



Rakiraki, Fiji  
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# Fiji: Investigating Demand for Household Insurance against Tropical Cyclones

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## KEY MESSAGES

- Cyclones were the number one risk of concern to Fijians, in all surveyed groups.
- Of those respondents impacted by TC Winston, 80% suffered damage to their home, with half attributing this damage to wind. A little over a third attributed damage to wind and flooding.
- There is a need for some form of insurance for those that cannot afford full insurance coverage against tropical cyclones. TC Winston highlights a major protection gap: 94 percent of houses are uninsured against tropical cyclones.
- Rapid response to disasters is seen as important. Some financial support at least is required in the near term. Respondents indicated that a seven-day claim period would be needed for any solution to be truly effective.
- An overwhelming 93% of respondents felt household insurance could play a role in cyclone response despite only two percent of respondents saying it currently did.
- The results of this study suggest that there are two key ex ante opportunities to use insurance as a mechanism to secure finance in the immediate aftermath of a disaster: (i) property insurance for houses of low build quality that are still deemed insurable with some basic reinforcement, such as roof strapping; (ii) livelihoods protection insurance for low-income households whose houses are deemed uninsurable.

The insurance sector in Fiji paid around 20,000 claims worth approximately FJ\$232 million related to Category 5 Tropical Cyclone Winston of February 2016, but was criticized in some quarters as this was well below the number of affected households and there remain a significant number of claims outstanding with 41% outstanding from the domestic markets and 32% from the international markets (Insurance Annual Report, Reserve Bank of Fiji (2016)).

**TC Winston highlights a major protection gap: 94 percent of houses are uninsured against tropical cyclones.** The building stock in Fiji comprises approximately 240,000 residential homes (Pacific Risk Information System – PacRIS). With only 15,000 homes (or six percent of the housing stock) purchasing coverage against tropical cyclone, a significant gap in insurance coverage emerges. The supply of TC coverage within the domestic insurance industry is limited because insurers are unable to secure reinsurance capacity. Insurance companies can only supply property catastrophe insurance for houses of a high construction standard with a current an engineer’s certificate as this is required by the international reinsurers to provide reinsurance.

**Most low-income households do not meet the standards required to purchase and receive an engineer’s certificate which demonstrates that there is market failure creating a major contingent liability for the Government of Fiji (GoF).** Uninsured households create an implicit liability or social obligation for the GoF to provide financial assistance in the aftermath of a disaster, as was seen in the case of TC Winston where GoF has spent FJ\$80 million to support the reconstruction of housing.

**A survey was commissioned by the World Bank to investigate whether households viewed insurance as a viable solution to meet their post-cyclone financing needs.** The survey explored the perceived and relative importance of various risks, then focused more on experiences regarding windstorms, insurance, and coping mechanisms. In addition, the survey tested views on some particular insurance solutions. This note presents a high-level summary of the findings.

## Overview

The study was conducted through phone interviews using a firm with longstanding experience in Fiji through their locally domiciled call centre. A total of 485 surveys were conducted, refined to help with granularity after the first 300 had produced reliable results. The survey was conducted outside of cyclone season during mid 2017, and different profiles were approached to secure credible data (See figure 1).

Those with recent damage experience were also categorized based on severity and cause of impact (wind, flooding or both), and whether this was their only experience with windstorms or not.

In total, 54% of those surveyed were home owners. The nature of their home construction was also noted for potential underwriting data purposes.

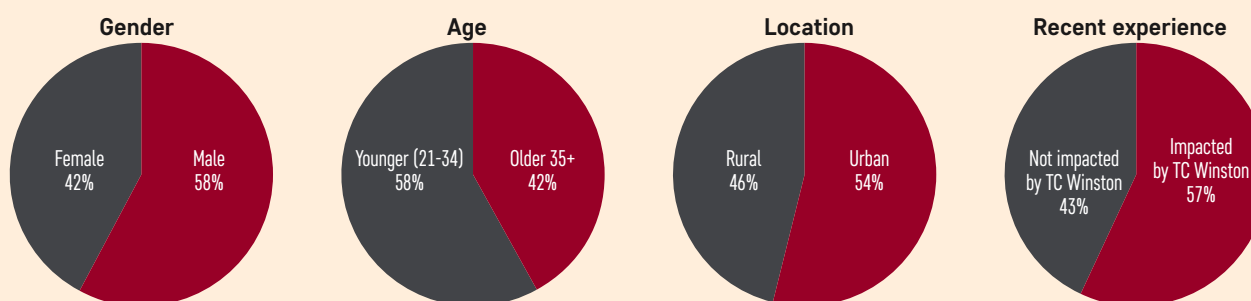
## Results

**Fijians were most conscious of cyclones as their number one risk.** This risk ranked higher than the death of a family member, sickness, motor vehicle accidents, and theft (See figure 2). The result was consistent across groups in the survey by age, gender, and where they lived. Although those not impacted by Winston provided a lower windstorm response it was still their highest priority.

