



INDONESIA

BACKGROUND

Around 133 million people in Indonesia live in or near high-risk earthquake zones, with economic exposure reaching an estimated US\$79 billion. These risks are especially high in areas such as Yogyakarta and Padang, where the banks that were most affected lost between 15 and 35 percent of their income following recent earthquakes. These events can erode bank capital reserves and compromise their ability to lend.

PROJECT DESCRIPTION

Supported by the Global Index Insurance Facility (GIIF), the International Finance Corporation (IFC) has been working with PT Reasuransi MAIPARK (national reinsurer of all special risks) to design and retail an index insurance product that protects the lending portfolios of banks from liquidity crises in the aftermath of an earthquake. This is relevant particularly for microfinance institutions (MFIs) and rural banks to be able to continue lending to communities when funds are most needed.

RESULTS AND IMPACTS

A new earthquake index insurance (EQII) product has been approved by the regulator in 2016, and is ready for the retail market. The insurance payout is triggered by a pre-determined earthquake parameter (Magnitude and Intensity), which is announced by an independent and established third party like the BMKG (Indonesia's Meteorological, Climatological, and Geophysical Agency) or the USGS (the United States Geological Survey).

The idea is for the MFIs to buy insurance to protect their loan portfolios from potential liquidity crises after earthquake events.

NEXT STEPS

Sustained and creative market outreach; ensuring relevant product adjustments and pricing; and combining incentives with other products and financial instruments will all play a key role in achieving market scale and sustainability. IFC is working with MAIPARK to develop market awareness and educational materials, and will continue to reach out to financial institutions across Indonesia.

PROJECT SNAPSHOT

Market Launch	2016
Clients	Microfinance institutions (MFIs)
Partners	PT Reasuransi MAIPARK (national reinsurer of all special risks)
Products	Earthquake index insurance (EQII) product to cover the loan portfolio of financial institutions
Insured Assets	Portfolios of banks and MFIs
Insured Perils	Earthquakes
Regulatory Environment	Financial Services Authority of Indonesia (OJK)
Data	PT Reasuransi MAIPARK for EQ models; BMKG or USGS for verification

PARTNER FOCUS



Partner Information

PT Reasuransi MAIPARK Indonesia is a special risk-insurance company owned by all licensed general insurance and reinsurance companies in Indonesia. It currently provides reinsurance coverage for earthquake, volcanic eruption, and tsunami risks.

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About Global Index Insurance Facility

The Global Index Insurance Facility (GIIF) is a dedicated World Bank Group's program that facilitates access to finance for smallholder farmers, micro-entrepreneurs, and microfinance institutions through the provisions of catastrophic risk transfer solutions and index-based insurance in developing countries. Funded by the European Union, the governments of Germany, Japan, and the Netherlands, GIIF has facilitated more than 1.5 million contracts, covering approximately 6 million people, primarily in Sub-Saharan Africa, Asia, and Latin America and the Caribbean. The facility is part of the World Bank Group's Finance & Markets Global Practice.

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