



# One size does not fit all: Universal livelihood insurance in St. Lucia

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## ABSTRACT

In 2015 the G7 countries announced the InsuResilience project to quadruple, by 2020, the number of people in the Global South who have financial risk management tools against climate change. A principal way this will occur is through weather index insurance (WII), a type of insurance that pays out according to estimated losses rather than actual ones. In this paper, I examine one WII product that has been for sale in St. Lucia since May 2013, called the Livelihood Protection Policy, which has been discussed as a model WII product for InsuResilience. This article is based on twelve months of fieldwork conducted in St. Lucia, interviewing people involved in the design, implementation, and distribution of LPP, and actual and potential purchasers of LPP. In this article, I argue that LPP's design as a microinsurance product that can be purchased by any St. Lucian no matter their livelihood has made it largely undesirable because it does not fit anyone's needs well. This occurs for two main reasons. First, rather than primarily being used to help low-income St. Lucians adapt to climate change, LPP was used to test out how an abstract index insurance product can be sold without directly subsidizing the premiums of policyholders. Second, by not being designed for particular livelihoods, LPP suffers from not addressing hazards, such as drought, that many St. Lucians are highly exposed to, and from not compensating policyholders at meaningful wind and rainfall thresholds.

## 1. Introduction

When the G7 countries gathered in the summer of 2015 to launch InsuResilience – an ambitious plan to increase the number of people in the Global South who have access to financial risk management tools against climate change from one hundred million to five hundred million by 2020 – this pledge marked a claim on an enormous market previously inaccessible to the insurance industry (G7, n.d). With the support of the G77 and China, international financial institutions were able to convince most Global North countries that they needed to spend more on managing the consequences of climate change in the Global South. These financial corporations positioned themselves as expert intermediaries that could help advance new climate policy goals by selling insurance.

Backed by pledges of more than US\$400 million, the InsuResilience project will expand hazard risk management through a financial product called weather index insurance (WII). Rather than paying out according to actual, and assessed, damage as traditional insurance does, WII pays out the same amount to policyholders within a particular region. When a storm occurs, for example, satellites would measure key weather variables, such as rainfall. Payouts are then triggered when one of these variables reaches a certain threshold. This switch in the focus of

financial risk management products from asset (as in traditional insurance) to hazard greatly reduces the cost of the financial product because only certain characteristics of the hazard need to be measured – extent and location, for example – and not the messy details of who lost what. This subtle shift of focus from asset to hazard is based on both the motivation to sell the product – many countries in the Global North are using financial means to address hazards they feel responsible for, rather than foster any particular kind of local production in the South – and the operation of the product, which requires no knowledge of what happens to production after a disaster.

This article analyzes a WII product that has been for sale in the Eastern Caribbean island of St. Lucia since May 2013, called the Livelihood Protection Policy (LPP), which pays out for excess wind and rainfall. LPP is an unusual kind of WII product because it can be purchased by any St. Lucian, no matter their livelihood. While WII, by construction, can function without the policyholder owning specific assets, almost all existing WII products are targeted to specific consumers, like maize farmers. That is, almost all WII products are designed for particular livelihoods even though the actual losses from that livelihood are not measured to determine the payout.

In this article, I argue that the abstractions inherent in LPP's design as a universal form of insurance have rendered it unable to meet its goal

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of “help[ing] vulnerable, low-income individuals recover from the damage caused by strong winds and/or heavy rainfall during hurricanes and tropical storms” (MCII, 2013a, p. 1). This occurs for two main reasons. First, LPP was created by the non-profit research wing of a large reinsurance company as a policy experiment to capture more of the global market for compensating losses deemed beyond adaptation. Rather than only being used to help low-income St. Lucians adapt to climate change, LPP was also used to test out how an abstract index insurance product can be sold without directly subsidizing the premiums of policyholders (Lashley, 2012, p. vii). Second, by not being designed for particular livelihoods, LPP suffers from not compensating policyholders at meaningful wind and rainfall thresholds. These two elements of LPP’s creation and design conflict with its purpose to help vulnerable, low-income St. Lucians after storms.

Although LPP is a rare form of WII in that it is open to any St. Lucian, of any livelihood, it has a lot to tell us about the future of climate risk insurance that is primarily designed around protecting against hazards (such as extreme weather events believed to be increasing because of climate change) rather than protecting any particular assets and livelihoods. And it is this universality that may make LPP’s hazard-first focus a lot more common if InsuResilience achieves its goals using LPP as its model, as InsuResilience supporters have indicated (German Federal Ministry for Economic Cooperation and Development, 2015).

To make this argument, I am drawing on twelve months of fieldwork conducted in St. Lucia from July through December 2014, May through August 2015, and from January through March 2016. In St. Lucia, I interviewed people involved in the design, implementation, and distribution of LPP, including at the underwriter level, and at banks and producer co-operatives and associations who sold the product. Additionally, I interviewed actual and potential purchasers of LPP, principally banana farmers and honey producers. I am also drawing on my analysis of the documents written to support LPP’s development and sale: primarily, the commissioned academic research and report examining the demand for the product in the Caribbean, and LPP’s promotional material. Finally, I am drawing on data I obtained through LPP’s underwriter on the policyholders’ demographic and livelihood characteristics, and on the policies themselves, for all policies sold in St. Lucia from May 2013 to December 2015.

