Insurance – a new approach for linking relief, rehabilitation and development

The potential and frontiers of inclusive insurance in the context of conflict- and disaster-induced displacement
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LIST OF ABBREVIATIONS

EBRD European Bank for Reconstruction and Development
EIA Equity Insurance Agency
FAO Food and Agriculture Organization
FDP Forcibly Displaced Person
GES Growth Enhancement Support Programme
GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit
GPFI Global Partnership for Financial Inclusion
HSNP Hunger Safety Net Programme
IBLI Index Based Livestock Insurance
IDMC Internal Displacement Monitoring Centre
IDP Internally Displaced People
ILO International Labour Organisation
ILRI International Livestock Research Institute
IOM International Organization for Migration
JD Jordanian Dinar
LRRD Linking Relief, Rehabilitation and Development
MFI Microfinance Institution
MfW Microfund for Women
NDVI Normalized Differenced Vegetation Index
NGO Non-Governmental Organizations
POS Point of Sale
UNHCR United Nations High Commissioner for Refugees, UN Refugee Agency
USD US Dollar

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EXECUTIVE SUMMARY

The large number of people being displaced from their homes shows the need for developing effective approaches to linking relief, rehabilitation and development. In recent years, millions of people have been forced to leave their homes, mainly due to conflicts or natural catastrophes. Numerous relief and development organisations are providing humanitarian, transition, and development assistance and are in search of approaches that link relief, rehabilitation and development. In this context, the potential of financial services and especially insurance has not been fully explored.

How financial inclusion can help to rebuild or sustain the livelihoods of displaced people and their host communities has become a prominent topic on international agendas. Among others, it has been declared a priority topic for the Global Partnership for Financial Inclusion (GPFI) under the German G20 Presidency in 2017. The GPFI policy paper Financial Inclusion of Forcibly Displaced Persons – Priorities for G20 Action highlights that “the financial inclusion of FDPs provides a unique opportunity of linking relief, rehabilitation and development (LRRD) efforts” (GPFI, 2017).

This discussion paper develops an analytical livelihood- and people-centred framework to assess the potential of insurance for conflict- and disaster-induced displaced people. Research on the potential of insurance approaches has shown that there are two relevant scenarios, either before displacement, or after displacement, in which insurance may be an instrument. Before displacement, insurable risks may be covered to sustain the livelihood of the target group and hence, reduce the risk of their displacement. After displacement, insurance approaches may help to sustain the newly built livelihoods.

BEFORE DISPLACEMENT

Insurance may mitigate the effects of a shock with monetary compensation, contribute to sustain livelihoods and prevent displacement. From a humanitarian and development point of view, it is preferable to prevent humanitarian crises leading to displacement instead of implementing relief measures in its aftermath. Therefore, efforts of development organisations specifically consider those regions that are prone to be affected by crises, including those with socio-economic, political, environmental, and other driving factors. In this context, inclusive insurance may represent one potential component of the prevention of displacement by mitigating the economic consequences of a devastating shock. It thereby represents a central part of sustainable economic development.

A thorough analysis is necessary to decide if an insurance approach is applicable in each context. Firstly, the drivers as well as the triggers of (potential) displacement need to be analysed to assess whether the underlying risks are insurable. Insurance will be most effective in preventing displacement when the trigger event that ultimately causes the displacement is of socio-economic nature, has a clear and verifiable threshold and does not entail too high of a covariate risk for the insurer. The second step is to analyse the needs and demands of the target group. Step 3 and 4 comprise the development and pilot-testing of such insurance schemes. Notably, it will be challenging to measure the direct impact of insurance in reducing displacement, as there will be many other influential factors as well as an attribution gap.

A case from Kenya illustrates that the preventive potential of insurance can be effective when a monetary compensation can mitigate the trigger. In the case of disaster-induced displacement such as severe drought in northern Kenya, displacement is clearly caused by a loss of livestock and thereby livelihood, which is insurable. An index-based livelihood product which is already being distributed represents an example for the application of an insurance product.

The case of Nigeria shows the limitations of the insurance approach in conflict-induced displacement contexts. The attacks by Boko Haram represent the main trigger for displacement. The trigger of displacement in this context is not related to an insurable risk. Moreover, insurance cannot and should not prevent people from fleeing if their health and lives are threatened. Therefore, insurance does not represent an appropriate solution. However, insurance could help mitigate some of the root causes of the violent conflicts, such as poverty and unemployment, and thereby indirectly reduce displacement in Nigeria in the long run.

AFTER DISPLACEMENT

Insurance can mitigate risks that displaced people face when they try to build new livelihoods in protracted displacement. Financial inclusion and insurance approaches may also play a role for Linking Relief, Rehabilitation and Development (LRRD). Financial inclusion can generally help in securing the economic perspective displaced people are building for themselves, helping them to leave emergency aid behind and become self-sustained (e.g. by safely storing money, by receiving money from friends and relatives or by using loans for profitable investments). Specifically, insurance can secure the newly built livelihoods against unpredictable perils.

1 To make the paper more reader-friendly, the target group of conflict- and disaster-induced displaced people is referred to as "displaced people" in this discussion paper.
In this scenario, an analysis needs to assess the opportunities of the target group. Firstly, the host country’s stance towards migrants and displaced people in particular needs to be analysed (i.e. mind-set of the host population towards displaced people, existing financial services, regulatory and market situation). It further requires gathering an understanding of the situation and the needs of displaced people. The second step is to use these insights and additional interviews or focus group discussions to concretize the needs and willingness to purchase insurance. Steps 3 and 4 cover the development of an adapted scheme. Innovations might be required with regards to the documents that must be presented to the insurance company by the displaced people (e.g. for refugees the use of UNHCR cards instead of formal IDs).

In Jordan, insurance schemes for Syrian refugees are already being pilot-tested. A case study from Jordan illustrates the framework for developing insurance schemes for refugees after the displacement has taken place. The analysis of the country context has identified needs such as work accident insurance and hospitalization insurance. Such products are already being offered in the form of a combined credit life and hospitalization product that is bundled with credit and is accessible for Syrian refugees in Jordan. It is still in an early pilot stage, but has already been distributed to refugees.

RECOMMENDATIONS AND NEXT STEPS

To develop products for this very heterogeneous target group the needs and demand for insurance have to be thoroughly assessed. Such an assessment has to be context-specific because the target group - even within one host country – might be very heterogeneous. These differences may be reflected in country of origin, legal status in host country, living conditions (e.g. camps, informal settlements, private housing in urban areas), educational background including financial literacy, etc. Moreover, the work on financial inclusion of displaced people is still in the early stages of development. Therefore, thorough on-the-ground analysis is indispensable.

In cases where the conditions invite an insurance approach, well-designed pilot-testing and adaptation is important. It is imperative to pilot-test and evaluate the insurance scheme to analyse whether the product is well-designed and the target group understands and appreciates the products.

When introducing an insurance product, commercial insurers need to be involved from the beginning. Commercial insurers must play an important role in the provision of insurance for displaced people but they also need support and partners. Insurers are the institutions allowed to carry the risk. However, insurers themselves usually will not take the initiative to provide insurance products to the vulnerable and unserved, including displaced people. Therefore, microfinance institutions, humanitarian aid organisations or other NGOs are vital for reaching the target group and can support product development with their knowledge.

