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**QUARTERLY REPORT**

**1 January – 31 March 2014**

**INDONESIA DISASTER RISK REDUCTION PROGRAM  
FINANCIAL ACCESS**

**Indonesia Liquidity Facility After Disaster (ILFAD)**

Funded by  
USAID / Office of Foreign Disaster Assistance (OFDA)



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## Glossary

ABSIGAB	Association of Disaster Preparedness Rural Banks
ACA	Central Asia Insurance
Aswata	Wahana Tata Insurance
BNPB	National Agency for Disaster Management
BPBD	Regional Agency for Disaster Management
BPR	Rural Banks
ILFAD	Indonesia Liquidity Facility After Disaster
IFC	International Finance Corporation
LAPENKOP	National Institution on Cooperatives Education
MFI	Microfinance Institutions
OJK	Financial Service Authority
Perbarindo	Association of Rural Banks

## 1. Executive Summary

During this reporting period, the Indonesia Liquidity Facility After Disaster (ILFAD) program was represented at the largest global DRR event, the 3<sup>rd</sup> UN World Conference on Disaster Risk Reduction (WCDRR) in Sendai, Japan. This event offered a unique opportunity to introduce ILFAD to a global audience and to explore opportunities for replication of the program in other countries facing similar challenges to those in Indonesia.

Other notable activities in this quarter include the “cloud system” assessment to 31 MFIs in five provinces and a field visit to explore market opportunities and establish viability of launching the DRR savings product “bundling”<sup>1</sup> with disaster microinsurance in Meulaboh, Aceh. Lapenkop (ILFAD consultant for Disaster Resilient village program) commenced coordination activities with BPBDs in Padang, West Sumatera, Malang, Lombok Barat and West Nusa Tenggara.

The significant pace by which ILFAD has been able to develop the disaster microinsurance concept was facilitated by securing the involvement of Wahana Tata Insurance (Aswata) as to the local carrier for Swiss Re’s disaster portfolio product for MFIs in Indonesia. Until now, ACA has been the sole local carrier for the product and by securing an additional carrier; the program can scale-up more easily. To date, ILFAD has successfully engaged several private sector companies in the program, including ACA Insurance, Japan Risk Specialist Ltd., Swiss Reinsurance and Aswata. Securing a variety of companies’ such as these aids the long-term sustainability of the program. The more private sector companies become involved, the more comprehensive the portfolio of coverage available to clients (both for geographical reach and type of disaster coverage) and the market remains more competitive.

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<sup>1</sup> DRR savings + DRR microinsurance product

In this quarter ILFAD, along with ACA, presented the bundling product to the Rural Banks Association (Perbarindo) Forum in East Java. The Forum was attended by numerous rural banks, thus exposing ILFAD and the disaster insurance concept to a wide group of potential stakeholders.

OJK (Financial Services Authority) and ACA visited ILFAD provinces in East Java, West Nusa Tenggara, West Sumatera and Aceh. The aim of the visits was to enlighten and educate MFIs in these provinces on the microinsurance concept. During the visit, ACA introduced their web reporting system available on their microinsurance products. This type of exposure sensitizes the MFIs to microinsurance concepts and enables them to become more “insurance-literate.” The more comfortable MFIs are with the available products, the more comfortable they will become in engaging such a program and employing microinsurance products within their MFI services.

The USAID Mission Director, Andy Sission, visited West Nusa Tenggara during this reporting quarter. The visit offered Mr. Sission an insight into ILFAD’s project implementation activities with rural banks in Lombok Barat, West Nusa Tenggara.

One notable occurrence during this quarter was the significant flooding in Penjaringan, North Jakarta. ILFAD anticipated this would be a good example of a ‘test case’ whereby the Women’s Cooperative clients impacted by the flooding would activate their disaster savings product. However, due to the relatively small scale of flooding, funds weren’t withdrawn from DRR savings by their clients.

