Floods around the world often have disproportionately harmful impacts on low-income households and small businesses, as was the case during the floods that hit Chennai, India in December 2015. A recent study from Mercy Corps and Okapi investigated this impact by examining the interplay between urban planning and the business climate in shaping micro, small, and medium enterprise (MSME) resilience to the flooding. Whilst reliable cash and credit flows helped to reduce the impacts of the flood, insurance covered only a small percentage of losses.

Insurance options are limited for MSMEs in India with almost 67% of MSMEs excluded from the formal financial sector. As a part of the study, in-depth interviews were conducted with 35 MSMEs, of which 16 had purchased insurance indirectly, usually bundled with a loan; six had purchased insurance directly; and 13 had no insurance coverage. Insurance was one of the factors examined by the study and was unfortunately found to have achieved little in reducing of the impact of the flood.

Problems were particularly acute among the 16 businesses out of the 35 interviewed who had received an insurance product indirectly, usually bundled with a loan. The reason for this lay in the relationships between the insurers and the banks acting as intermediaries, as well as a lack of information provided to clients about their insurance cover.

Some banks that acted as intermediaries worked against the interests of their clients. All banks require that insurance be purchased along with loans, though borrowers can choose which insurer they want to work with. However, banks are often agents for specific insurance companies, and representatives of insurance companies often have seats on the boards of banks. As a result, the MSMEs included in this study reported pressure to purchase insurance from particular companies. In some cases, banks even discouraged their clients from making insurance claims - all five of the MSMEs that did not present any formal claim reported that their bank had discouraged them from doing so.

Businesses were often unaware of the specifics of their cover. Of the eight firms that confirmed having a copy of their insurance policy, three were handed the document only after the claim had been filed. With little awareness of the terms of insurance, many firms mistakenly believed some uninsured assets were covered.

On average, firms with indirect insurance received approximately 16% of the amount claimed, whereas firms with direct insurance received an average of 31.5%. In some cases, parts of the claims were not approved as they were not covered by the policy. However, for others with both indirect and direct insurance, the full sum was not received as claims went unpaid or only partially paid for great lengths of time with no information about when a decision might be reached.

This case illustrates the risks of distribution models, especially for bundled products, that do not work in the interests of the client. It highlights the need for a responsible insurance agenda, especially in countries where segments of the population are experiencing insurance for the first time.

The Facility has recently developed a training on responsible insurance and will share more information on the topic soon.

To find out more about the results of the investigation into the small businesses effected by the Chennai floods, read the full study: Transforming Chennai? A research report on building MSME resilience to water-related environmental change. Alternatively, contact Josh or Arzu at Mercy Corps for more information.