The paper’s argument proceeds as follows: First I review the literature on insurance and climate security to show that financial risk management products designed for climate risks can produce unintended and undesirable outcomes. In the following section, I show how before LPP’s introduction the only insurance available in St. Lucia to protect a livelihood against storms was a banana insurance program that was designed to assist both the farmer and the state. I then show how LPP was designed as a rare form of universal WII to try to appeal to all low-income St. Lucians. In Section 5, I explain LPP’s origins as a product created to compensate for loss and damage, the new, third pillar of climate change management, alongside mitigation and adaptation. Finally, in the last section and the conclusion, I argue that LPP’s universality undermines its ability to adequately protect its intended purchasers, and helps explain the low uptake of the product.

## 2. Insurance and climate security

What we know of as modern insurance flourished in thirteenth century Italy, when merchants became more sedentary and sent their goods over the seas unaccompanied. Wanting to protect the value of all the commodities their ships carried, they bought another commodity – an insurance contract – that isolated the risk of their goods in motion into a new and different private good. This contract held the risk apart from the physical good, and for the first time could be bought and sold independent of that underlying good. Since the seventeenth century, the international laws of marine insurance required that an insurance contract be tied to a commodity (Levy, 2012). This requirement of “double commodification” – that is, the existence of both an underlying

commodity, and the financial commodity that insured it – provided two benefits. The risk could be priced accurately because the underlying asset was standardized (first commodification). And the costs of assessing the risks could be spread across the many insurance contracts sold (second commodification) (Levy, 2012). While the great majority of insurance is still based on an underlying commodity, the Livelihood Protection Policy (as a form of WII) is not because it is a derivative (as explained in Section 4) rather than a standard insurance contract. It is the underlying commodity that focusses standard insurance on the social world. By not requiring double commodification, WII does not need to concern any other commodity except itself. We will see how LPP uses this non-requirement of an underlying commodity to have no link with the social world when it comes to payouts. This exclusion of certain elements of the social world is an expansion of the exclusion of “particular perils and places” that insurance risk requires (Johnson, 2013a, p. 2670). By excluding the social relations of production and including only the hazard within its indemnity model, LPP presupposes that any failures in risk management will be taken up by the state or local communities.

The attraction of political projects such as InsuResilience lies in the ability of insurance to provide security, rather than to bring about a better adapted population (Grove, 2013a,b). One of the principal scholars of this approach to insurance is Francois Ewald, who argued that the construction of risk within financial risk management was a key moment in the history of liberal governance. Ewald wrote that calculating risk “means no longer resigning oneself to the decrees of providence and the blows of fate, but instead transforming one’s relationships with nature, the world and God so that, even in misfortune, one retains responsibility for one’s affairs by possessing the means to repair its effects” (Ewald, 1991, p. 207). For Ewald, a key part of liberal governance was conditioning its subjects to accept responsibility for their own risks. Lobo-Guerrero (2010a,b) has developed a biopolitical reading of insurance, wherein the real purpose of insurance is to exercise power for the “protection and promotion of forms of life” (Johnson, 2013b) While insurance is typically described as allowing for the reconstruction of property, its principal utility is to secure populations.

Climate security projects like InsuResilience use catastrophe models as a “methodology for the calculation and creation of contingent assets out of the fabric of insured environmental and financial vulnerabilities” (Johnson, 2013b, p. 30, 2014). These catastrophe models do not use the archival-statistical knowledge of traditional insurance in order to predict possible futures, and to price them in insurance contracts (Collier, 2008). Rather, the paucity of archival-statistical knowledge about extreme weather events requires a new form of knowledge, which Stephen Collier calls *enactment*. This approach takes as data what is known about both the vulnerable elements, and the hazard, and processes them through a catastrophe model. Kevin Grove has analyzed the catastrophe models that underlie an insurance program in the Caribbean, known as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which operates like WII for governments, rather than individuals (Grove, 2012). Grove showed how the purpose of CCRIF is not to cover losses to the state from hurricanes, but to provide the state with enough capital so that it can remain secure, and not risk its ability to govern.

Contemporary forms of climate insurance are designed to fulfill multiple and often conflicting goals. While they are ostensibly designed to assist the vulnerable against extreme weather events, and climate variability and change, they are also designed to secure the state, manage losses from the expansion of industrial capitalism, and provide new ways to financialize nature. From these conflicted goals, climate insurance also generates outcomes that are unforeseen and undesirable from the point of view of the designer. These outcomes often arise out of treating risk as a product of socio-natural relations that is best mediated by finance. Such treatment of risk can result in incentives for harmful choices and increased inequality between social groups. In an exhaustive review of the maladaptive outcomes of climate insurance in

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