## 2. Program Activity Details

### a. ILFAD at WCDRR event in Sendai, Japan

During this quarter, ILFAD was competitively selected to participate at the “Ignite” stage event in the WCDRR that took place in Sendai, Japan. This event was held on 13-18 March 2015 and attended by representatives from 187 countries with a total of 6,500 participants composed of UN entities, intergovernmental organizations, NGOs, business and industry representatives, worker and trade unions, farmers, youth and local authorities. ILFAD was represented by Program Manager, Mr. Alfi Syahrin, who spoke at the Ignite stage event on the topics of DRR microinsurance and the role of rural banks in disaster preparedness. The first presentation outlined the theory and practice of developing and marketing DRR insurance products through Rural Banks and about the ILFAD program and best practices. ILFAD also presented on the role of Rural Banks in disaster preparedness, outlining the process for establishing an association that is able to facilitate disaster liquidity funds (Association of Disaster Preparedness Rural Banks/ABSIGAB).<sup>2</sup>

### b. Cloud System Assessment<sup>3</sup>

On February 4-6, ILFAD, together with Indonesian Cloud, conducted cloud system assessments of 31 MFIs in five provinces; Aceh, West Sumatera, Yogyakarta, East Java and West Nusa Tenggara. The cloud system assessment was aimed to observe the capability towards cloud system implementation, whether they were equipped with a proper operating system, and quick internet connection and speed. The annexed table presents the 20 MFIs that met the criteria to receive cloud backup storage system services. The final 14 selected MFIs will be determined this April.

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<sup>2</sup> The presentations can be viewed online: [WCDRR ILFAD Microinsurance](#) and [WCDRR ILFAD ABSIGAB \(Disaster Rural Banks\)](#)

<sup>3</sup> Refer to Annex 2 for assessment results.

**c. Product Development in Meulaboh**

With reference to Output 1.4<sup>4</sup>, a field visit to Bina Usaha Cooperatives in Meulaboh, Aceh, was undertaken by the ILFAD team on February 2-4 in response to the MFI's request to launch DRR products in their cooperatives. The aim of the visit was to develop DRR savings products bundled with microinsurance packages covering fire and earthquakes for Bina Usaha Cooperatives. Preliminary work for a basic survey was conducted by the MFI prior to the visit. The survey concluded that approximately 90% of the respondents were interested in utilizing such a bundled product. Bina Usaha Cooperatives were also asked by ILFAD to prepare an outline for a six month projection of their cash flow, budget plan, target of clients and breakeven point calculation should they launch a new DRR product. As a next step, a MoU between Bina Usaha Cooperatives, ILFAD and ACA Insurance will be drafted before product launch. The launch event for the new DRR bundled product is planned to be held concurrently with the Annual Meeting Members of Bina Usaha Cooperatives on 25-26 April.

**d. LAPENKOP**

LAPENKOP will implement part of the program's activities, specifically Output 1.1<sup>5</sup> and Output 1.4. The first stage of this activity was a meeting on February 25 between ILFAD and LAPENKOP to discuss and finalize the logical framework and work plan. Following this initial planning meeting, LAPENKOP finalized and consolidated the framework and work plan during a meeting in Banda Aceh, from March 9th – 13<sup>th</sup>, where LAPENKOP also took the opportunity to finalize recruitment of their regional team across West Sumatera, East Java and NTB.

LAPENKOP commenced the coordination activity with the respective BPBDs in Padang, West Sumatera, Malang, Lombok Barat and West Nusa Tenggara (NTB). The purpose of the coordination meetings with the BPBDs was to introduce the '*Desa Tangguh Bencana*' (Disaster Resilient Village – a BNPB program). These coordination meetings are crucial entry points to establishing a strong relationship and ensuring good engagement with local governments, offering an opportunity to promote the DRR and liquidity approaches that will be practiced by MFIs.

In parallel to this activity, LAPENKOP also coordinated with several MFIs including Jasa Mandiri Cooperatives in Padang, BPR Raga Dana Sejahtera in Padang, Citra Kartini Cooperatives and Prajurit Cooperatives in Malang and BPR in Lombok Barat. This initial coordination activity was an opportunity to refresh the ILFAD program concept to the MFIs, following from their original sensitization in 2014.

