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QUARTERLY REPORT

1 October – 31 December 2014

**INDONESIA DISASTER RISK REDUCTION PROGRAM
FINANCIAL ACCESS**

Indonesia Liquidity Facility After Disaster (ILFAD)

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



| COUNTRY CONTACT | HEADQUARTERS CONTACT | PROJECT SUMMARY |
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1. Executive Summary

In this quarter, the Indonesia Liquidity Facility After Disaster (ILFAD) performed a number of activities to achieve the program's objectives, including the launch of DRR related financial products in seven (7) Rural Banks (Bank Perkreditan Rakyat or BPR) in West Sumatera under the Disaster Preparedness Rural Banks Association (ABSIGAB) and a field visit to share knowledge and build capacity off partners. During this quarter, Swiss Reinsurance Company Ltd. (Swiss Re) visited four MFIs in Aceh to gather information on disaster insurance at MFI level, as well as discuss innovative disaster risk financing concept to those local institutions.

In this reporting period, Merapi Mulia Cooperative in Jogjakarta held a lottery of their disaster savings and loan products to celebrate their 17th anniversary. This celebration served as a promotional event to encourage client growth of disaster products. Moreover, an advocacy consultant, cloud system vendor and contractor for capacity building were hired in this quarter to support the program in achieving its objectives.

In this quarterly report, Mercy Corps has also enclosed the new version of the logical framework for ILFAD Phase 3 as highlighted in the most recent Annual Report. The purpose of this logframe is to detail the activities and outline the measurements that will be undertaken in order to achieve program objectives. The phase 3 has already started in July 2014 and will end in June 2016.

This quarter also experienced a significant milestone for microinsurance development, as the Financial Service Authority (OJK) launched microinsurance product defaults, including disaster microinsurance for volcano eruptions, earthquakes and tsunamis. The motivation for this product launch was the lack of availability of insurance products suitable for society's needs and capabilities, and also the low level of understanding around microinsurance concepts, which has historically resulted in low levels of utilization of insurance products among the low-income population. Insurance products are generally difficult to comprehend and obtain due to their high cost time-consuming administration processes. Therefore, joint efforts are required in order to provide micro insurance products with characteristics that are simple, easy, economical, and immediately available. The development of microinsurance products has been to accomplish the following: 1) Stimulate the availability of micro insurance products that are suitable with the needs and capability of low-income society; and 2) Improve society's understanding of insurance products.

2. Program Overview

a. KACIO SIAGA Product Joint Launch Event

During this reporting period, the Kacio Siaga product was launched on October 22nd in seven BPR (rural banks) members of (ABSIGAB) (see Annex 4 for attestation of ABSIGAB) in Gedung Saptamarga, MaKorem Wirabraja JL. Sudirman, Kota Padang. These products were launched in the following rural banks: BPR Lubuk Raya Mandiri, BPR Ragadana Sejahtera, BPR Budi Setia, BPR Guguk Sarai, BPR Nurul Baroqah, BPR Cempaka Mitra Nagari and BPR Stigma Andalas. This product is bundled with a disaster microinsurance product provided by ACA Insurance, covering earthquakes and fires (please see Annexes 7 and 8 for details on the earthquake and fire products).

The event was attended by 19 BPR/ABSIGAB members, along with 452 clients (296 male, 156 female). The Governor of West Sumatera, Irwan Prayitno, gave an opening speech in during launch event. Governor Prayitno reported that he was impressed with what Mercy Corps and ABSIGAB have been doing in protecting MFI clients through product bundling as a result of USAID/OFDA's funding of the ILFAD program. He also encouraged Bank Nagari as the government regional bank to continue learning from the successes of rural banks. Also present at the event were the Head of Regional Disaster Management Agency/BPBD West Sumatera (Yazid Fadhli), Director of Bank Nagari (Amrel Amir), Director of ACA Insurance (Mulyadi Kusuma) and Country Director of Mercy Corps Indonesia (Paul Jeffery).