Insurance approaches in the context of displacement should always be embedded into national financial sector development. The “do no harm” approach is central in the context of conflict and fragility and points to the importance of intentional inclusion of all related parties. Hence, the approaches promoted should always be open to other target groups and consider host communities in particular. Therefore, interventions should be embedded within the broad picture of financial inclusion and development strategies in order to bring sustainable changes to the lives of displaced people or to those who are on the verge of displacement.
Two children in Shariya refugee camp, northern Iraq
1. INTRODUCTION

In recent years, the number of people being displaced from their homes in developing and emerging countries has significantly increased. In 2017 alone, 16.2 million people left their home, forced by conflict, persecution, violence, or human rights violations (“conflict-induced displacement”). One third of them crossed the border to seek refuge in another country. They increased the overall number of forcibly displaced worldwide to 68.5 million people (UNHCR, 2018). Additionally, tens of millions of people were displaced by climate risk events, such as floods or storms, or by geophysical hazards, such as earthquakes (“disaster-induced displacement”) (IDMC, 2017b: p.9).

Financial services can link humanitarian aid and long-term development, even though pilots to demonstrate this are still few. Immediately after the crisis, humanitarian aid is usually provided to meet the affected population’s immediate needs. Afterwards, programmes that link relief, rehabilitation and development (LRRD) are frequently introduced to sustain livelihoods and support economic development. The international community has been exploring different approaches of LRRD for crisis-affected populations. One of these approaches is inclusive finance, including remittances, saving and credit products (El-Zoghbi et al., 2017: p.15-17). The argument is that appropriate financial services can increase the coping capability of individuals and households in the face of negative shocks, and can stimulate economic activity after a crisis. However, since most people in crises remain excluded from the formal financial system, a promotion of inclusive finance is necessary (El-Zoghbi et al., 2017: p.16; GPFI, 2017).

Inclusive insurance in the context of displacement has not yet been thoroughly explored. Recent projects provide displaced people with access to financial services such as cash transfers via mobile wallets or loans for small businesses. However, the opportunities and challenges of inclusive insurance as an instrument to support crisis-affected populations have hardly been discussed nor tested so far.

This discussion paper analyses the potential of insurance approaches to sustain the livelihoods of populations in risk before displacement and to support people after displacement. The target group of this paper consists of conflict- and disaster-induced displaced people. This comprises refugees, asylum seekers and internally displaced people (IDPs), as well as people displaced by natural or environmental disasters (see figure 1). To explore the potential of insurance in this context, this paper approaches the subject from two sides:

» First, this paper deals with the potential and role of insurance solutions to inhibit natural disasters or conflicts from forcing people to flee (“prevent displacement”) by sustaining livelihood in the people’s home region: Under which circumstances can insurance schemes contribute to an improvement of living conditions and hence to a lower pressure to flee? What could a potential scheme look like?

» Second, the paper deals with those who were already forced to flee and have arrived after their transit: To what extent can insurance protect the livelihoods that these people are building? Which insurance products can fulfil their needs? How should products and distribution be adapted to this specific target group and situation?

2 The overall number of disaster-induced displaced people is unknown.
3 or “humanitarian-development-nexus programmes”
4 Inclusive insurance are insurance schemes for the previously underserved that follow the SUAVE criteria: simple, understandable, affordable, valuable and efficient (IAIS, 2012, p. 7).
5 To make the note more reader-friendly, the target group of conflict- and disaster-induced displaced people is referred to as “displaced people” in this discussion paper. Accordingly, the term “displacement” refers to both conflict- and disaster-induced displacement.
6 Insurance always needs to be considered as one part of financial system development, which represents an essential part of sustainable economic development.
7 A third option could deal with the potential of insurance during the transit. However, since this implies a large number of challenges and does not represent a priority in the situation, it is not considered in this discussion paper.
For each scenario, the discussion paper suggests an analytical livelihood- and people-centred framework. The central idea of this framework is to assess if, in a specific situation of the target group, an insurance and financial sector approach has potential for improving their livelihoods. Before displacement, insurable risk may be covered to sustain the livelihoods of the target group and hence reduce the risk of their displacement. After displacement, the question is if an insurance approach can help to sustain the newly built livelihoods. In cases where an insurance approach has potential, the framework proposes additional steps, for both before and after displacement contexts, regarding how an adapted insurance scheme could be developed.

The paper is based on information collected through desk research and expert interviews with representatives from public and private institutions and academia. To arrive at a balanced picture of the potential of insurance in the above contexts, the discussion paper applies the method of triangulation. It combines different perspectives and methods to analyse the phenomenon. Methods include a review of theoretical literature, project reports and the results of semi-structured interviews. The interviews were conducted via telephone and Skype with representatives of insurance companies and distributors, international development organisations and with international experts (for a list of interviews, see Annex).

The paper is structured as follows: Chapter 2 introduces the concept of inclusive insurance. Making use of this background information, chapter 3 presents the analytical framework that guides the question of whether insurance is applicable in each context and what a scheme could look like. In chapter 4 these frameworks are illustrated with three examples from Kenya, Nigeria, and Jordan. Chapter 5 concludes with concrete policy recommendations for national and international policy makers as well as institutions involved in development cooperation.
2. THE CONCEPT OF INCLUSIVE INSURANCE

The term inclusive insurance comprises all insurance schemes aimed at the excluded or underserved market. As such, “inclusive insurance” is more comprehensive than “microinsurance”, which only comprises designing and providing insurance for low-income people (IAIS, 2012: p.5). Thus, the key elements of promoting inclusive insurance are: 1) suitable product design (simple insurance terms, affordable insurance premiums and timely payouts), 2) close and easy to use distribution channels, and 3) accessible and effective financial literacy training. In addition, public policy measures and proportionate insurance regulation as well as supervision need to assure enabling and responsible framework conditions. Even if the target group is not only the poor, product simplicity and accessible distribution avenues are key because most people and firms will be first-time insurance users.

It is further expedient to differentiate between direct and indirect insurance schemes. Policy holders of direct insurance are individuals (e.g. farmers, households, laborers, or companies such as financial institutions or agribusinesses). Policies are often sold at the local level and retailed through different channels, including microfinance institutions (MFIs). Direct insurance can reveal opportunities that increase productivity, e.g. supporting to increase savings as well as investments. In indirect insurance schemes, policy holders are governments or municipalities. Indirect insurance can be implemented on a macro level, insuring national or local governments, and on a meso level, insuring cooperatives, micro-finance institutions, credit unions and NGOs. Payouts to those affected by extreme weather events are intermediated by the policy holders. The final target group thus benefits indirectly, e.g. from food distribution financed by insurance payouts following a drought, or from the timely reconstruction of infrastructure in affected regions. Indirect insurance thus reaches a large number of people within a short period of time, e.g. by channelling emergency funds through existing social protection programmes.

Insurance can mitigate economic consequences of disasters by offering a financial coping strategy that avoids negative repercussions of many other coping strategies. Insurance schemes provide monetary compensation for pre-defined perils that affect an individual, a household, a firm, or their assets. By providing payouts to the insured, insurance secures livelihoods and mitigates the financial backlash of the shock. A life insurance product can sustain the economic well-being of a family even when its main breadwinner dies. An accident insurance can help finance the health expenses occurred after an accident. Crop insurance can insure the economic loss of harvest in case of a drought and can help the farmer to replace the seeds or compensate the lack of income.

Insurance only works for certain perils. For insurance to constitute a viable option to mitigate a risk (“insurable risk”), several preconditions need to be fulfilled: 1) The payout needs to be subject to a clear and verifiable trigger based on the insured risk and 2) the insured person needs to be unable to influence the trigger. 3) Moreover, the risk of policy holders within a portfolio must not be strongly correlated (“covariate risk”). Against this background, certain perils and crises are uninsurable, like desertification, sea-level rise or violent conflicts. Extreme weather events are generally insurable. Insurance solutions are particularly suitable for rare risks with a high loss potential. Thus, for weather events which occur increasingly often, insurance is not an appropriate instrument.

