

# Deploying insurance payouts to reduce the impact of climate disasters

## African Risk Capacity (ARC) and ARC payouts

ARC was established by the African Union (AU) in 2012 ‘to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters’. The ARC Group comprises two entities. The ARC Agency, a specialised agency of the AU, is tasked with building capacity in member countries to plan for and respond to climate disasters, including risk modelling through Africa Risk View and Tropical Cyclone Explorer, as well as to help raise awareness of ARC among AU member states and the broader public. The ARC Insurance Company Limited (ARC Ltd) is a financial affiliate delivering risk transfer services – particularly insurance.

**A central part of ARC’s value proposition is rapid access to financing for disaster relief needs**, faster than could be mobilised through ‘traditional’ ex-post financing approaches such as humanitarian appeals. This is delivered through the provision of parametric insurance against climate risks, offered to both African governments and selected ‘Replica’ partner organisations. ARC also offers technical support and tools to member states, including training and support to develop contingency plans that are put in place before any insurance policy purchase.

The aim behind the earlier financing, together with the pre-agreed contingency plans, is to **improve the speed at which responses can be implemented**. In turn, assistance can reach households faster, before they resort to negative coping strategies (such as selling assets or reducing food consumption) that can undermine resilience and erode development gains.

## ARC evaluation

Oxford Policy Management (OPM) is undertaking a 10-year independent evaluation of ARC, financed by the UK’s Foreign, Commonwealth and Development Office. This note reflects selected findings from an Impact Assessment conducted in 2023 and 2024. For the full evaluation report, other summary briefs, and reports from previous phases of the evaluation, see [here](#).

A key objective of the Impact Assessment was to assess the **extent to which ARC’s capacity building and payouts are contributing to improving the delivery of assistance to vulnerable households** in ways that mitigate crisis impacts. The assessment focused on the 11 countries that received a payout from ARC in the period 2020 to 2023. The 19 payouts included drought (crop and rangeland), cyclone, and Replica payouts. Contingency plans and secondary data were reviewed for all the payouts, and in three case-study countries (Mauritania, Malawi, and Madagascar) more in-depth key informant interviews and community-level focus group discussions were conducted on five recent payouts.

Because sophisticated products such as ARC insurance come at a financial cost, the evaluation looked for evidence of not just good assistance but **improved assistance, as compared to ‘traditional’ assistance funded through normal ex-post funding**. As a sovereign climate and disaster risk finance and insurance instrument, ARC is unique in facilitating evidence gathering and evaluation of this kind.



## Findings on the impacts of payouts

**At the point of payout, most countries had good plans in place for assistance delivery.** The plans typically signalled the country's intention to implement timely assistance, with a clear line of sight between the intended activities and the mitigation of crisis impacts. However, in around a third of the cases, the plans already indicated that the assistance would not arrive ahead of the 'normal' response (for example, lean season assistance).

**ARC payouts were faster than comparable sources of financing, but considerably slower than its targets for releasing payouts.** The average (median) time taken for drought payments was 116 days, which reduced to 68 days when countries that experienced basis risk situations<sup>1</sup> were removed from the analysis. This is slower than ARC's target to make payments within 30 days. The two cyclone payments took 25 and 71 days.

**The payouts did not systematically result in more timely assistance.** ARC plans – together with early financing – made a discernible difference to the timing of the assistance delivery in just one response out of the five studied, with the assistance being delivered one month earlier than 'normal' assistance in that case. In the other four case-study responses (both drought and cyclone), it did not translate into faster or better-quality assistance than was achieved with other sources of finance.

**There were challenges with the targeting of the assistance.** Two of the three case-study countries used social registries for targeting, which offered potential for faster delivery, but both suffered from problems with accuracy as the registries were out of date. In two countries, there were also deviations between the planned targeting processes and how they were implemented at the subnational level, calling into question the targeting benefit that is anticipated by having pre-agreed response plans in place.

**The assistance met urgent needs and was considered appropriate by the communities concerned.** At the community level, the type of assistance provided was generally perceived to be appropriate to their needs and provided much needed relief, supporting them to meet urgent needs and allowing them to maintain food consumption for the limited duration of the intervention.

**However, the aid was too late to prevent negative coping in most of the cases reviewed.** In three out of the four responses that could be assessed, negative coping strategies, such as reducing food intake and selling assets and land, were reported by communities to be already underway by the time the aid arrived. In the cyclone response

reviewed, these were more severe and materialised faster. In one circumstance, in which the aid arrived earlier than the lean season period, it was reported by beneficiaries to be just in time to prevent negative coping strategies being adopted.

## Lessons learnt

A number of lessons have been learnt on the enablers and obstacles when harnessing capacity building and insurance payouts to improve the delivery of assistance. These are divided into the following three stages of a payout: (i) from trigger to disbursement; (ii) from receipt of payout to delivery of assistance; and (iii) from delivery of assistance to household impact.

### Trigger to disbursement

- Providing countries with an **early notification** that a payout is imminent and supporting them to develop their final implementation plans (FIPs) was reportedly very helpful in facilitating a smooth disbursement process.
- However, **FIP approval processes need to be faster** as at present they are slowing down the payout process.
- Incidents of **basis risk** are also slowing down payouts significantly, despite the ARC principles and processes in place for managing basis risk.



