reducing their reliance upon moneylenders who charge high rates of interest.

Micro finance programmes have emerged in response to the need of the poor for financial services. In India the Women SHGs Associations are an example of an organisation engaged in this type of activity. It is a federation of groups engaged in savings and small credit schemes. Through the establishment of savings groups in the villages and the distribution of small loans, women SHG Associations help their members to reduce their vulnerability and improve their standard of living.

**MICROFINANCE BASED DISASTER MITIGATION:
A STUDY IN EARTHQUAKE HIT KUTCH DISTRICT OF
GUJARAT**

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The rehabilitation efforts in earthquake hit Kutch district of Gujarat has taken the form of both restoring the livelihood as well as enhancing the capacities of the affected people to face any future disasters. Financial Access for Improved Rehabilitation (FAIR) and Disaster Mitigation Fund (DMF) are two projects of CARE India geared towards such rehabilitation. The projects implemented through NGO partners aim at enhancing the economic security of poor to cope with the adverse impact of disasters. The projects have adopted the microfinance approach to address the livelihood security and restoration. The target groups were to be provided access to savings, credit and insurance to help in disaster preparedness and mitigation. It was visualized that the SHGs will come together to form a federation and will take over the management of the funds in a sustainable manner by relying on market based principles. The resources are to be mobilized both through the savings of the members, bank borrowings and the emergency funds to be parked with the federations.

The study results indicate that though using microfinance is a novel idea but microfinance under disaster conditions faces many challenges. While microfinance can ensure livelihood protection, it cannot *per se* lead to livelihood restoration. Microfinance can act as a catalyst but needs to be accompanied by other interventions like creating skill development and creating forward and backward linkages. Moreover,

using credit as a mechanism for disaster mitigation may also face the limitation of it being not used by many during disasters especially on commercial lines including the problem of self exclusion. Apart from the project design limitations, institutional constraints accompanied by prevailing socio-economic conditions were identified as the key factors limiting the performance of interventions. Capacity building including strengthening of SHGs and federations and enhancing the utility of emergency of funds to make them more relevant and flexible to take care of the multiple needs of the poor were some of the suggestions made in the study to improve the working of the interventions.

DISASTER AND POVERTY: RETHINKING MITIGATION

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This is inarguably true that there are variations in the impact of disasters between the countries. Studies have shown that the extent of irrecoverable losses is much more in developed countries than the developed ones. On analyzing the vulnerability of the victims, it becomes evident that it is the poorest of poor which suffer the brunt. It is obvious that disasters worsen the poverty of the poor. The problem lies not only in its repeated occurrences but also in its preparedness and mitigation.

It has been widely observed that often at the time of disaster, the community, i.e., ordinary people respond spontaneously to assist others in need. This kind of humanitarian gesture can be an important source and it needs to be mobilized effectively. And on the other hand, by the time the rescue operators come in, it is the community who can respond proactively. This timely support could reduce loss of lives. When it comes to post disaster mitigation, it is evident from various Researches, that the faith of the people is more in their community. This indicates ~~Self-Help Groups and Micro Finance~~ is one such example of mobilization, which needs no introduction. There are other such models, which would help in making Disaster Resilient Communities. SHGs and Micro Finance Institutions have proved its effectiveness in numerous other developing countries. Even in Disaster affected places, the introduction of Micro Insurance and Group Insurance have proved instrumental in mitigating the risk dramatically.

**DISASTER FINANCE AND RISK REDUCTION PRIVATE SECTOR
PARTICIPATION – A REALISTIC ASSESSMENT**

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Of late, the country is exposed to relatively high levels of risk from earthquakes to tropical floods. The rapid expansion of the population into areas that are susceptible to such disaster has placed millions of people and new areas of economic activity in harm's way. To address the financial and economic effects of such risks, households and businesses have relied on private insurance, state-sponsored funds and /or emergency disaster assistance to manage their natural hazard risk.