It is important to always consider inclusive insurance together with other elements of financial inclusion. Insurance represents an integral part of inclusive finance. It should be considered together with credit, saving and payment products for the financially underserved because the various financial services are complementary and because insurance can unfold its potential better when it is linked to other financial services (Cohen & Sebstad, 2006: p.39).

The poor struggle with diverse risks that easily endanger their fragile livelihoods. Illness, accidental death, disability, loss of property, and loss of harvest are the most common perils. The poor frequently follow suboptimal coping strategies such as depleting their savings, borrowing with high interest, selling assets, reducing food consumption or exiting education. However, these strategies are often insufficient and come with serious repercussions in the longer term, such as loss of income and health issues (Churchill, 2006: p.12).
3. ANALYTICAL FRAMEWORK

The following chapter presents the two analytical frameworks derived in this discussion paper. Chapter 3.1 focuses on people who have not (yet) been displaced (see figure 2) and suggests a framework to prevent displacement: Under which circumstances can insurance schemes contribute to an improvement of living conditions and hence to a lower pressure to flee? What could a potential scheme look like? Chapter 3.2 deals with those who were forced to flee and have arrived after their transit (see figure 2), and raises such questions as: Which insurance products can fulfil their needs? How do insurance products need to be adapted to this specific client segment and their situation? For both frameworks, four steps are suggested for analysing the situation and for developing an inclusive insurance scheme.

![Figure 2: The process of displacement and the potential for insurance analysed in this discussion paper](image)

3.1 BEFORE DISPLACEMENT – THE POTENTIAL AND LIMITATIONS OF INSURANCE

Prevention of displacement means preventing natural disasters/conflicts from forcing people to flee by sustaining their livelihood and not to prevent their movement as such. Prevention of displacement is “the elimination of causes of departures, rather than the erection of barriers that leave causes intact but make departure impossible”, as defined by the Preventive Protection Framework of UNHCR (World Bank, 2017: p.44). From an ethical and development-oriented point of view, this remains the most important strategy considering natural and man-made disaster. While not attempting to hinder people in crises from seeking refuge in a secure region, prevention of displacement means to endeavour to support vulnerable people in their home place. Potential mechanisms include advocacy, early warning systems and conflict mediation, but could also mean to enable people to use alternative coping strategies (World Bank, 2017: p.44).

The distinction between regular migration and displacement is challenging in practice. Although definitions are in place to clearly define people according to their reasons to migrate (see figure 1 in chapter 1), the reality is far more complex: When do people deliberately decide to migrate, for example, in search of better income opportunities (“regular migration”) and when are they forced to flee, for example, due to a natural catastrophe (“displacement”) or violent conflict (“forced displacement”) that impaired their livelihood? This line is often difficult to draw but in effect may greatly affect the legal status of the person in question in the host country and therefore, among other things, his or her access to formal financial services.

A four-step approach helps to define whether insurance is the right approach in a given context and how the respective scheme can be developed (see figure 3 for an overview of the framework). First, one should understand triggers, drivers, and their interlinkages (step 1) and decide whether insurance constitutes an appropriate measure in this context (step 2). If the decision is positive, one can develop the insurance scheme (step 3) and pilot-test it (step 4). In the following, these four steps will be described in more detail.
Conflict- and disaster-induced displacement can be best explained by distinguishing and analysing its drivers and triggers. The phenomenon of displacement is very complex and frameworks can only partially explain its mechanisms (Zapatar, 2010: p.9). To discuss the causes of displacement, the Internal Displacement Monitoring Centre (IDMC) distinguishes between drivers and triggers. Drivers are underlying factors that accumulate over time and are commonly also called root cause or push factors. Triggers are more visible events that threaten people’s physical or economic security, such as armed attacks or earthquakes. In most cases, a combination of drivers is the underlying reason for displacement, while only one certain event, the “tip of the iceberg”, ultimately triggers the displacement (IDMC & NRC, 2015, p.2).

Triggers may be classified in the same categories (conflict and violence, political, socio-economic and environmental factors) but are usually more visible events and have a high intensity. For example, a lack of rainfall and the related economic loss (e.g. some fields or part of the harvest) can aggravate a farmer’s livelihood (driver). Reinforced by further factors such as low investment in social infrastructure (driver), he may consider whether it is worthwhile to move in search of new income opportunities. So far this situation would represent a case of regular migration. However, if the lack of rainfall persists and a severe drought occurs, threatening the farmer’s existence, the lack of rainfall can become a trigger and the movement of the farmer would be considered as displacement. Nevertheless, triggers do not automatically lead to displacement. Only if the individual evaluates the level of threat on his or her physical and economic capacities as very high, and his or her capacities to flee the home are sufficient, is displacement triggered (IDMC & NRC, 2015: p.2).
Drivers either reinforce the trigger or directly contribute to displacement. The drivers can have two types of impacts: First, they can reinforce the trigger (thin orange arrows in figure 4). An example is the Darfur conflict where a situation of severe poverty, food insecurity, weak governance and environmental degradation has led to frequent outbursts of violence, which have ultimately led to displacement (Sudan Watch, 2016). Second, drivers can complement a trigger (thin grey arrows in figure 4).

As described above, a trigger event does not always lead to displacement. If an individual considers his or her coping strategies as sufficient, he or she might still decide to stay. In the case of a severe earthquake, for example, the family affected might stay if they have the financial means to rebuild what has been destroyed, if the government is supportive and the general situation in the region is good. In contrast, if an earthquake hits a region that already faces several drivers, the family is more likely to be forced to flee.

A thorough analysis of the context helps to understand the drivers and to classify them. Figure 4 depicts the most common drivers. A desk study complemented by on-the-ground research (e.g. semi-structured interviews and focus group discussions with people living in the areas) can help to develop a profile for the respective region.

Further, it needs to be determined whether the trigger (directly or indirectly) relates to an insurable risk. The different options presented below can be distinguished:
**OPTION 1:** The trigger directly relates to an insurable risk.

Insurance will be most effective in preventing displacement when its trigger is of socio-economic nature and represents an insurable risk. In this case it can mitigate the socio-economic consequences of a peril by providing a monetary compensation. For example, if a strong flood destroys the boat of a fisherman, he primarily faces economic difficulties. He needs money to rebuild or replace what has been destroyed to be able to continue his business. The insurance payout enables him to replace the boat and secure his livelihood. Thereby, insurance can reduce the need to move to the city in search of new employment. In some circumstances, the economic losses occurring as a consequence of an environmental peril are insurable, e.g. by insuring the homes or lives of the people damaged. However, in certain regions (e.g. Caribbean, Bangladesh), the occurrence of devastating weather events is high and premiums for the individual, especially for the poorer, are not affordable. In such cases, direct insurance may not be feasible. An alternative is provided by indirect insurance schemes. In this case, the government acts as the policy-holder and generally pays out the benefits in kind. Such indirect insurance schemes are being tested in various regions (Hermann, Köferl & Mairhöfer, 2016).

**OPTION 2:** The trigger is not related to an insurable risk.

Conflicts, terrorism, persecution, and human right violations and other triggers represent a very important trigger for forced displacement and have led millions of displaced people to flee in 2016 alone. In such a context, insurance approaches are neither feasible nor appropriate to prevent displacement. In terms of existing insurance policies, these circumstances are generally excluded. Instead, humanitarian aid for affected people, peace-building measures and conflict resolution should be a priority.

**OPTION 3:** A driver that is likely to complement or influence the trigger of displacement consists in an insurable risk.

