



American Red Cross

# Anticipatory Action Financial Instrument Guide

American Red Cross  
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Photo credit: American Red Cross

This guide was influenced by *Disaster Risk Finance – A Toolkit* (May 2019) commissioned by GIZ ACRI+ and authored by Risk Management Solutions and Pengwern Associates. The toolkit provides a structure for disaster risk financial instrument considerations throughout the disaster management cycle, not inclusive of the Anticipatory Action window. This guide follows the structure and logic provided by the 2019 toolkit but with a specific focus on the Anticipatory Action window and considering the specific needs of a National Society.

# Introduction




Pre-arranged funding is one of the three essential elements of Anticipatory Action. A National Society's Anticipatory Action programming is traditionally funded through the Anticipatory Pillar of the DREF, specifically EAPs, Simplified EAPs and DREF Allocation for Imminent Crisis. In addition to RCM financial instruments, numerous financial instruments exist for potential National Society access. A National Society can combine different instruments to implement a layered approach to Anticipatory Action financing. This guide introduces the various instruments and outlines a straightforward strategy that American Red Cross staff can use to support a National Society to acquire Anticipatory Action financing.

## Key Components of Financial Instrument

Anticipatory Action financial instruments fund early action programming and, in some cases, institutional preparedness and early response. The nuance, purpose, and function of different financial instruments can be challenging to decipher. Four key components make up the design of these financial instruments: Risk Holder, Funding Purpose, Timing of Support, and Level of Risk. These components are described in detail below and will assist in determining which financial instrument is best suited to the circumstance.

## Risk Holder

A Risk Holder is a person or entity responsible for the financial consequences of a crisis. In any crisis, there may be a number of Risk Holders, ranging from the individual to government levels. A National Society will need to consider Individuals, Communities, and the National Society itself as key risk holders. In addition, there are also Sovereign (state, supra-national entity, international body) and Municipality-level (cities, sub-national government) risk holders; however, these are not covered in this guide as they are outside the scope of the National Society. The following diagram describes the Risk Holders a National Society may factor into their Anticipatory Action plans:

RISK HOLDER	OVERVIEW
	<b>INDIVIDUAL</b> <i>(Person, household, smallholder<sup>1</sup>, and MSME)</i> Includes individual households, smallholders, and micro, small, and medium-sized enterprises (MSME). At this level, people are responsible for themselves, their families, their property including homes and possessions, and their livelihoods. Individual-level risk holders have limited budgets and likely would not use sophisticated financial instruments.
	<b>COMMUNITY</b> <i>(groups of individuals or businesses, associations, cooperatives, etc.)</i> Includes groups of individuals or groups of businesses, not the individual or business itself (e.g., associations, cooperatives, etc.). At this level, the association or cooperative can be responsible for financial risks their members face. These may include loss of assets, business interruption, health problems, etc. depending on the individuals or businesses they represent. These Risk Holders pool individual risk and resources and likely can access a wider range of financial instruments.
	<b>NATIONAL SOCIETY</b> The National Society can also be considered a risk holder in the event that it has made commitments to cover the financial risks of particular beneficiary populations or if it has specific community or organizational assets that it wants to protect. The National Society may wish to ensure that it has operational funds required to launch a response and recovery program after a catastrophic crisis. The National Society can access a wide range of financial instruments but may not be aware of the range of available options.

<sup>1</sup> A smallholder is a farmer who cultivates crops, raises livestock or cultivates fish on a limited scale. Sometimes referred to as "small-scale farmers," they include farmers who own the land they work and those who do not.



## Purpose of Funds

Anticipatory Action financial instruments fund people, communities, and the National Society to act before the peak of a disaster or crisis and within the Anticipatory Action window, thereby reducing impact. The specific funding purpose may have implications for which financial instruments will be most appropriate. Separating funds based on purpose is not always clear cut and many funds have multiple purposes; however, it is useful to think of Anticipatory Action funds as fitting into three broad purpose categories: Life and Livelihoods, Physical Assets, and Operations. These three categories are described in the following diagram.



### LIFE AND LIVELIHOODS

Cover costs such as injury, death, health consequences, livelihood disruption and business interruption. These types of impacts are immediate and urgent, though it can be difficult to quantify needs and costs ahead of time. Financial instruments that fund Life and Livelihoods impacts should be flexible to meet diverse needs.