In the aftermath of Tsunami economic pundits stress the government and policy makers to find ways to expand private-sector participation in disaster finance and risk reduction. The possible areas of public private participation have been discussed in the present paper are ,Priority investments for prevention and mitigation,pilot programs financing of early warning system, Institutional and policy development, creation and improvement of financial instruments (calamity funds, insurance etc.) forecasting and monitoring of hazards, studies and surveys to prepare an inventory of damages and prepare reconstruction and rehabilitation plans.

DISASTER RISK MANAGEMENT A FEW THOUGHTS

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Natural calamities are old, they are restlessly engaging the attention of every nation since recent times. The world civic bodies are awake to the situation and arousing every community to rise to the nuances and manage the disasters more effectively than in the past. There has been a shift also in the emphasis now. managing the activity after the event, whereas now the emphasis is managing the event before it occurs or in other words engaging in disaster risk management and not mere disaster management.

This paper attempts to review the process of disaster risk management more from a commoner's view without getting into the mayhem of technical jargon. From a cursory consideration of the foregoing stages it is easily recognizable that all the activities seem to be more related to "organizational" function rather than related to "individuals", except the aspect of "preparedness". People should participate in the entire programme of disaster risk management at and with their own level of preparedness.

Any system of risk management has 'transferring the risk' as one option. The most popular risk transfer mechanism lies in the process of 'insurance'. Insurers normally underwrite those risks of which they can assess the frequency and severity of their occurrences. Therefore, most of the insurers tend not to insure risks of which there are no past trends or statistically reliable frequencies or whose sizes are mega risks. The

argument of reinsurance comes as a secondary measure. Therefore it is suggested that the world insurance community may think of a common and unitary global mechanism of bearing these mega-disaster risks as co-partners to alleviate the losses wherever in the world they occur. The respective governments of the land can transfer a certain amount from their taxes towards the cost of such insurance, based on their own experience in the land.

What is more important to note is that this article is to stress the fact that disaster risk management is not the job of one individual or one community or one nation but that of the world community, which is basically a human element. It should be addressed to at mega-level looking at the mega-scale of the disaster risks and the required operations. Piece-meal funding by the world bodies should give place to the creation of a permanent and scientific system of ‘insurance’ funding to treat the entire programme of disaster risk management.

In conclusion it may be said that disaster risks, by nature, being not ‘insurance oriented and the present normal risk financing by ‘insurance’ may best be replaced by an alternative risk financing mechanisms like unitary global insurance funding or DIS-Bond funding to suit these special types of disasters.

INTEGRATED SOCIAL PROTECTION (ISP) FOR LIVELIHOOD SECURITY FOR INFORMAL SECTOR WORKERS

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SEWA is a member based organisation of poor self employed women workers from the informal sector. It has a membership base of 7,96,548 women workers in 7 states of India with 4,75,011 from Gujarat. SEWA's main goal is to organize the women worker's for full employment and self reliance. The poor women workers in the informal sector are ill prepared for adverse shocks and accidents that are part of normal life. The loss of income earning opportunity and potential from these shocks represents a major threat to the well-being of the poor. They are always in danger of falling victim to a myriad of natural disasters. These natural disasters strike the poor first and they suffer the most severe damage. As a result of these disasters the income of the members decrease and they have to borrow money from outside sources. Thus on one hand their income decreases and on the other hand their debt burden increases pushing them further in the vicious circle of poverty.

Amidst all this insecurities of the poor informal sector workers, there is a need to ensure their livelihoods. In order to ensure the livelihoods of the informal sector workers, there is a need for an integrated approach which is affordable and accessible to the poor.

In SEWA's experience, providing livelihood security interventions such as insurance and banking services, has been crucial in alleviating the problems of disaster-prone areas in the informal sector. SEWA with its

own network of organizations and the existing framework and infrastructure of self help groups, has linked these affordable services through an ISP mechanism as given

1. Providing sustainable livelihood security
2. Taking advantage of economies of scale by turning disaster into a development opportunity.
3. Reducing vulnerability and risks during natural calamities
4. Help in reducing migration
5. Reduce dependency on agro based activities.
6. Create regional development through both economic and eco-regeneration activities.