The relationship between drivers and triggers is highly complex and often unpredictable. For example, in some contexts, food insecurity might lead to social unrest and violence, in others not. An insurance product that primarily focuses on the needs of the target group and influences a driver might therefore indirectly have an impact on the trigger of displacement – or not. Hence, due to many factors of uncertainty, it is not recommendable to expect an insurance to make a difference for displacement. Nevertheless, the insurance will make sense as long as it is well designed, customer focused and supports financial sector development in a sustainable way in the respective country or community.

**STEP 2** Understanding the needs of the potential target group

Based on the results of step 1, the needs of the potential target group have to be analysed. To have an impact on displacement, the insurance must respond to the insurable risks that have been identified as trigger or influential drivers. For example, if drought (environmental factor) and subsequent food insecurity (socio-economic factor) is identified as a potential trigger for displacement, a crop or livestock insurance can make sense. However, this theoretical knowledge is not sufficient and needs to be accompanied by a demand analysis. Direct interactions with the target group, interviews, focus group discussions or observations can help in collecting data on the needs and on whether insurance can represent a solution – not only in theory, but also in practice. With this complementary knowledge, a decision can be taken as to whether direct insurance schemes represent an appropriate approach in the given context.

Moreover, indirect state-owned insurance solutions such as the African Risk Capacity (ARC) might be a suitable option. The ARC provides insurance against drought to participating African countries. By combining early warning and contingency planning with an insurance mechanism, member states have access to funding shortly after a drought occurs, while pre-planning activities ensure that payouts are used effectively.

**STEP 3** Developing insurance scheme

After this pre-analysis and its positive result, the development of the insurance scheme is similar to other inclusive insurance approaches. For the development and effective marketing of the product, the analysis should include an in-depth review of the characteristics of the target group, the capacities and willingness of insurers and other relevant institutions (e.g. farmer associations or seed companies informing about the insurance product) as well as potential distribution channels. The barriers in the regulatory framework and other potential hurdles, such as lack of data, reduced paying capacity and the lack of understanding and awareness at the level of the potential client also need to be taken into account. For all these themes, adequate measures need to be developed and discussed with the stakeholders. Some measures will require a longer-term engagement; thus it is important to seek collaborations in the partner region that can support a holistic approach to sector development. An insurance scheme either targeting people “before” or “after” displacement should therefore be designed in a way that strengthens the ownership of the local community as well as the government, also via contributing to the development of country-owned implementation systems.
Certain criteria make an insurance pilot more likely to be successful. When discussing risk coverage, potential clients and providers of a pilot, certain features should be considered that allow the success of the scheme from inception. Among these are the selection of a region which is prone to displacement, the potential for economies of scale (not in a low-density population region), a coverage that people need, understand and are willing to purchase, and the willingness of the business partners to innovate. The above features related to the wider environment – such as a minimum of political willingness and regulatory openness as well as on-going measures in the region where the pilot can draw from - are also important criteria.

After the pilot phase, the scheme should be evaluated to make improvements. The evaluation should analyse whether the target group understands and appreciates the products, whether distribution channels are appropriate or whether there are other hurdles of any kind. Various statistics such as numbers of contracts, premiums collected and payouts made as well as claims and renewal ratio need to be interpreted. Interviews with providers and beneficiaries complement the assessment.

The impact of preventive approaches on displacement is difficult to measure. The impact chain is difficult to establish, and it is hard to prove that the preventive approaches were the cause that displacement did not take place. Therefore, the yield of preventive measures is very hard to observe and to attribute to the insurance (World Bank, 2017: p. 44). What can be measured, however, is the frequency of shocks, the claims people have made, and how people who suffered a shock have reacted, considering those having insurance and those not having insurance (ex post). Another option would be to study whether the perceived perspectives for people living in the same region differs between people with and without insurance (ex ante). A scoping study on cyclone affected communities in India included an interesting impact assessment. It revealed that without insurance, community members use various coping mechanisms including displacement, but also borrowing money or selling assets, among others. It became clear that with insurance coverage, they are less likely to apply alternative coping mechanisms (Bhatt & Pathak, 2014: p.11). Further, insurance can incentivise policyholders to invest in preventive measures that lower the probability or severity of a shock and, thus, in turn, may lower the risk of displacement. This can be achieved by, for example, demanding lower premiums if the policyholder implements certain preventive measures (e.g. improvements on construction of insured building or providing fire extinguishers).

3.2 AFTER DISPLACEMENT – THE POTENTIAL AND LIMITATIONS OF INSURANCE

A careful analysis is required to assess whether insurance can be effective for people who have experienced displacement. This discussion paper suggests preparatory steps, which aim to decide whether insurance is the right approach in each context of displacement. Only after having understood both, the specific country context (step 1a) and the background of displaced people (step 1b), is it possible to have a comprehensive picture of the target group and its needs (step 2). Based on this, it is then possible to decide whether the promotion of insurance is an effective approach or whether other interventions might be more promising strategies. After this crucial decision, the remaining steps (3 and 4) are again similar to supporting strategies for inclusive insurance schemes in general.
In general, the country context as analysed in step 2 will not represent a challenge for IDPs since they are staying within their own country and face fewer hurdles.

In the case of IDPs, most of these questions are usually irrelevant since their legal status has usually not changed.

STEP 1A Understanding the country context with respect to displaced people

In a first step, the country context with respect to displaced people needs to be analysed. In contrast to the insurance schemes for the prevention of displacement (see chapter 3.1), the potential for implementing insurance for people who have already been displaced strongly depends on the country’s situation and policies towards its displaced people. Therefore, the following questions need to be answered:

» What are the rights and obligations of displaced people? What possibility do they have to receive an ID or renew their ID? What freedom of movement do they have? What are their employment opportunities? Do they have possibilities to work? If yes, are they constrained to work in the informal sector or can they find formal work, perhaps even with a certain level of social insurance? Are they allowed to open a bank account? Can they own property? What security do they have for their property? How likely is the continuous stability of the political climate regarding their stay?

» How is the group of displaced people organised? Are they living in camps or rather dispersed in private accommodation? Where and how do they gather? Do they have a level of self-organisation? Who/what institution organises them? Where do they receive social services (from NGOs or from state services)?

» What is the overall attitude towards displaced people? How does the population of the country perceive refugees, asylum seekers and other displaced people? Are institutions, incl. insurance companies willing to serve them? How high do they perceive the risk of serving the target group? Interviews with representatives of the host population and insurance companies are therefore crucial at this early stage. In addition, a careful analysis of the media discourse can deliver valuable information on the overall attitude.

» What other (financial) services are already in place? Can and do displaced people access financial services in the host country/host region? Are there any adapted services in place? Do displaced people receive social services for free (thus, for instance, making health insurance difficult)?
STEP 1B Understanding the background of the displaced people

The second step focuses on understanding the situation of the displaced people. At this stage, the analysis is mainly based on desk research, complemented by interviews with relevant institutions such as relief organisations. The assessment comprises the following aspects, among others:

- **What are the socio-demographic characteristics of the target group?** This may include age, gender, education, and profession.
- **What is their cultural and religious context?** This aspect might change the acceptance of the insurance concept. Specific approaches such as Islamic insurance ("takaful") might be required in some cases.
- **What is the relevant knowledge and experience of the displaced people?** What are their experiences with financial products and insurance in particular? Do they have an entrepreneurial spirit?

Even when coming from a similar background, the group of displaced people is most likely highly diverse. It might make sense to identify different subgroups with similar characteristics and to conduct the following steps for each subgroup separately.