Up until and including this reporting quarter, LAPENKOP has identified an initial 21 MFIs that will receive assistance from ILFAD. The final selection will be reviewed again altogether with ILFAD team in the coming quarter.

**e. OJK, World Bank and ACA Insurance Visit to MFIs**

As a follow up action to the microinsurance prototype launched by the OJK in November last year, visits to ILFAD MFIs in four provinces were undertaken in corporation with OJK, World Bank and ACA Insurance to educate the MFIs on micro insurance. The visit involved around 35 MFIs across Aceh, East Java, West Nusa Tenggara and Yogyakarta. During the visits, ACA introduced their web reporting system<sup>6</sup> for microinsurance products including the DRR

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<sup>4</sup> Output 1.4: Related DRR saving, loan and micro insurance product is accessed by the community

<sup>5</sup> Output 1.1: Improved capacity of MFIs on DRR and liquidity management

<sup>6</sup> This online reporting system was developed by ACA in accordance with requests from MFIs to protect their clients (by disaster microinsurance) once they open a disaster savings account.

microinsurance product and the agency certification process to distribute the product. The opportunity was also taken to finalize the MoUs between ACA and ILFAD MFIs.

**f. Wahana Tata Insurance<sup>7</sup> ('Aswata') joins in the ILFAD Program**

ILFAD welcomed Aswata as the newest insurance partner to the program in this reporting quarter. The company has been working in the insurance industry for 50 years in Indonesia and following an OJK instruction that insurance companies should attempt to engage in microinsurance. As a result, Aswata has started to focus on this field, which has presented ILFAD with the opportunity to engage an additional local carrier (in addition to ACA). Aswata will partner with Swiss Re to offer coverage for MFIs' portfolio in the event of disaster by applying an index-based insurance scheme. This index-based scheme utilizes a 'trigger' for insurance payouts. For example, for an earthquake the trigger would be the magnitude of the earthquake.

**g. Presentation on DRR Product Bundling in East Java, Perbarindo Forum**

On March 25-27, ILFAD along with ACA, participated in the East Java Rural Banks Association ('Perbarindo') Forum in Kota Batu, East Java. The forum was attended by 150 directors of member BPRs. Ir. Hadi Prasetyo, Governor of East Java Province Representative, led the opening ceremony of this annual event. This regional forum is held to discuss Rural Banks issues from that year, to structure or restructure their boards and formulate the work programs for the coming year. On the first day, ILFAD and ACA were offered the opportunity to present the bundling product to all forum participants. There was significant interest expressed during the presentation with numerous questions particularly on the topics of product features, the process of product licensing from OJK, insurance claim procedures and the benefits for the BPR of this kind of 'bundling' partnership.



All BPR in East Java participated in East Java Perbarindo Forum in Malang

**h. Follow up ACA (MoU with BPR in West Sumatera)**

During this reporting period, all MoUs between ACA and the BPR in West Sumatera (initially highlighted as underway in the previous quarterly report) were signed. However, two months

<sup>7</sup> See Annex 3 for Aswata company profile.

following the products being operationalized (i.e. active for clients to use), OJK temporarily blocked the product being used by one BPR, Lugas Dana Mandiri. The reason for this was that the product had not been legalized/approved by OJK<sup>8</sup>. As such, a meeting was rapidly mobilized with ABSIGAB to discuss and try to support in resolving the issue. As an action point of this meeting, two other ABSIGAB members, BPR Lubuk Raya Mandiri and BPR Raga Dana Sejahtera, immediately submitted their products to OJK for approval. Once approval is given, the remaining BPR, Lugas Dana Mandiri and the others, will submit their request to OJK. This 2-3 week delay will result in the absence of full coverage for the BPR clients. However, ILFAD will use this lesson as the basis of initiating a meeting to facilitate a discussion between ABSIGAB and OJK to ensure both parties are now on the same page.