The opening of the Kacio Siaga launch event with Director of ACA, General Director of Bank Nagari, Head of BPPD West Sumatera, Governor of West Sumatera, Country Director of Mercy Corps Indonesia



Mulyadi Kusuma, Director of ACA Insurance, hands over the IDR 100 million cheque to ABSIGAB for an emergency liquidity fund.

During this launch, ACA Insurance, Mercy Corps and ABSIGAB signed an agreement on DRR savings products (Kacio Siaga) to be bundled with disaster microinsurance. Details of this agreement are described in Annex 5. The Director of ACA Insurance handed over an IDR 100 million cheque to ABSIGAB as an initial emergency liquidity fund, which will be stored in a bank deposit. An agreement between ACA and each BPR should be signed immediately following the launching. Three BPRs have signed the agreement while the remaining BPRs will be completed in this February due to the legal review process in ACA.

Starting in January 2015, ILFAD will begin assessing the number of new clients that have gained access to the DRR savings and microinsurance products. Results from this achievement are not yet available to be measured during this quarter because all the MFIs need time to market the product throughout local communities and secure new clients. As of now, 4,000 clients for DRR savings products and 8,000 clients for microinsurance are being targeted.

b. Field Visit in West Sumatera

As outlined in Output 1.4, it is vital for MFIs to have a clear understanding of the DRR saving/loan products and micro insurance information available in the marketplace. To ensure that all MFIs have a strong performance in attracting new clients for these disaster financial products, a field visit was held in West Sumatera, Grand Rocky Hotel Bukittinggi, on 10-13 November 2014.



Opening Ceremony of the Field Visit

The purpose of this activity was to share knowledge amongst MFIs about DRR savings products and disaster microinsurance, as well as provide an overview on how to launch and develop these bundled products within local communities, so that MFIs can develop their own disaster product by themselves. The participants of the event included 470 people (35 males and 12 females) from 31 selected MFIs located West Sumatera, Aceh, DI Yogyakarta, East Java, West Nusa Tenggara and Maluku. MFIs were taught the step by step process of developing disaster financial products, producing questionnaires,

briefing surveyors, role playing, conducting surveys to clients and communities, data input and analysis, and designing the product and its features.

The product development materials were administered by Ani Winarti, the former Micra staff member who developed the product at BPR Pembangunan Nagari in West Sumatera (during Phase 1 of the program). All of the MFI participated in a visit to BPR Mutiara Pesisir in Agam District to learn best practices from this particular MFI, as it has been successfully selling the disaster savings product (KASIGA) for a year. On the last day, the Rural Bank Disaster Preparedness Association gave a presentation to the MFIs located in disaster prone areas, covering topics that could enhance disaster preparedness in their institutions.

c. Swiss Re Visit to MFIs in Aceh

Swiss Re conducted site visits to several local MFIs in Aceh on 2 December 2014. The visits sought to gather information about MFIs' interest in disaster microinsurance in Aceh. The meeting took place in BPR Hikmah Wakilah and was attended by BPR Hikmah Wakilah, BPR Hareukat, BPR Baiturrahman and BPR Ingin Jaya. The insurance was specifically proposed to protect MFI from loan default risk and against any bankruptcy risk arising from their clients as a result of natural disaster. MFI directors reported that there's a need for the disaster insurance to cover in place for MFIs. From the initial discussion, the directors showed an inclination towards parametric products¹ as they seem to buy-in to the product's transparency and quick payout features. Swiss Re will submit an initial product proposal in January following the meeting.

d. Lottery Drawing of TASIGAB in Merapi Mulia Cooperatives

On November 15th-16th 2014, Merapi Mulia Cooperatives held a special event to celebrate their 17th anniversary by holding a lottery for disaster preparedness savings and loan products. 82 out of 480 savings accounts were drawn and had a chance of winning electronic equipment. Eligible clients to participate in the lottery were those whose account maintained a minimum of IDR 1,000,000 in savings (as of October 2014). This event was attended by approximately 1,500 people, comprised of MFI clients and committee members. This event was also attended by the regent of Sleman Regency, Drs H Sri Purnomo Msi. In his speech, apart from congratulating the Merapi Mulia clients, the regent also expressed his appreciation for what Mercy Corps, USAID/OFDA and Merapi Mulia

¹ Payouts for these products are triggered based on the physical parameters of a catastrophic event such as wind speed, location of a hurricane, magnitude and location of an earthquake, as well as actual insured losses incurred.