STEP 2 Understanding the (insurance) needs of displaced people

The existence and usage of opportunities represent a decisive factor for the applicability of insurance approaches. The range of insurance products a person needs highly depends on the opportunities he or she is given (step 1a) and on his or her ability to use them (step 1b). Only if the displaced receive sufficient opportunities by the host country (described in step 1a) and have the abilities to use them (step 1b), does their livelihood and the need for insurance products rise. Hence, the opportunities available and used might increase over time for the displaced, but depending on the country situation and their personal condition, it might also remain at a low level over time (see figure 6): Shortly after the transit, needs are mainly limited to the fulfillment of basic necessities which leaves no room for preventive strategies such as insurance. This includes access to food, water, medical care, and other basic services. At this stage, people will neither have the financial means to purchase such a product nor appreciate its benefits (see point A in figure 6).

If livelihood improves, the demand for financial services is likely to increase. After the arrival, the potential for improvement of the situation depends on the opportunities the group of displaced people is given. In some cases, closed camps and restrictive policies do not allow any positive development with respect to livelihood (see point B figure 6). In other cases, the country may be far less restrictive and provide opportunities for the displaced people. If people are allowed to use these opportunities depends, however, on their personal characteristics. In the

![Droughts can be a major cause for displacement](image-url)

![Yazidis who sought safety in Shariya refugee camp in northern Iraq](image-url)
best case, they might construct houses or find housing, and try to find a job. Financial services that might be demanded are mainly savings products and payment facilities to send or receive remittances to or from their family in their country of origin. Micro credits can support the start of a small business or the payment of school fees, but insurance may not yet be a priority (see point C in figure 6).

The more developed the livelihood, the higher the relevance of insurance. Those displaced people who found a new livelihood might have needs and the financial means to use insurance services such as:

- **Life insurance** that ensures survival of a household when the chief breadwinner passes away.
- **Credit-life insurance** to enable access to credit to build up a new livelihood and to avoid leaving the family with debt once a breadwinner passes away.
- **Business stock insurance** that covers risks such as fire, flooding and theft, especially when occurring on business premises.
- **Accident insurance including hospitalization** that pays out in case of severe accidents and ensures proper treatment in the hospital. These are generally simple and inexpensive products that could be affordable when marketed through providers close to the people and firms.
- **Livestock and/or crop insurance** in those cases where displaced people may cultivate a piece of land or raise animals.

Behavioural economics are central to deciding which product to offer and how to design it. The analysis of the country situation is highly valuable for identifying potential needs and opportunities. However, before planning product development, the (heterogeneous) target group must be analysed in more detail. Interviews, focus group discussions and participatory observations represent qualitative methods for exploring underlying economic and cultural behavioural factors, which will help to identify the (insurance) needs of the target group as well as potential challenges to serve these needs.

All insurance products should be offered to both the displaced people and the host communities to ensure inclusiveness. In some cases, it might make sense to provide special subsidies for the displaced.

In phases 1-3, the collection of data on displaced people comes with certain challenges. Many displaced people prefer not to provide information about their situation since they fear it might affect the benefits provided by relief organisations. Those without a confirmed legal refugee status (asylum seekers) might be even more cautious about their data.

**STEP 3 Developing insurance scheme**

The product development and marketing for this specific target group requires an analysis of the capacities and willingness of insurers, distribution channels and potential regulatory barriers.

The insurance scheme should be inclusive, including both the host country population and all groups of displaced people. According to the priorities of the international community, certain groups of displaced people receive a preferable treatment. For instance, due to the high public awareness of the Syrian crisis, many support projects for refugees target only Syrians and leave other refugee groups such as Iraqi and Yemeni nationalities or Palestinians behind. Future initiatives that allow integrating insurance need to be inclusive, ensuring that all groups of displaced people as well as the host communities are included. Policies that are accessible by both host communities and displaced people (especially group policies for mixed groups) might represent a valuable step towards social and financial inclusion. This also ensures non-discrimination and leads to a higher scale with large numbers of insured to make risk pooling work. Another aspect of inclusiveness is the provision of financial education to those who are not sufficiently familiar with financial products.

Potential insurance schemes result from the analysis of the target group and their risk priorities (step 1). The product which responds to the needs of displaced people might range from life, health and work accident insurance to property insurance.

Commercial insurers must play an important role in the provision of insurance for displaced people but need support and partners. Insurers are the institutions allowed to carry the risk. However, insurers themselves usually will not take the initiative to provide insurance products to the vulnerable and underserved, including displaced people. In addition, they usually lack the knowledge, experience and willingness to work with this target group (GPFI, 2017: p.15-17). Therefore, an additional driving force is required to initiate and cooperate in product development.

Microfinance institutions (MFIs) that have already served the target group with other products are an ideal partner. They usually have existing distribution networks in place and a better understanding of the target group than commercial insurers. In cooperation with one or more insurance companies, they might take the role as aggregator.
Humanitarian aid organisations, such as international or national non-governmental organisations (NGOs) or UN organisations can be an important entry point. NGOs and UN organisations in humanitarian aid that support displaced people are generally close to the target group and work with them directly. Therefore, they can represent a valuable entry point for establishing an insurance scheme: they can gather the community and support product development with their knowledge of the target group, or even provide support services that allow adding insurance to another product or service. An innovative approach which goes even one step further towards leveraging the expertise and on-the-ground infrastructure of humanitarian aid organisations is ARC Replica. ARC Replica allows international humanitarian actors to top up (“replicate”) the insurance coverage of countries which have already bought ARC policies. If an insured shock occurs, the humanitarian actors that participate in the scheme can use the payouts to swiftly finance first response measures.

Innovations might be required with regard to the documents that must be presented to the insurance company. These should not only include formal IDs but also UNHCR cards, work permits, or other documentation obtained by the host government. The latter may, however, raise regulatory concerns since they might not be included in the insurance law of the host country. Innovation might also be necessary for securely identifying clients if displaced people have the same name and only limited IDs (see also GPFI, 2017: p.9).

The insurance scheme could be bundled with other financial services. To increase the outreach, it is recommendable to combine various financial products. As experience has shown, micro-insurance sells well when bundled with another financial service, such as a loan, a saving account or a remittance payment. Payments can be made via mobile wallets or airtime, a low-cost payment option (CGAP, 2014). From a client value point of view, it is preferable not to make insurance obligatory, but to leave the client the choice whether to get the coverage. A good example is the Rural Resilience Initiative R4: R4 aims to increase the food and income security of small farmers in Ethiopia, Kenya, Malawi, Senegal and Zambia by strengthening their resilience to extreme weather events. R4’s holistic risk management combines improved access to microcredit (prudent risk taking) with improved resource management (risk reduction), savings deposits (risk reserves) and insurance (risk transfer).

**STEP 4** Pilot-testing and improving the scheme

During early phases of market development, smart subsidies and financial education need to be considered for pilots. Entering new markets and motivating market participants often requires subsidising product innovation and introduction. Different options comprise financial education or partially subsidising premiums for certain client groups and for a certain time. Smart ways of allocating subsidies are important, which focus on public goods (e.g. financial education, data collection), or training for providers, and consider the exit scenarios from the beginning to avoid a collapse of the scheme once the subsidy is withdrawn.
4. CASE STUDIES

The following two subchapters describe three contexts of displacement to show the potential and limitations of insurance approaches. The cases of Nigeria and Kenya were selected to illustrate both the potential but also the limitations of insurance to ease the causes of displacement: In the Nigeria case, the trigger for displacement are armed conflicts, whereas the people in northern Kenya were forced to flee due to economic losses caused by extreme weather events. The case of Syrian refugees in Jordan illustrates a context in which insurance schemes for already displaced people might be considered.