### PHYSICAL ASSETS

Cover repair or replacement for damage or destruction to physical objects including personal property, homes and businesses, community assets, and infrastructure like roads, water and sanitation systems, or health clinics and hospitals. This type of impact is more easily quantified and should meet the total financial need of the person or entity covered.



### OPERATIONS

Cover implementation costs throughout the disaster management cycle. Prior to an event, operations funds can support DRR, contingency planning, Anticipatory Actions systems building and other potential impact reducing actions in a disaster or crisis. During the Anticipatory Action and Response windows, Operations funds ensure the financial liquidity of the responding agency. Operations funding instruments should offer a high level of certainty with rapid payouts.

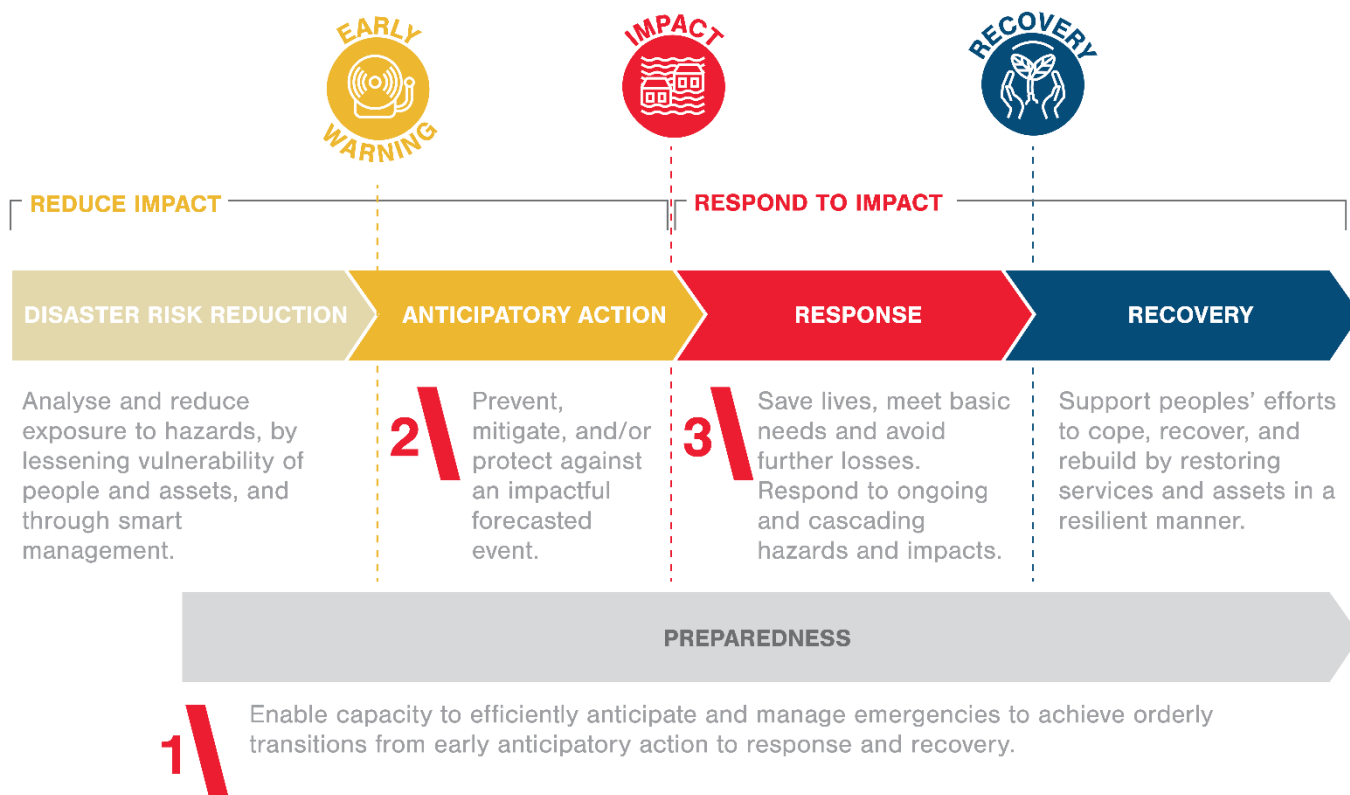


Photo credit: Daniel Cima, IFRC

## Timing of Support

Anticipatory Action financial instruments cover three segments of the disaster management cycle: The Anticipatory Action window between the trigger and onset of crisis; the Preparedness window when capacity building takes place; and sometimes the Response window when early response activities may be covered. The window covered has implications for funding amounts and the speed of fund delivery. This in turn determines which financial instrument is appropriate.