<sup>1</sup> The technical term used to refer to mismatches between the model and losses experienced on the ground.



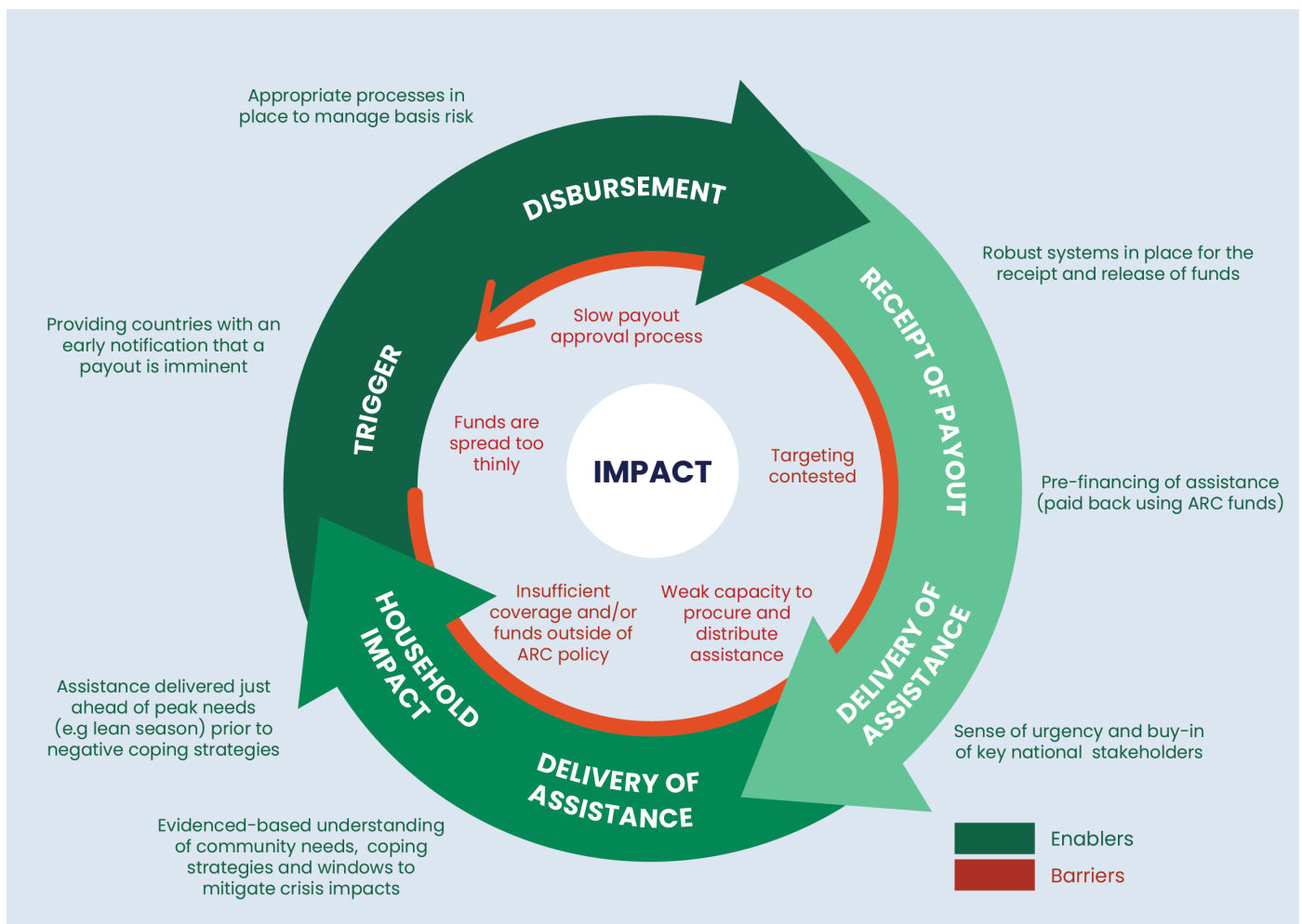
### Receipt of payout to delivery of assistance

- **Buy-in of key stakeholders** at the country level regarding the importance of early action is essential. A lack of urgency among key decision makers and implementers contributes significantly to delays.
- It is essential to have **robust systems** in place for the receipt and release of funds (e.g. a dedicated account), and for the procurement and distribution of assistance.
- The **use of social registries** for targeting assistance could speed up response times, but only if they are kept up to date. Otherwise, the lists may be contested, resulting in delays.
- **Pre-financing** of assistance activities (later paid back by ARC) can substantially speed up response time. More could be done to facilitate this.

### Delivery of assistance to household impact

- Assistance delivered just **ahead of peak needs** (e.g. lean season) can allow households to safeguard health and assets against the worst effects.
- Timing this assistance appropriately is best achieved through a clear understanding of community needs and coping strategies across a **crisis timeline**. Otherwise, there is a risk that systems will default to the 'normal' modes of response programming, such as absorbing funds into annual lean season assistance.
- The assumption that ARC funds will be used first, while other sources of funds are mobilised to cover the remainder of the season, is challenged in situations where no other funds materialise. The result is that **funds are sometimes held back** to support households through the peak of the lean season and are often **spread too thinly** to achieve the desired impacts at the household level.

Figure 1: From payouts to impact: enablers and barriers





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