4.1 KENYA: INCLUSIVE INSURANCE CAN EASE THE TRIGGER OF DISPLACEMENT

The first case, which illustrates the analytical framework derived in chapter 3, is the situation in northern Kenya where pastoralists experience severe droughts.

One of the drivers for displacements of pastoralists in northern Kenya are conflicts that date back to colonial times. The pastoralist regions in northern Kenya belong to the country’s poorest and most vulnerable regions. Livestock represents the key source of livelihood and pasture has a high value. The definition of borders in colonial times created resource conflicts, especially when resources were dwindling. Almost all pastoralists in Kenya are exposed to the risk of losing their livestock in violent raids (ISS & IDMC, 2012: p.6) (conflict and violence, see figure 7).

The most important drivers are environmental perils. More than 3 million pastoralist households in northern Kenya are regularly hit by severe droughts, contributing to 62% of reported livestock mortality (Mude et al., 2013) (environmental factors, see figure 7).
The final triggers are socio-economic factors reinforced by environmental drivers. Pastoralists are regularly threatened by extreme weather events, especially droughts (Mude et al., 2013). When a drought decimates a herd, it reduces pastoralist incomes, increases food insecurity, and undermines the sustainability of pastoralism. Possible coping mechanisms comprise the reduction of consumption leading to malnutrition and health problems. In very severe cases, drought might even trigger the decision to flee (ISS & IDMC, 2012: p.7, see figure 7). Ginnetti & Franck have analysed the quantitative impact of eleven droughts in Kenya, Ethiopia and Somalia finding that there is a correlation between rainfall and displacement. They find that a lack of rain often leads to displacement after a delay of several months (Ginnetti & Franck, 2014: p.27).

**STEP 2** Deciding whether the trigger is insurable

The trigger for forced displacement in northern Kenya is the death of livestock (socio-economic factor) caused by drought. The trigger of displacement is related to an insurable risk, a drought. The risk of occurrence of droughts in this region can be quantified based on weather data. Therefore, index-based livestock insurance can be seen as a promising approach to help prevent displacement as it mitigates the effects of the loss of livestock. However, if drought persists and general conditions become difficult (e.g. desertification), the insurance no longer represents a potential solution. Instead, a migration with the cattle might represent an appropriate adaptation mechanism.

**STEP 3** Developing the insurance scheme

To illustrate product development for the Kenyan case study, this discussion paper will refer to an existing Index-Based Livestock Insurance (IBLI) scheme. Although its development and introduction in northern Kenya in 2010 was not related to the context of displacement, it can be expected to have an impact by insuring pastoralists against the economic loss of livestock mortality, thereby securing their livelihood in that region. In addition, this paper will also touch on the African Risk Capacity (ARC) – an indirect insurance scheme that covers participating African countries against droughts.

The IBLI provides an insurance coverage for livestock mortality associated with drought and protects against prolonged fodder scarcity (Chantarat et al., 2013). Unlike traditional insurance, index insurance uses an external indicator to assess losses on an aggregate level over a particular area (Mills et al., 2016). Making use of satellite data, the Normalized Difference Vegetation Index (NDVI)\(^1\) is a proxy for the forage availability on the ground. In case a certain NDVI value is measured by the satellite, a payout is automatically triggered, while loss verification is not required (Carter, Janzen & Stoeffler, 2016: p.12). As payout is independent of an insured client’s individual behaviour, the product is less susceptible to moral hazard (Mills et al., 2016). The premium differs among districts. For one of the pilots, for example, the premium rates amounted to 3.25% to 5.5% of the sum insured, the value of the livestock (Mude, 2010: p.11).

Existing structures ease the distribution in rural areas. For the distribution, UAP Insurance and Equity Insurance Agency (EIA)! use the existing infrastructure of an ongoing, unconditional, targeted cash transfer programme launched by the government in northern Kenya, the Hunger Safety Net Programme (HSNP). Kenya’s Equity Bank, EIA’s parent firm, had developed the necessary financial infrastructure to support the HSNP and had opened over 150 new Points of Sale (POS) across northern Kenya (Mude et al., 2013: p.11). Using hi-tech portable devices, the POS accept premiums for IBLI contracts and register indemnity payments. A publicity campaign was implemented for the insurance product and information is spread by word of mouth (Mude et al., 2013: p. 11). An insurance simulation game explains the key features of the insurance to the herders (eurisky, 2015). The linking of an insurance scheme like IBLI with an existing social security programme (in this case HSNP) demonstrates the cross-sectoral and connecting application possibilities of insurance.

\(^{10}\) This paper acknowledges the fact that pastoralist displacement cannot be seen as mono-causal as it is affected by various factors such as social changes, government policies and other forces like the nomadic way of life of pastoralists, which makes it highly uncertain to determine the concrete driving factor of displacement (Ginnetti & Franck, 2014: p.23). Nevertheless, climate change and droughts highly affect the herd mortality of pastoralists, which then leads to the loss of productive assets, increases vulnerability and consequently leads to displacement.

\(^{11}\) The NDVI is essentially a greenness measure that follows a regular cycle. This measure is then transformed into an index of predicted livestock mortality losses experienced by pastoral households in drought years (Carter, Janzen & Stoeffler, 2016: p.13) which determines the payouts.

\(^{12}\) UAP Insurance Company of Kenya, re-insured by Swiss Re, underwrote the risk, while UAP Insurance and Equity Insurance Agency (EIA) provides the agency services that take care of extension of the product, publicity, and sales. The International Livestock Research Institute (ILRI) and its research partners offer technical support and provide the evaluation and impact assessment services (ILRI, 2017).
Moreover, Kenya is a member of the African Risk Capacity (ARC) established by the African Union. The ARC provides insurance against drought to participating African countries. By combining early warning and contingency planning with an insurance mechanism, member states have access to funding shortly after an extreme weather event, while pre-planning activities ensure that payouts are used effectively. In order to participate in the ARC, countries must undertake several processes, including defining a contingency plan that sets out which relief measures are to be financed with an insurance payout. Due to the index-based insurance solution payouts can be provided quickly to countries, thereby allowing them to begin early intervention programmes in a timely manner before vulnerable populations take negative coping actions or leave their homes. In this sense, ARC can potentially contribute to tackling root causes of displacement.

**STEP 4 Piloting and conducting impact assessment**

The IBLI product has been piloted and offered to an increasing number of pastoralists. After a long pilot phase, the IBLI is now offered in several counties of northern Kenya. The total value of collected premiums amounted to 46,600 USD with about 2,000 contracts sold during the pilot phase in 2010 (Mude et al., 2013; p.12). Since the establishment of the product in 2010, it has had progressively higher sales rates. Within the first six years until end of 2015, 7,500 IBLI policies were sold and 3,000 policy holders benefitted from 120,000 USD of indemnity compensation (eurisky, 2015).

Studies have found that IBLI changes coping strategies of the insured. In their study on the impact of IBLI, Carter, Janzen and Stoeffler showed that payouts during the drought of 2011 provided substantial immediate benefits and significantly changed the coping strategies that pastoralists expected to use during the final months of the drought: Insured households were 36% less likely to sell livestock and 25% less likely to reduce meals to cope with the drought. Importantly, IBLI purchasers exhibit significant and meaningful improvements in subjective well-being (Carter, Janzen & Stoeffler, 2016).

The positive impact of IBLI on reducing displacement still needs to be analysed in depth. According to the theoretical framework derived in 3.1 and to the experiences described above, it can be assumed that the payouts provided through IBLI in cases of drought contribute to a reduction of displacement. However, there are no studies yet that explore or even prove this relationship. An in-depth analysis with those farmers that benefitted from insurance payouts could possibly help to make this connection.