## Anticipatory Action and Disaster Risk Management



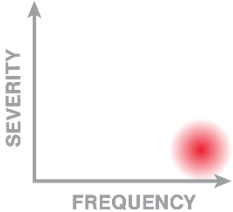
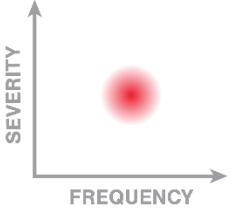
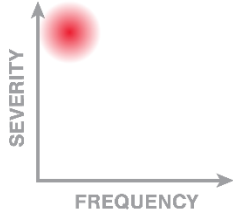
TIMING	ACTIVITIES
<b>1</b> <b>PREPAREDNESS WINDOW</b>	The Preparedness window does not require large sums or the capacity for rapid fund disbursement. For the purpose of this guide, Preparedness window activities refer primarily to institutional strengthening and capacity building of a National Society related to their ability to execute Anticipatory Action programming.
<b>2</b> <b>ANTICIPATORY ACTION WINDOW</b>	The Anticipatory Action window, depending on the scale of the imminent crisis, may require large sums; however, it is essential that the funds are released quickly to enable action within this window. All financial instruments included in this guide may be used in this window. The amounts dispersed depend on the expected magnitude of the crisis and the corresponding instrument.
<b>3</b> <b>RESPONSE WINDOW</b>	Some Anticipatory Action financial instruments allow actions to be taken in the early response phase. While Anticipatory Action technically occurs between a pre-agreed trigger and the onset of disaster, some financial instruments can cover costs of actions moving into the early response phase. This is especially true for sudden onset crises or disasters where there is little time to act beforehand. Anticipatory Action financial instruments typically do not cover Response window interventions; however, actions started in the Anticipatory Action window may be completed in the early Response window in these exceptional cases.

Source: Anticipation Hub (IFRC, German Red Cross, Red Cross Red Crescent Climate Centre)

### Level of Risk

A key component of Anticipatory Action financial instruments is the level of risk addressed in the frequency and severity of return periods. A return period is the average time between event occurrence (e.g., cyclones, floods, etc.) and is typically based on historical data. For example, a 10-year return period means an event is statistically likely to occur every 10

years and is likely moderate in severity. A 250-year return period means an event is statistically likely to occur every 250 years and will have a catastrophic impact. The higher the return period, the more catastrophic the event. The return period is useful to identify expected impact, making it a good indicator of the funding amount that will be necessary. Funding instruments can offer varied amounts of funding and it is critical that the instrument match the anticipated financial need.

RISK LEVEL	OVERVIEW
	<p><b>REGULARLY</b>  <i>(High frequency, low severity. 1 - 10 year return period.)</i></p> <p>Typically have a low impact and a return period of up to 10 years. These events are considered high frequency and low severity. The financial risk associated with these types of events is on the lower end of the scale and may be managed with the National Society's domestic funds.</p>
	<p><b>OFTEN</b>  <i>(Moderate frequency, moderate severity. 2 - 50 year return period<sup>2</sup>.)</i></p> <p>Typically have moderate impact and a return period of 10 – 50 years. These events are considered medium in both frequency and severity. The financial risk associated with these types of events can be large-scale and likely require external funding in addition to the National Society's domestic funds.</p>
	<p><b>RARE</b>  <i>(Low frequency, extreme severity. 50+ year return period.)</i></p> <p>Typically have severe impact and a return period of 50+ years. These events are considered low frequency and extreme in severity. The financial risk associated with these catastrophic events is enormous, requiring external and market-based funding to meet the needs of affected populations.</p>

2. Typically, Pooled Funds would cover return periods of 10 – 50 years but for this guide the returns are adjusted to 2 – 50 years to accommodate the various options in the Anticipatory Pillar of the DREF.