**i. Significant flooding in Penjaringan, North Jakarta**

Jakarta was hit by significant flooding caused by heavy rainfall on 9-10 February. Floodwaters of up to 50 centimeters inundated several areas, including thoroughfares, causing major traffic congestion. The areas most dramatically affected by the floodwater were in North Jakarta. The ILFAD team decided to undertake a rapid assessment of MFI/microinsurance clients of the Women's Cooperative in Penjaringan to establish if they had activated any claims on their policies. As the ILFAD team was unable to physically access the area due to the floodwaters, the interviews were conducted via telephone. The Women's Cooperative informed the ILFAD team that there had not been any withdrawal of DRR savings by their clients, the reason given that the clients considered they could survive and respond to the relatively small scale of flooding aftermath without any financial assistance.



Significant flooding in February in Penjaringan, North Jakarta with floodwaters up to 50 centimeters

<sup>8</sup> The BPR in West Sumatera did not realize the necessity of licensing the product as they assumed, because the product was similar to that being used by another two BPR (BPR Mutiara Pesisir and BPR Pembangunan Nagari) from a neighboring region. The West Sumatera BPRs were unaware that at that time, OJK (was Bank Indonesia then) had already given approval to both other BPRs to use the product.

## Coordination

The ILFAD team held a number of coordination meetings with stakeholders during this reporting quarter:

### International Finance Corporation (IFC) in Jakarta - January 13, February 25

To further enhance the ILFAD program concept with regards to disaster insurance, ILFAD is collaborating with IFC to develop a meso-level<sup>9</sup> index based insurance in all of the ILFAD areas of intervention. Following the first introductory meeting between Mercy Corps and IFC to explore a potential collaboration, a second meeting was held to discuss the specifics of a project more in-depth. It was decided that ILFAD would work jointly with IFC on a data collection exercise for 120 MFIs in 11 provinces, organizing and holding national conferences and workshops, awareness raising and product marketing to MFIs. ILFAD has now submitted a concept note encompassing all of the mentioned activities to IFC proposing these joint activities. If IFC accepts the proposal, a joint MoU would be negotiated and signed. It is anticipated that this could occur in the next quarter.

### Swiss Re in Jakarta - January 27

A meeting with Swiss Re was held to discuss the options available for product design and annual premiums to be charged to clients for the products. Swiss Re presented an overview of their work to ensure comprehensive understanding by the ILFAD team and to suggest areas where a relationship might be workable. During the early discussions, Swiss Re at first proposed a relatively high premium rate for MFIs (around 5% of their insured portfolio). However, following subsequent discussions and negotiations by ILFAD, Swiss Re agreed to lower and modify the rate to enable the product to be more affordable, and thus more accessible, for MFIs in Aceh and West Sumatera. During this process, Swiss Re nominated Aswata as the local carrier for their product.

### Wahana Tata Insurance (Aswata) in Jakarta - March 27

Following the Swiss Re nomination to partner with Aswata as their carrier, ILFAD held an introductory meeting with Aswata<sup>10</sup>. ILFAD presented the scheme outlining the disaster liquidity facility concept and disaster risk insurance, as well as the current portfolio of MFIs working with ILFAD to date. Aswata briefed on their Indonesia portfolio and their ability to develop microinsurance products as mandated by OJK. Following those discussions, Aswata agreed to collaborate with ILFAD and Swiss Re in executing portfolio level disaster insurance for MFIs.

### BNI Life Insurance in Jakarta - February 10

To seek and secure further collaboration with the insurance industry, ILFAD arranged a meeting with BNI Life Insurance. The purpose of the meeting was to explore potential BNI engagement in the ILFAD program and if or how BNI could contribute to the program overall aim to develop disaster microinsurance through MFIs. BNI Life Insurance has now submitted a proposal to ILFAD for ILFAD to determine if a working relationship is viable or not.

### Advocacy to OJK in Jakarta - Jan 15, Feb 3, Feb 20, March 13

ILFAD was offered an opportunity to meet Mr. Hendro Martwardojo (insurance industry expert and advisor) and Mr. Fidaus Djaelani (Chief Executive functioning as Non-Bank Financial Institutions Supervisor). The meetings were introductory opportunities for ILFAD to present the program concept

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<sup>9</sup> In general, a meso-level analysis indicates a size that falls between the micro- and macro-levels, such as a community or an organization. Sometimes referred to as mid-range.