**4.2 NIGERIA: CONFLICT AND VIOLENCE ARE NOT INSURABLE**

In northern Nigeria, the militant Islamist movement Boko Haram is responsible for large numbers of displaced people.

**STEP 1 Understanding triggers, drivers and interlinkages**

The attacks of Boko Haram as well as inter-communal clashes have resulted in 1.75 million IDPs in Nigeria. Violence and civil unrest represent the triggers for most forced displacements. The terror by Boko Haram represents the main problem in northeast Nigeria. Their attacks range from bombings, shooting, kidnappings, suicide attacks to property destruction and have prompted large numbers of people in the northeast to leave their home (Lanzer, 2016: p.76; IOM, 2014; IDMC, 2017a). Another problem are the inter-communal clashes. Although Nigeria has been relatively stable since 1999, there have been various ethno-religious tensions, especially between the Muslim north and the Christian south, but also between pastoralists and farmers. According to estimates by the Internal Displacement Monitoring Centre (IDMC), 1.75 million people are currently internally displaced. It is estimated that 85% of the IDPs were displaced due to insurgency attacks by Boko Haram, 12.6% due to communal clashes and 2.4% because of natural disasters (IDMC, 2017a).

The drivers for forced displacement are a combination of political, environmental, and socio-economic factors. Corruption in the country is wide-spread. According to Transparency International, the country is ranked 136 of 176 being analysed in 2016 (Transparency International, 2017). In addition, governance is weak, especially in rural areas, and public investment in transport, agriculture and energy infrastructure remains insufficient (IDMC & NRC, 2015: p.3) (political factor). The region suffers from drought and irregular rainfall leading to food insecurity and malnutrition. The surface of Lake Chad has shrunk to 20% of its size in 1950. The decreasing water availability poses challenges to find sufficient water for people, farming and livestock (environmental factor) (Lanzer, 2016: p.77). Due to lack of public and private investment in agriculture, low access to credits and the environmental factors described above, agricultural outputs remain low. Considering the fast-growing population, consequences include food insecurity and a lack of livelihood opportunities (socio-economic factors).

The various drivers contributed to the creation of Boko Haram. Among others, the emergence of Boko Haram can be traced back to the frustration of the population (IDMC & NRC, 2015: p.3), since the group was considered a “radical alternative to the high levels of regional poverty and unemployment” (Kingsley, 2016) (see thin orange arrows in figure 8).
Deciding whether the trigger is insurable

The trigger of displacement in this context is not related to an insurable risk. The main triggers for forced displacement in northeast Nigeria are the conflicts and violence, i.e. the attacks, threats, and abduction carried out by Boko Haram, as well as communal clashes. Insurable risks in that context would be the loss of health and lives of people or their assets (accidents, death, and houses). However, in a situation of conflicts and violence, traditional insurance companies would not offer such coverages due to high covariate risks. In addition, insurance cannot and should not prevent people from fleeing if their health and lives are threatened.

However, insurance could help mitigate the cause of poverty and unemployment and thereby indirectly reduce displacement in Nigeria in the long run. The creation of Boko Haram can (partially) be explained with the population’s despair about poverty and unemployment (Kingsley, 2016). Therefore, insurance products, which focus on reducing food insecurity or prevent people from falling into poverty, also have the potential to indirectly impact displacement. Insurance products that serve this purpose could provide coverage against the losses caused by natural disaster – for example crop insurance – or against personal losses, for example life, accident or health insurance. However, it needs to be considered that the impact of such an insurance product on conflict and violence is limited, since it is indirect, and can only take effect in the medium and long run. It will not decrease current violence. Insurance can be a long-term preventive measure that helps sustain the livelihoods of populations.

Developing the insurance scheme

A potential insurance product for this context is a crop insurance that provides farmers with compensation for the loss of harvest. An insurance product that impacts the livelihood of farmers can have a positive effect. Since rice is the most important cash crop of Nigerian farmers (FAO, 2017) and has strong economic importance, the insurance should cover the rice crop. To keep costs low, the scheme could be linked to an existing scheme such as the Growth Enhancement Support (GES) programme13 that provides subsidies to farmers. The payout should rely on satellite data, which does not depend on field inspection but on automatically generated satellite data. This not only decreases costs but also ensures that the system keeps running – even if physical access to certain regions might be limited.

13 The GES programme covers 774 Local Government Areas (LGAs), almost 100,000 villages providing 17 million farmers and 2,714 agri-businesses (Cellulant, 2017) with subsidy. Each farmer is registered individually on a national database with his or her mobile phone. Through an IT-platform, the farmers receive e-wallets (an electronic voucher) that makes them eligible for a 50% subsidy on two 20kg bags of fertilizer at a selected agro-dealers (Grow Africa, 2014: p.12).
Most refugees are constrained to work in the informal sector. Since work permits and formal employment opportunities are limited, many refugees work in the informal sector. Although starting a business is difficult due to regulatory hurdles, some manage to start their own “home-based business”\(^{15}\). It is estimated that refugees run about 6,000\(^{16}\) small businesses, both in urban areas and refugee camps. They range from retail shops selling agri-products and food, to manufacturing, repair shops and restaurants generating a turnover of 2 million USD per month. Jordan’s construction sector employs the largest number of Syrian refugees working without work permits (only 3,000 of 33,600 employees in the construction sector). Generally, they face personal risks such as accident, illness and death of the business owner, and asset risks such as fire or theft.

Jordan has a favourable regulatory environment regarding insurance regulations. Interview partners highlighted that there are no specific regulatory hurdles regarding the inclusion of refugee groups into insurance schemes. Instead, the limitation appears to be the willingness of insurance providers. However, potential regulatory hurdles would have to be researched when innovations are presented to the insurance supervisors, who could make an exemption if certain features of the business model would not be allowed, and register the product as pilot under a test-and-learn approach.

Although there is great demand for health services among refugees, service provision remains insufficient. A recently conducted study (Doocy et al., 2016) concluded that health care-seeking needs of Syrian refugees in Jordan was high. 86.1% of households reported that an adult sought medical care (Doocy et al., 2016). In theory, the responsibility to provide health services for Syrian refugees lies with the Government of Jordan\(^{17}\) while UNHCR provides complementary services (Heus & Sartawi, 2014: p.193). Despite this, half of the households reported out-of-pocket expenditures for consultation or medications at the most recent visit (Doocy et al., 2016).

The potential target group of Syrian refugees is highly diverse with regards to individuals’ economic and educational backgrounds. As of the end of April 2017, almost 660,000 Syrian refugees were registered in Jordan (UNHCR, 2017b). They are mostly located in the North of the country, in Amman, Al-Mafraq, Irbid and Zarqa (Verme et al., 2016: p.42). Many refugees are children with specific needs in terms of schooling, training, and health care. Among the Syrian refugee population (above

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15 Only in Amman does opening a “home-based business” not require a formal registration. In all other parts of the country, a registration with high costs involved would be necessary. However, due to a regulatory gap, home-based businesses also evolve outside the capital.

16 Number mentioned in one of the expert interviews.

17 The annual costs for this service amount 382.4 million USD for treatments in public health facilities amounting to 2.1 billion USD since the beginning of the Syria crisis (UNHCR, 2017b: p.5).
The refugees find themselves mostly in a situation of protracted displacement. Some of them have just recently arrived, but others have already settled. As described above, some are in employment, others started their own business, sometimes supported by development institutions (Johnson, 2013; Luck, 2017).