**Of those respondents impacted by Winston, 80% suffered damage to their home,** half of those impacted attributed this damage to wind. A little over a third attributed damage to wind and flooding, and one in six had damage that was not wind related – only rainfall related. Of those that did not suffer damage to their homes, 60% incurred crop damage and 25% reported damage to other property.

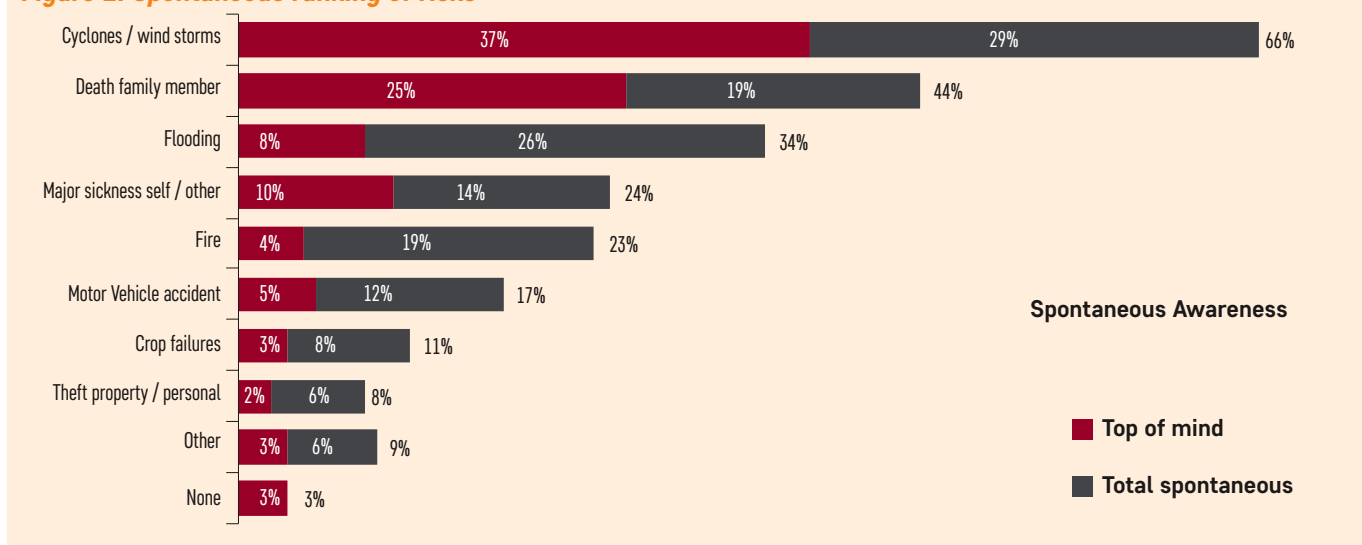
This highlights the need for some form of insurance for those that cannot afford full insurance coverage against tropical cyclones. The current approach whereby an

Figure 1: Survey sample





**Figure 2: Spontaneous ranking of risks**



engineer's certificate is required to purchase insurance is prohibitive. More affordable coverage would be a welcome addition to the market. However, the above suggests that cover for crop damage and other property is also of concern to Fijians.

**Food and water was the highest short-term need, identified by three quarters of the sample, followed by shelter (one-third).** More relevant to insurance perhaps, damage repair and financial support were nominated by 7% and 15% of the sample respectively.

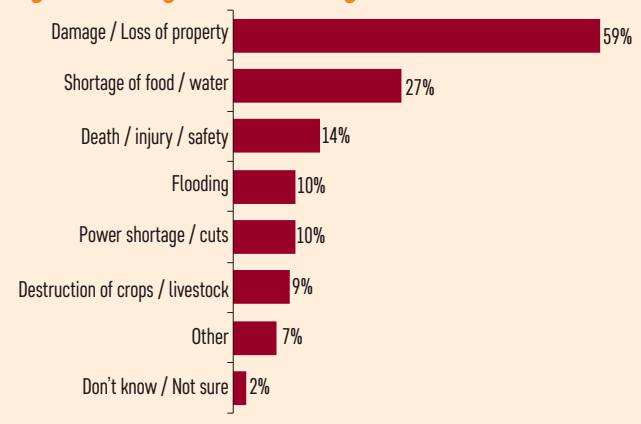
**60% of respondent not affected by TC Winston identified damage and repairs as the top concern.** Whereas those who were impacted by TC Winston still had their largest concerns focused on food and water shortages (See figure 3). For those that were impacted by Winston, repairs were the second highest priority (nominated by one-third of the group) and property damage was nominated separately by 13 percent, both of which insurance may have had the potential to contribute to if it could have been in place.