<sup>10</sup> Meeting attendees: Mr. Gana, Director of ASWATA; Mr. Punguh Hutapea, Head of corporate operational; Mr Alfi, program manager ILFAD; Ms Renata, Program Officer ILFAD

to OJK, the concept of disaster liquidity facility and discuss the legislation restrictions of BPRs to be microinsurance agencies.

On February 20, a meeting with OJK, represented by Mr. Mochamad Mukhlisin (Director of Sharia Non-Bank Financial Institution), was organized as a follow up action towards advocating for changes in legislation to distribute microinsurance products through BPR. The meeting focused on the legal analysis and rationale of such restrictions and preliminary mapping of local economic resilience. OJK requested that ILFAD submit supporting documentation and resulted in a plan to arrange an internal focus group discussion (FGD) within OJK on disaster finance. Following the meeting, ILFAD has sent the requested documents of legal analysis<sup>11</sup> and more information on the ILFAD scheme as well as training and knowledge materials. Further discussions will continue into the coming quarter.

A visit to the Ministry of Public Housing was conducted on March 13 as an opportunity to explore the Government of Indonesia's liquidity facility schemes. Through the Ministry of Public Housing, the government has been implementing a mortgage liquidity facility (FLPP) funded by the central government budget (APBN) to provide access for low income communities to affordable mortgages to purchase homes. The visit was to seek information on how the scheme was established and whether it could be integrated in some way into the ILFAD program. The team concluded that the scheme was different from the ILFAD program. The FLPP is funded by the government with a budget, while ILFAD does not have the funds for the facility yet.

### Challenges

- Collecting geographical data, population by gender and age, areas prone to disaster for the *Desa Tangguh Bencana* (Disaster Resilient Village) is a challenge since data is not always available in BPBD at provincial or district/municipality level. It means that, identification of MFIs located in *Desa Tangguh Bencana* will prove a great challenge and will require particularly intensive efforts. ILFAD will need to work closely not only with BPPD but also BNPB at the national level since BNPB can conduct field visits to sub-district/village to gather the data.
- Attracting more clients for the DRR savings program continues to be a challenge demonstrated by the small 0.1% increase of clients from the previous quarter. The main challenge is due to a restriction from the national regulator (OJK) that does not allow Rural Banks to distribute micro insurance thus limiting the Rural Banks in engaging more clients in a scheme such as ILFAD. Advocacy efforts are ongoing as noted above.

### Monitoring and Evaluation

The following M&E activities were undertaken during this quarter:

- 1) Data collection of DRR saving clients from the MFIs. Results from analysis of this data collection are attached on the performance summary, aggregated by sex and age.
- 2) Collection of verification documents such as minutes of meeting, lists of attendees at meetings, and related reports of activities.
- 3) Development of the 'achievement tracking system' to monitor and track performance of program activities against targets. The summary of this tracking matrix is included in the annexes.

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<sup>11</sup> Information on the restrictions and prohibitions pursuant to the 1992 Banking Law (as amended by the 1998 Banking Law) in comparison to the 2008 Syariah Banking Law

### 3. Performance Summary

Please refer to *Annex 1* for details of performance summary.

### 4. Activities for Next Quarter

- MoU signing between ACA Insurance and Japan Risk in relation to the pooling fund contribution of each party;
- Development of index based earthquake microinsurance product with Swiss Re;
- Product launch of DRR savings product in Meulaboh, West Aceh;
- Cloud system implementation in the selected MFIs;
- Implementation of capacity building activity in “Desa Tangguh” areas by LAPENKOP in corporation with National Disaster Management Agency (BNPB)
- Following up to further investigate potential collaboration with IFC

### Annexes

Annex 1: Performance Summary Tracking Matrix

Annex 2: Cloud System Assessment Result

Annex 3: Aswata Company Profile