

Management Response for Pacific Insurance and Climate Adaptation Programme Mid-term Review Report, December 2022

This is a Management Response of the Australian Department of Foreign Affairs and Trade (DFAT) for the Mid-term Review Report (Report) on the inception phase of the Pacific Insurance and Climate Adaptation Programme (PICAP).

PICAP was designed to “improve the financial preparedness of “Pacific households, communities, small businesses, organizations, and governments towards climate change and natural hazards”. The PICAP Theory of Change (TOC) expected to allow for a positive change in the mindset and awareness of Climate Disaster Risk Financing Initiatives (CDRFI) products among stakeholders, specifically, policymakers, the private sector and development partners. In the medium term, these outputs would translate into a harmonized regulatory approach towards CDRFI products, which would also allow for the deployment of CDRFI products at scale, along with an enhanced value chain at the last mile where development partners would be able to deliver the needed literacy to beneficiaries to allow for enhanced uptake and usage of the CDRFI products. The final anticipated and desired impact from PICAP is the improved financial preparedness and resilience of Pacific governments and communities, specifically vulnerable segments of society and economic sectors towards climate change and natural hazards.

The mid-term review was conducted by an independent consultant, Ms Bhavana Srivastava. The report provides an assessment of programme performance using evidence-based analysis to inform decisions about the strategic priorities, program approach and financing during the subsequent phase of the PICAP program. Some key findings of this report include:

- a. Visible progress under all indicators of the Results Framework though the progress in Q2 and Q3 of 2021 slowed down due to the restrictions induced by COVID-19. Despite the lockdown, key activities under specific workstreams continued in virtual mode and made significant progress in line with the annual work plan.
- b. At the end of 2021, around 1,388 people registered with parametric insurance products of which 42% are women. 720 people are registered to high-speed windspeed cover, 393 individuals have wind and rainfall cover while 275 are registered to the Department of Social Welfare.
- c. PICAP has mobilized USD 2,447,518 worth of partner contribution against UNCDF’s grant contribution of USD 2,045,979. The cost-sharing modality of the Programme has ensured ownership from partners where they are invested in the Programme given their involvement of time, money, and human resources.
- d. PICAP has also made strategic alliances with UN organizations like UNDRR, WFP, UN Women, regional partners like Pacific Islands Forum, PCRIC, and academia like the University of South Pacific to join hands to provide technical assistance, research, and analysis, de-risking financial instruments to expand the Programme operations in other small island developing states and develop solutions to cover low-income people, particularly people engaged in sectors acutely affected by natural hazards like fishing, agriculture, tourism, and MSMEs.
- e. PICAP has been successful in forging technical partnerships with global and regional players in the climate and disaster risk financing space. These include partnerships with the InsuResilience Global Partnership (IGP), a2ii, Microinsurance network (MiN), representation in the Risk Finance Working Group (RWFG) under the Pacific Resilience Partnership. PICAP successfully established an Inclusive Insurance solutions Hub in 2022 to support the development of inclusive insurance markets in the Pacific.

The report has provided recommendations here below to which we have provided responses.

Recommendation	Response	Explanation and Action plan	Timeframe
There is an urgent need to re-evaluate the product and its surrounding processes in terms of its gender centricity for the last mile beneficiary.	Agree	PICAP has agreed to sharpen its focus on women and other vulnerable segments. 47% of the total beneficiaries covered are women - demonstrating that a strong gender focus is needed. PICAP has recruited a GESI specialist with the task to develop a workplan that will be integrated into the programme WP from 2023 and onwards. In the expansion phase, exclusive products for women will be developed and tested, subject to acceptance by the insurers.	Immediately and ongoing
There needs to be a higher level of “effective” financial literacy for the last mile beneficiary so that there is an increase in the perceived value of the product for these beneficiaries. This should include ensuring no miscommunication on the larger owner or validator of the product.	Agree	DFAT encourages collaboration to maximise the value of our investments. DFAT concurs with the action plan suggested by PICAP to work with PDEP to develop an appropriate intervention strategy for financial literacy.	Immediate and ongoing
At the same time, the product needs to be reconfigured to be more affordable given the odds of a natural disaster happening, especially given climate change.	Agree	DFAT recognises that initially, when setting the premium for the product, the views of the service providers were the primary concern and a stronger effort was made to ensure that this innovation made the best, more sensible business case for insurance service providers, underwriters as well as aggregators.	Immediate and ongoing