STEP 2 Understanding the (insurance) needs of displaced people

The main insurance needs identified in step 1 are accident and health insurance. A first analysis of the situation results in a potential need for work accident insurance for those people working in the informal sector, in construction and agriculture. The insurance scheme should also be accessible for the local, non-exiled population, who are also informally employed. Another need lies in the health sector where service provision remains insufficient. However, since setting up a health insurance scheme is complex, alternatives need to be considered. A third need is to improve business opportunities and access to credit by offering credit life insurance. The assumptions need to be discussed with the target group and other relevant stakeholders, for example in focus group discussions.

STEP 3 Developing the insurance scheme

In the context of Jordan, some initiatives of insurance schemes have already been developed. To illustrate the insurance approaches that have been developed in Jordan, the discussion paper presents two initiatives. They are still in early phases, but represent an example for potential insurance products for displaced people.

Scheme 1: Combined Credit-Life and Hospitalisation

Microfund for Women offers loans to Syrian refugees that are bundled with a life and hospitalisation insurance. The Jordanian non-profit organisation Microfund for Women (MFW) is the largest MFI in Jordan. In 2016, it started offering loans to Syrian refugees. It is the only financial institution in Jordan that serves this group (Microfund for Women, 2017). In addition, MFW provides Syrian refugees with non-financial services such as training, awareness raising, and market linkages. The initiative is supported by the European Bank for Reconstruction and Development (EBRD) (Microfund for Women, 2017). At the beginning, MFW started with dispersing loans to mixed groups of Jordanian and Syrian women, but is currently offering loans to groups of Syrian women only, and plans to offer individual loans in the future. All MFW borrowers, including the Syrian refugees, receive an obligatory insurance coverage.

The coverage consists of a life and a hospitalisation component, compensating each night spent in hospital with 15 JD (17.64 EUR). The product is available for singles (premium of 1.5 JD/1.76 EUR per month) or families (premium of 2.5 JD/2.94 EUR per month). The holder and all its family members between the age of one month and 21 years are covered. However, since Syrian refugees often have no official documentation regarding their family members, they only receive the single coverage. The product has no other limitations or exclusions. According to MFW, both locals and Syrian refugees highly appreciate this micro insurance product.

Scheme 2: Work accident insurance

At the end of July 2017, a private insurance scheme for work accidents in the construction sector for self-employed workers was launched with support of the ILO. In the construction sector, three groups can be distinguished: 1) workers with work permit and social security, 2) workers with work permit but without social security, whom the ILO currently seeks to integrate into the social security system; and 3) self-employed workers with a non-employer specific work permit without social security (ILO, 2017). As the last group is legally excluded from the social security, the Jordanian Ministry of Labour agreed with the ILO to allow private insurance companies to offer an insurance for work accidents.

Digital payment systems as entry points for selling insurance

Advanced money transfer services can ease selling and purchasing of insurance. Customers of mobile money services can pay premiums digitally and as to date have acquired at least some financial literacy. JoMoPay, the Jordanian national mobile payments switch, is a payments system that has created cross-platform and platform level interoperability for multiple digital payment instruments. This system could potentially be used to provide other financial services (such as insurance) to the underserved at lower cost.

STEP 4 Piloting and improving the scheme

The results of such innovative insurance pilot schemes are very positive, yet still need to be further assessed. Currently, 3,000 Syrian refugees are benefitting from the group loans and thereby from life and hospitalisation insurance offered by MFW. Under the ILO scheme, 1,000 work permits have been issued and there are another 3,500 applicants for the insurance. During the first weeks, the insurance companies have already paid-out some claims (status as of September 2017). However, since both schemes have just recently been started, none of them has been assessed yet in detail. In order to further improve the schemes and gain wider outreach, a detailed evaluation would bring about new insights about the lessons learned and would bear potentials for improvements.
5. CONCLUSION

Insurance can contribute to preventing displacement by mitigating the effects of a shock with monetary compensation. From a humanitarian and development point of view, it is preferable to prevent humanitarian crises leading to displacement instead of implementing relief measures in its aftermath. Therefore, efforts of development organisations specifically consider regions that are prone to be affected by crises, including those with socio-economic, political, environmental, and other driving factors. In this context, inclusive insurance (direct and indirect insurance solutions) may represent one potential component of the prevention of displacement by mitigating the economic consequences of a devastating shock.

Insurance can mitigate risks that displaced people face when they try to build new livelihoods. Financial inclusion approaches – including insurance solutions – may also play a role for Linking Relief, Rehabilitation and Development. Financial inclusion can generally help in securing the economic perspective displaced people are building for themselves, helping them to leave emergency aid behind and become self-sustained. Specifically, insurance can secure the newly built livelihoods against unpredictable perils; this is especially the case in protracted displacement situations.

For both cases before and after displacement, the following strategic recommendations for development cooperation apply:

» At all stages, the focus needs to be laid on improving the people’s living conditions. In the present situation with large numbers of displaced people, many development projects are designed to combat root causes of displacement. Their main objective is to prevent people from moving to other regions or countries and thereby from burdening the local system. This discussion paper makes the case for a livelihood- and people-centred approach. The central questions need to be: What are the needs of the people? How can we best support them in their situation? What is the potential role of financial services and insurance in this particular case?

» A deeper analysis of the target group and country context including potential drivers and triggers of displacement helps when deciding if insurance solutions can be applied. When considering the preparation of possible interventions, it is crucial to understand the demands and needs of the target group (e.g. demand-side studies) as well as the respective context (step 1 and 2 of the model presented). An analysis of the needs and the underlying triggers and drivers is imperative to decide whether insurance is an appropriate approach or whether other measures are preferable. To allow insurance products for displaced people to unfold their potential, the overall attitude of a country, its government and the resulting rights and obligations of displaced people are a decisive factor.

» To initiate and provide inclusive insurance products for displaced people, a driving force/aggregator in the region that is close to the target group should be identified. The product development should be supported by a well-established and sustainable local institution with high motivation and knowledge about the target group. MFIs such as MFW in Jordan that have already started to serve this target group with other products are best suited to help develop these products and distribution approaches, while also helping with educating the potential clients. Commercial insurers themselves will usually not take the initiative.

» Regulatory bodies have to be supported in adapting regulations to the new customer segment and for enabling inclusive insurance for all. During the last decade, inclusive insurance has become more mature, and experience shows that for its development, the adaptation of the regulatory context is key. The existing evidence can be used for strengthening the regulatory and supervisory framework in both crises-affected and host countries. Working with the regulatory bodies on the issues related to displacement can be an entry point. Moreover, some regulatory barriers need to be addressed because they effectively exclude displaced people from access to formal financial services. One example is strict identification requirements which displaced people often cannot fulfil because they may not possess a valid ID-card. Another example is host countries that have regulations in place, which explicitly deny displaced people the opening of a bank account and the use of other formal financial services.

In any further initiative both, the potential as well as the limitations for insurance, must be acknowledged. If well-structured and applied to relevant causes, insurance can have a strong impact. Even small yet quick payouts matter and can make the difference for conserving livelihoods at risk when it comes to being displaced or staying, to securing a new livelihood after a displacement or to starting all over again. However, in the case of conflict and violence being the main triggers of forced displacement, insurance cannot and should not prevent people from fleeing if their lives are at risk. Nevertheless, insurance can contribute a critical element of risk management; this is especially true for circumstances where other traditional coping mechanisms (such as community assistance, abstaining from spending, or help from the government) are absent, failing or when the risk event is too severe to be faced by traditional approaches. Thereby, insurance is a relevant instrument in the context of displacement because of its strong potential impact and efficiency in the case of certain insurable perils.
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## ANNEX: LIST OF INTERVIEW PARTNERS

<table>
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