Cooperatives have been doing to help communities cope with disaster by utilizing financial products. He also encouraged other MFIs within Sleman Regency to learn from Merapi Mulia's best practices. This lottery event was one of the cooperative strategies to attract public attention and build client interest in saving their money in disaster savings products.

e. Advocacy Consultant for Microinsurance and Liquidity Rules and Regulation to OJK

An advocacy consultant, M Ajisatria Suleiman, was hired to advocate microinsurance and liquidity rules and regulation to OJK. Suleiman's role was to bridge the gap between the needs of disaster related microinsurance and liquidity facilities with the regulations imposed by the Financial Service Authority (OJK). This gap between the needs and regulations has become a significant obstacle towards achieving ILFAD's objectives. Due to the complexity of changing regulations, an effective strategy is needed to propose how regulatory changes should be arranged. Through this consultancy, the ILFAD will engage the authority to acknowledge the microinsurance schemes and liquidity facility mechanisms that are already practiced in many MFIs. Once the authority acknowledges and sees the demands from the communities, it is Mercy Corps' intention to work with the OJK to change the regulation for liquidity facilities by incorporating disaster elements into the regulations. This is integral to our strategy to accelerate the establishment of the disaster permanent liquidity facility.

f. Tender Process for Cloud System and Capacity Building

Indonesian Cloud (refer to Annex 3 for the profile) has won the tender for cloud system development for MFIs (to fulfill Indicator 1.2.1.1), while Lapenkop will be the ILFAD contractor for MFIs capacity building (to fulfill the Output 1.1). Lapenkop was chosen based on their evaluation results during their past contribution in Phase 2. This selection was also mentioned in the ILFAD Phase 3 proposal.

g. Indonesia Tsunami 10th Anniversary in Aceh

For the 10th anniversary of Tsunami Aceh, Mercy Corps Indonesia was asked to participate in the commemoration event in which the Vice President of Indonesia, Jusuf Kalla, gave an opening speech. ILFAD operated a booth that handed out a one page² document outlining ILFAD's guidelines for MFIs disaster preparedness, and playing videos of DRR related activities. Following the event, ILFAD held a coordination meeting with the Head of Rural Banks Association (PERBARINDO), Sugito, to discuss a plan to develop disaster savings and loan products in Aceh. In this meeting, ILFAD also distributed the guideline book to MFIs in Aceh. ILFAD will maintain correspondence with PERBARINDO as well as MFIs in Aceh.

h. OJK Launched Microinsurance Product Default

The Financial Services Authority (OJK), in cooperation with Association of Indonesian General Insurance Companies (AAUI), Indonesian Life Insurance Association (AAJI) and Indonesian Sharia Insurance Association (AASI) held Micro Insurance Market at IPB International Convention Center in Bogor, West Java on October 30th. This event was part of a micro insurance development program, which has become a commitment of OJK and the three associations in an effort to expand low-income society's access to insurance products. ILFAD was invited and attended this event. The following are the disaster related microinsurance products launched by OJK and AAUI:

² See annex 6

- The Stop Usaha Eruption product, which covers businesses from some specific events including fire and volcanic eruptions. By paying a premium fee of IDR 40,000, a policyholder will get a payout of IDR 2,500,000.
- The Stop Usaha Gempa Tsunami product, which covers businesses from some specific events, including fires, earthquakes and tsunamis. By paying a premium fee of IDR 40,000, a policyholder will get a payout of IDR 2,500,000.

i. Social Venture: Disaster Microinsurance Claim Assessment and Alternatives (DIMICA)

On December 15th, ILFAD participated in the Social Venture competition held by Mercy Corps Global and has been shortlisted for submitting an idea to establish an institution that provides a post-disaster damage and loss assessment service for insurance companies and MFIs in Indonesia. This competition is now being processed until the winner is announced on January 16th 2015. The establishment of such assessment will help out the disaster microinsurance scheme and it is aligned with ILFAD program. If such institution is established, wider microinsurance products will be available and facilitate ILFAD in achieving our target.