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		Moving into phase 2, DFAT agrees that there is a need to reconfigure the pricing of the product offered so that it is perceived to be more affordable, otherwise the larger objective of the Programme will collapse in the long run. There is a need to devise innovative ways to convey nuances of the product, in digestible format. PICAP is requested to consider this early in the next phase.	
There is an urgent need to analyse the climate risks faced by the youth and design a nuanced product for them.	Partially Agree	In line with the need to consider the needs of women and vulnerable members of society, some consideration could be given here as well. However, DFAT is also mindful of the 'insurable interest' of this market segment. DFAT agrees with the approach of PICAP to engage youth groups or entities working with youth on interventions that target this segment. There is a possibility of developing other CDRF products like targeted savings delivered through digital interfaces that could be attractive to youth. Suggest that this be taken up for research under the Insurance Solutions Hub for further consideration.	
Going forward, PICAP needs to adopt a customer journey-driven approach to identifying the needs, pain points, barriers and experiences of different	Agree	DFAT agrees with this recommendation and understands that PICAP has a plan of action in place to ensure that appropriate	Immediate and ongoing

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customer segments. This approach will help PICAP identify specific actionable areas that should be pursued under the four workstreams.		<p>measures are taken to develop a viable product that is beneficial to customers.</p> <p>We also note that the outcome areas were reduced from four to three key areas. As such, DFAT strongly supports closer collaboration between PICAP and PDEP in its work around digitally enabled inclusive innovation.</p> <p>In the next phase, the program should also explore other distribution channels or delivery models e.g. Mobile Model, Joint product-Joint Sale model, Community Captive model, Public sector insurance model (Kousky C, Wiley , Shabman L, 2020) to improve sustainability and over market challenges.</p>	
Greater engagement on the part of PICAP to become a member of government's committees would enable it to influence conducive policy-making by the governments. PICAP should continue to engage more proactively and closely with RBF to maintain a good handle on regulatory issues confronting the central bank and provide them with technical support on appropriate regulatory interventions from time to time.	Agree	Engaging with appropriate levels of government to maintain political buy-in and influence positive policy change is imperative for the scale-up of the parametric insurance product variants. The ability of the program to firmly establish itself in Tonga and Vanuatu and other Pacific countries, weighs heavily on its ability to engage with policymakers and government of those countries. Experience in Fiji has provided a number of great lessons for the program to draw on.	Immediate and ongoing

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		DFAT will encourage the program to work collaboratively with its sister program PDEP under the UNCDF umbrella to build political recognition of the program in the region, being mindful of other CDRF products through development partners – Red Cross and UNDRR.	
Given the ambitious goal of PICAP of bringing about an ecosystem-level change in the Pacific with respect to climate adaptation and financial resilience building, there is a strong rationale for donors, governments and other development partners to come forward and support the Programme for the next 3-5 years, to help it scale -up and replicate the successful initiative across the region.	Partially Agree	<p>We recognise that bringing about the eco-system level change in the Pacific with respect of climate adaptation and financial resilience will take time. DFAT currently has a Standard Administrative Arrangement that ends in 3-years i.e. 30 December 2025. And we will uphold this agreement, however, any discussions to continue support beyond 3-years will need to be supported by an evidence-based assessment. PICAP is advised to revise its MRM key performance targets to help us measure the progress of program implementation over the next phase.</p> <p>Any decision to support innovative initiatives like PICAP beyond 2025 should be taken in the light of the region's market development, national capacities to continue on their own and global trends.</p>	2023-2025

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		DFAT would also encourage that PICAP look seriously at developing deeper and meaningful engagement between stakeholders (policymakers, insurance service providers, aggregators etc.) and insurance beneficiaries. Furthermore, Phase 2 should look at improving the capacities of program stakeholders to better manage the product roll-out scale-up and further development.	
The sustainability of PICAP beyond the funding commitment by UNCDF is the most critical issue that requires the attention of all stakeholders going forward. Given the complexities involved in establishing an ecosystem that promotes sustainable CDRF in Pacific countries, continued and longer support is needed to help all stakeholders including governments, regulators, the private sector, delivery channel partners, and the customers, at large. To that extent, PICAP and its supporting partners including donors, funding agencies, governments and regulators should explore the possibility of institutionalizing the PICAP beyond its defined life term.	Partially agree	<p>DFAT recognises that the program will continue to require donor support until such a time it is deemed financially sustainable by businesses.</p> <p>DFAT would like to see the program continue to support insurance service providers in their capacity development by bringing global technical experts to help local institutions build their capacities in terms of product development, risk management, advanced digital technologies, actuarial services, product pricing, etc. besides developmental initiatives such as financial literacy training.</p>	2023-2025
It is critical to ensure that the learnings from this Programme are not lost, and hence, are documented	Agree	Knowledge management and information sharing is imperative to ensure that key lessons and	Immediate and ongoing

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<p>in effective, easy-to-digest formats for the consumption of a variety of stakeholders. Learning sessions, and strategic planning exercises should be undertaken with the core PICAP team before replicating the Programme in other geographies given the nuanced context of both the target segments in each country and the product design in specific.</p>		<p>approaches are not lost. The Pacific is a leader in this space and therefore the lessons from the program could help its development in other regions of the world.</p>	