**Rapid cash was needed after TC Winston** - For those directly impacted by TC Winston, 35% needed to borrow money or get a loan immediately after the cyclone hit. Of these, half were successful in obtaining funds, the majority received the full amount they needed, although only half received the funds when they were needed.

## Securing post disaster finance

The survey investigated solutions to needs including in situations not specific to windstorms, and for windstorms. Perceptions, for those who were not impacted, and actual responses for those that were impacted by TC Winston, were investigated.

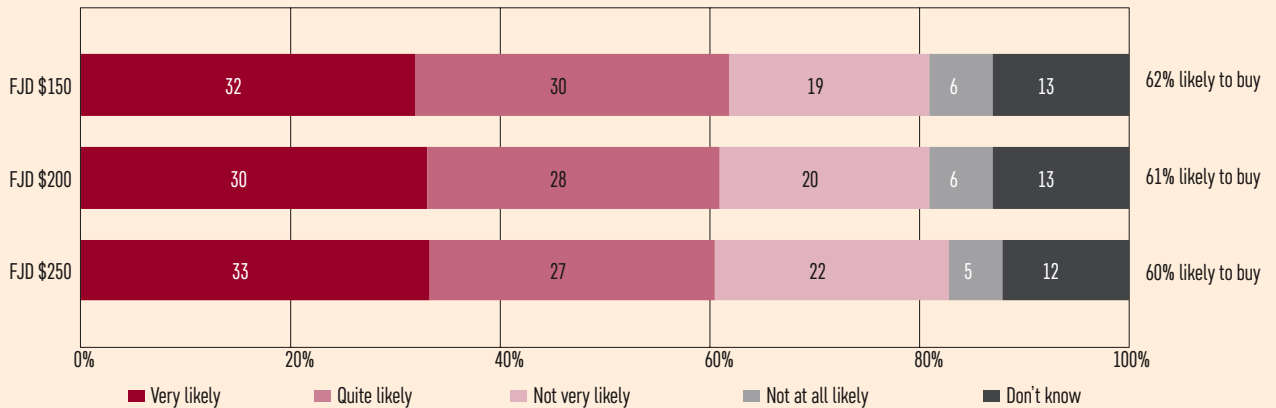
**Figure 3: Long term financing needs**



**Borrowing may be perceived as a solution but was not completely effective.** Only half of those that needed to borrow funds in response to TC Winston were successful in borrowing any funds at all. One in five of these reported that the funds borrowed were less than they sought and half of the successful borrowers indicated that the time taken to get the funds was not satisfactory.

**Rapid response to disasters is seen as important.** Some financial support at least is required in the near term. Respondents indicated that a seven-day claim period would be needed for any solution to be truly effective. Even faster responses would be desirable. This suggests that some of the learning of more inclusive insurance projects in other countries could be part of the solution as insurers reconsider processes required to deliver such a response. This indicated that there is potential for the introduction of a scalable social protection mechanism to ensure that the poorest fraction of society receive funds quickly in the aftermath of a disaster.

Figure 4: Willingness to pay for insurance



## Insurance as a recovery mechanism

**An overwhelming 93% of respondents felt insurance could play a role in cyclone response** despite only 2 percent of respondents saying it currently did. Respondents do have some insurance experience although most current insurance products are life, motor and medical insurances.

**Cost is the largest perceived barrier to windstorm insurance.** Second level barriers focus on insurance understanding and insurance literacy. Engineering certificates are well understood to be part of the cost barrier by 31 percent of responders, other responses included an absence of understanding or access (28 percent and 13 percent respectively).

**Distrust of insurance is at limited levels** compared to some countries further highlighting the potential for insurance to find a positive reception if they can find a product to make available.

**Interest in insurance, when presented with a product prototype and option, was high** at close to 70 percent and was largely independent of the tested premium levels. Interest in purchasing the insurance concept at the three price points of \$150, \$200 and \$250 per year is close and there is no real variation by price point (See figure 4). This suggests that all three price points have similar levels of acceptability to the target market.

## Conclusion

The results of this study suggest that there are **two key ex ante opportunities** to use insurance as a mechanism to secure finance in the immediate aftermath of a disaster. The first is to develop property insurance for houses of low build quality that are still deemed insurable with some basic reinforcement, such as roof strapping risk underwritten by domestic insurance companies. The second is to provide livelihoods protection insurance for low-income households whose houses are deemed uninsurable.

A proposal has been submitted to the Government of Fiji to investigate the potential of these two options and the **following next steps are required:**

- Government of Fiji to confirm their interest in this project by providing a letter of request from the Minister of Economy.
- Pending the above the World Bank Group to:
  - » Commence technical assistance on product development
  - » Secure seed capital from donors to capitalize a dedicated vehicle, possibly through PCRIC
  - » Crowd in the domestic insurance industry

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