Coordination

The ILFAD team held a number of meetings with stakeholders during this reporting quarter, detailed below:

Hearing at Sinarmas Insurance in Jakarta - 27 October 2014: The meeting was to seek a partnership between ILFAD and Sinarmas Insurance in developing disaster microinsurance products. Attendants of the meeting included Mrs. Intan Paramita, Head of Agency Division of Sinarmas General Insurance. Overall, Sinarmas showed interest in what ILFAD has to offer. She felt that the ILFAD business scheme was aligned with the company's interests and that entering the microinsurance market through disaster microinsurance product would be a great opportunity for Sinarmas' engagement. ILFAD will send a business proposal to Sinarmas once a due diligence has been conducted.

Meetings with Japan Risk and ACA in Yogyakarta (November 16, 2014) and Surabaya (December 4, 2014): The first meeting was held with five MFIs in KSP Merapi Mulia, Yogyakarta. The meeting was focused on gathering information from MFIs on the development of disaster savings and loan products in general, such as types of products, products features, premium fee and claim processes. The second meeting was to discuss the draft of MoU between ACA and Japan Risk, the project timeline, the timeline within the MoU over the next two years, and to share information regarding development of microinsurance in Indonesia. The MoU will then be signed during the next quarter. Following these meetings, MoU will be signed during the next quarter once the draft has been finalized, hence the microinsurance development activities can be executed afterwards. The MoU also discussed about the initial liquidity fund provided by ACA and Japan Risk.

Meeting with AXA Mandiri Insurance in Jakarta - 28 October and 25 November 2014: Following the first introductory meeting between Mercy Corps and AXA Mandiri to seek potential collaboration, the second meeting was to cover the specifics of the project itself. ILFAD presented their business scheme in relation to the insurance industry, while AXA performed their portfolio and provided information on the insurance market in Indonesia. During the meeting, both parties had verbally come to an agreement to develop disaster microinsurance and agreed to meet again to further discuss the MoU and scope of partnership.

Challenges

Disaster microinsurance web reporting system by ACA: This 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. Since this system is new to MFIs, it takes time for them to fully grasp and utilize it. ILFAD facilitated meetings and trainings delivered by ACA to directors and persons in charge (PIC) of each MFI. The meetings talked about how to use web reporting system including data input and claim procedure. Mercy Corps facilitated the ACA to train MFIs regarding this system.

Christmas and New Year: Some meetings were not held on schedule due to the holidays, including gathering comprehensive data BPR during this quarter due to BPR operations were interrupted by Christmas and New Year holidays. Also, they were loaded with end of year report and activity and budgeting plans for 2015.

Monitoring and Evaluation

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

- 1) Data collection of DRR saving data clients from MFIs. Result from this data collection period is attached on the performance summary that is aggregated by sex and age.
- 2) Collection of means of verification such as minutes of meeting, list of attendees, and related reports of activities as required by the log-frame.
- 3) Developed the achievement tracking system to see program's target against its implementation. This summary is included with the performance summary matrix.
- 4) List all activities from national and field to be pooled in the program's database.

3. Performance Summary

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

4. Activities for Next Quarter

- MoU signing between ACA Insurance and Japan Risk;
- Development of parametric earthquake microinsurance product with Swiss Re;
- Development of disaster savings and loan products in Meulaboh;
- Begin to run the "cloud system" back up data for selected MFIs with Indonesian cloud;
- Specific meetings with OJK, Ministry of Cooperative, Micro, Mmall and Medium Enterprise, and National Disaster Management Agency (BNPB). Topics will cover capacity building on how to implement disaster management training and the liquidity management training that we held last year;
- Begin to run the "saving mobilization" and MFIs capacity building sessions for selected MFIs with LAPENKOP.