DISASTER AND INSURANCE CLAIM POLICY

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In the light of the recent natural disasters, new dimensions have to be added to the present insurance policy. According to the existing stipulations, whether it is life Insurance or general Insurance, a nominee has to be named, in the Application format. But if the Nominees also perishes in the disaster, then who is there to claim the money? There may be a survivor – a minor- who may not even know about the Insurance, then who is there to claim the money? There are instances of customers trying to cheat the Insurance Establishment. But in the situation mentioned above, it would be the other way round. As private Insurance companies have mushroomed now, the unclaimed money, is likely to flow into their private kitty.

Hence the Insurances Establishment has to maintain a complete record of the family and the legal heirs. Even if no claim comes forth, it should be the responsibility of the Insurance firm, to trace the heir and pay the insured amount. The onus has to be on the Insurance Agency and not vice versa.

COMMUNITY BASED RISK TRANSFER: A CASE STUDY OF AFAT VIMO

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In India, risk of personal, household and small business assets are often unprotected against disasters. The costs for relief and rehabilitation often rely on aid, but support from outside entities is often unpredictable—leaving the damaged assets of the poor by natural hazards difficult to replace—and making recovery difficult. Groups that fail to recover are more vulnerable to subsequent disasters. Insurance covers many losses but is often unavailable to the poor due to the high transaction cost to affordable premium ratio. Hundreds of efforts across India and the world are attempting to reduce risk of poor communities. Microinsurance is one of a number of viable methods that has emerged to provide the safety and preparedness benefits of insurance to the poor. Microinsurance puts cash into the hands of people so they can begin rebuilding their own livelihoods. Microinsurance has emerged in a policy environment that has made recent progress towards disaster risk reduction. Recent insurance regulatory reforms within the Indian Government and the prioritisation of risk reduction by the UNISDR, and others have contributed to the viability and advancement of microinsurance for the poor.

Afat Vimo (Gujarati for ‘Disaster Insurance’) was born in this environment as a product of the All India Disaster Mitigation Institute. This document discusses the role of this instrument in an attempt to transfer disaster risk from the poor to the commercial insurance

market. The operating system is detailed as well as procedures of claims settlement. Successes have included the design of an affordable product, transparent payout, and linking microinsurance with disaster preparedness education. Challenges include the fact that the administrative cost currently falls on the implementing agency, and is not paid by the insurance market. The demand for the Afat Vimo product has been growing: it currently covers over 6000.

REDUCING RISKS IN A DISASTER SITUATION – MICRO-FINANCE AND SOCIAL SECURITY INITIATIVES WITH THE ELDERLY

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The Aged have always been seen to be at the receiving end where it comes to preparedness for changing needs and requirements associated with ageing. Compared to a younger person, even a relatively well educated, urban, settled person over the age of fifty answers on an average double the questions and goes through a battery of tests for either seeking insurance or credit, in the normal course, while aberrations may exist. So much for Risk transfers and risk reduction.

The changing family scenarios in the development driven agenda of the young, themselves semi-skilled for the current market requirements has a force-majuire that the elderly are left behind to fend for themselves at the time where they need support most. With the break-down of family and community social supports, it is expected that the alternative systems of social security come into play. However, in the nation that boasts of a billion population, 7% are the aged and of this, nearly 80% have had no chance or choice to prepare for their twilight years, essentially since they were in the unorganized sector. They have heard of no Provident Fund, Gratuity, Medical Insurance or Life Insurance and even if they did hear had no access.

