

## Case study: The African Risk Capacity (ARC) and Talking Points

### **African Risk Capacity: Sovereign Disaster Insurance through a Regional Risk Pool**

*By Mohamed Beavogui, Director General of the African Risk Capacity*

Climate shocks and natural disasters pose a significant threat to the livelihoods of the most vulnerable. Affected vulnerable households can wait as long as nine months for international relief to get through. In the meantime, they are obliged to resort to desperate coping strategies such as depleting their assets, forgoing their food security or pulling their children out of school. The African Risk Capacity (ARC), a Specialized Agency of the African Union and the region's first sovereign catastrophe insurance pool, is an African-owned solution to this challenge. Through early warning, contingency planning, insurance, and climate adaptation finance, ARC aims to transform disaster response systems.

With support from the German and UK governments, ARC's financial affiliate, ARC Ltd issued nearly \$130 million in drought coverage to Kenya, Mauritania, Niger and Senegal in the inaugural risk pool in 2014-15. Three more countries – The Gambia, Malawi, and Mali – joined the second risk pool in 2015-16. By 2020, ARC aims to reach 30 countries with at least \$1.5 billion of coverage against droughts, floods and cyclones. This would provide indirect insurance protection to an estimated 150 million people, playing a key role in the achievement of the G7 InsuResilience target.

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Objectivity and timeliness are at the core of ARC's approach. Because payouts are based on pre-defined rainfall triggers, ARC delivers payouts to governments within 2-4 weeks of the end of the agricultural growing season. According to cost-benefit analyses commissioned by ARC, reaching households within three months could result in nearly \$1,300 per household in protected livelihoods, and each £1 invested in early intervention through ARC saves £4.40 in traditional humanitarian costs. Furthermore, by collectively pooling and diversifying their risks across the continent, countries save up to 50% in the cost of emergency contingency funds.

How has this theory translated into practice? Following the severe drought that hit the Sahel, in early 2015 Senegal, Niger and Mauritania received payouts from their coverage which arrived weeks before the UN appeal was even launched. Knowing that a payout was coming, governments updated their response plans and prepared to assist vulnerable groups straight away. A total of \$26.3 million was used to purchase livestock fodder and staples, primarily from local producers, benefiting roughly 1.3 million people.

*This is a summary of the case study that appears in the RESULTS UK policy paper Weathering a Risky Climate: The Role of Insurance in Reducing Vulnerability to Extreme Weather, May 2016. Case study courtesy of African Risk Capacity: [www.africanriskcapacity.org](http://www.africanriskcapacity.org). You can download the full report here: <http://bit.ly/riskyclimate>*



You can see how much support the UK is already providing to the ARC here: <https://devtracker.dfid.gov.uk/projects/GB-1-203469>

## Talking points for your letters

Please write to the responsible UK Government Ministers, Rt. Hon. Rory Stewart MP and Nick Hurd MP, asking them to showcase the UK's important support for programmes such as the African Risk Capacity at the UN climate conference in November, in order to gain wider international backing for climate risk insurance.

Some messages you may wish to include:

- **For the two billion people around the world who depend on smallholder farming for their livelihoods, extreme weather can push them into poverty. Climate risk insurance (CRI) is an important tool to help people build their resilience, plan their future, and recover when disaster strikes.**
- **The UK is a global leader in climate risk insurance, supporting schemes like the African Risk Capacity (ARC), which aims to support disaster response systems, playing a role in transferring the burden of extreme weather risk away from the most vulnerable.**
- **Because payouts are based on pre-defined weather triggers, they can be made within weeks. By pooling and diversifying their risks, countries save up to 50% in the cost of dealing with emergencies.**
- **By 2020, ARC aims to reach 150 million people with insurance protection. To meet the ambition of the Global Goals to reach all vulnerable communities, climate risk insurance must be massively scaled up, which requires international agreement.**
- **The UK should seize the opportunity of the UN climate conference in Marrakesh in November to showcase schemes such as the ARC, building global support for climate risk insurance and helping to achieve the G7 InsuResilience and Global Goals.**