The saying goes that “Development leads to disasters and Disasters lead to Development”. In the case of the Tsunami affected elderly both are

seen to be true. The development has played a disastrous role that they have been abandoned by their children flowing with the tide of market economies and then they have been finding their feet back into living a life of dignity and mutual support by seeing themselves as members of a larger Elders Self Help Group movement. The paper would examine the rise and fall of the traditional systems of social security, the Tsunami and the incursion of development agencies in the immediate aftermath, the coming together of the elderly across 42 Villages on the East Coast and ten villages on the West coast and their current visions of reducing their vulnerabilities and preparing for the dry days.

The paper would also outline the emergence of community managed institutions of the elderly albeit an external input and their confidence to meet times of distress. It shall also be an ode to the grit and determination of the 356 Elders Self Help Groups now in Federations at the village level to manage their own economic supports if they can receive a small but tidy impetus to enhance their 25 lakh rupee worth of saving.

Finally it shall critique the traditional charity based support and the current community based support for the destitute elderly highlighting the need for a multi-pronged programme for the elderly, Old Age Pensions being only one of them.

DISASTER RISK FINANCING, RISK TRANSFER, INSURANCE AND MICRO FINANCE

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Every disaster is unique in its own way. It is very difficult to predict the type and magnitude of disaster, but there are disasters which happen on a periodic (due to geographical and climatic condition) way which can and should be prevented by way of preparing out self and by taking necessary steps to minimize the man and material losses which are going to damage in disaster. Minimizing the losses by:

PRE DISASTER

- Preparedness – preparing to counter the magnitude of the loss
- Prevention – taking necessary steps

POST DISASTER

- Response
- Recovery
- Rehabilitation

There has been considerable amount of concern over natural disaster at the global level. Substantial scientific and material progress has been made to reduce the loss of lives and property.

In India also over the past couple of years there has been a paradigm shift in the approach to disaster management. Disaster management occupies an important place in this country's policy framework as the poorer and underprivileged are the worst affected.

Micro insurance and Micro Finance plays an important role to safeguard the interest of rural poor.

Micro insurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the livelihood and cost of the risk involved. As with all insurance, risk pooling allows many individuals or groups to share the cost of risky event. To serve poor people, micro insurance must respond to their priority needs for risk protection (depending on the market, they may seek health, car, or life insurance be easy to understand, and affordable.

DISASTER RISK FINANCING, RISK TRANSFER, INSURANCE & MICRO – FINANCE

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The intent of disaster micro insurance is to provide low-income households and micro businesses with easily accessible and affordable insurance for deaths, unforeseen health expenses, loss assets, livestock and crops in the event of fire, flood, typhoon or other natural and man made disasters at affordable premiums by keeping the transaction and other costs low. In recent years, micro finance services like savings, investments, remittances, credit and insurance have become important for providing affordable financial services to low income and poor households. As an extension of micro finance, micro insurance provided indemnity for losses with respect to a pre-specified event in exchange for a premium payment.

Only 1% and 3% of households and businesses in low and middle income respectively have catastrophe insurance coverage compared with 30% in high-income countries. Post disaster sources of finance are woefully inadequate to assure timely relief and reconstruction of critical infrastructure. For example, two years following the 2001 Gujarat earthquake, assistance from a government reserve fund and international sources had reached only 20% of original commitments.

Disaster present a special challenge to micro insurers because of the covariant nature of the risks, which means that insurers must have a

large capital reserve or reinsurance to cover the frequent but very high concentration of claims due to catastrophes. In examining micro insurance schemes for disaster management it is important to analyze the following:-

- Are there sufficient reserves in place for settling very large number of small claims?
- Are there reliable institutions and infrastructure in place for propagating the needed protection covers by credible and sustainable models and methods?
- How are the risks estimates generated and by whom? Is the information reliable and the pricing low enough to attract the low income households?
- Is there a visible business proposition that can attract financial and other infrastructure entrepreneurs to make the system feasible in the long term.

The viability of micro insurance and its contribution to the management of natural disaster risks depend on its capability to visualize risk reduction, through credible products, capability of handholding and quick and responsive service.