## Anticipatory Action Financial Instruments

A National Society has a role to play in a wide variety of disasters and crises. As such, it may benefit from a portfolio of financial instruments to fund its Anticipatory Action programming. Using the key components of financial instruments and a risk layering approach, a taxonomy of available instruments can help a National Society understand which instruments to use at what time.

### Risk Layering Approach

As explained in the previous section, key components of financial instruments help distinguish between them and clearly indicate when different instruments are appropriate. To create a financial instruments portfolio, a National Society can assess its needs through a risk layering approach that involves selecting financial instruments proportional to the frequency and severity of the crisis and the NS fiscal capacity. This allows the National Society to be cost-effective and meet more needs by deploying the right tool at the right time. A risk layering approach for Anticipatory Action programming involves three layers of risk. Each layer involves different risk strategies and categories of financial instruments. The layers are described in detail below.

<b>RARE</b> EXTREME SEVERITY	<b>INSURANCE</b>	TRANSFER RISK
<b>OFTEN</b> MODERATE SEVERITY	<b>POOLED FUNDS</b>	SHARE RISK
<b>REGULARLY</b> MILD SEVERITY	<b>NATIONAL FUNDS</b>	RETAIN RISK

## NATIONAL FUNDS

The first layer of risk includes events that happen regularly and have a mild impact. In this layer, the financial risk is low. The National Society may choose to retain that risk and use **National Funds**, including financial instruments like budgetary allocations, contingency/reserve funds, crisis modifiers, and grants.

## POOLED FUNDS

The second layer of risk includes events that happen frequently with moderate impact. The financial risk in this layer is likely to overwhelm a National Society's National Funds. Consequently, it may choose to share the risk with others in the RCM or humanitarian sector by accessing **Pooled Funds** such as global or national early action/response pools or risk pools.

## INSURANCE

The third layer of risk includes rare and catastrophic events. This layer aims to transfer the financial risks associated with high-severity, low-frequency disasters from the National Society or affected individuals to a third party via **Insurance** products. In return, the National Society or the affected individuals pay a risk premium and are disbursed pre-agreed funds at the time of disaster or crisis. Insurance products are often designed for three distinct levels of customers -- macro (sovereign), meso (sub-sovereign, associations, etc.), or micro (individuals, MESMs, etc.). This document focuses on the most relevant micro and meso-level products.

Micro-insurance is designed for low-income individuals, households, smallholders, and MESM business owners who find traditional insurance products do not meet their needs and are too expensive. Micro-insurance products are generally index-based products (paying out based on triggers/parameters rather than observation of damage or loss) which keeps costs low and administration efficient. This allows the insurance company to reach a wider market making the low-cost product financially viable. Meso-insurance products are designed for groups representing individuals, not individuals themselves. For example, a farmers' association may be the policyholder for a meso-insurance product and its members are the beneficiaries in the event of a crisis or disaster. The approach provides an economy of scale for insurance companies that makes the products financially viable, saving the individuals' time and energy by knowing their association or group will select appropriate products.

There are a variety of ways a National Society might incorporate this financial instrument into its Anticipatory Action strategy. A National Society may provide information to its beneficiaries about relevant insurance products so the beneficiaries can purchase products directly. A National Society may subsidize or pay for products directly on behalf of its beneficiaries. Finally, a National Society may partner with insurance companies to develop specific products for its beneficiaries.

Insurance products can be triggered to pay out in various ways depending on the design. These include:

- Indemnity triggers (depend on actual losses)
- Index triggers (triggered by an estimated industry loss "index")
- Parametric triggers (based on well-defined parameters of an event)
- Modeled triggers (based on parameters input into exposure models)
- Hybrid triggers (a combination of the above triggers)

In practice, however, index-based, parametric, and modeled triggers are all often referred to as "index-based" to differentiate them from the more traditional indemnity products. "Index-based" insurance products make payments based on the intensity of an event (for example, wind speed, earthquake magnitude, volume of rainfall) and/or the amount of loss calculated in a pre-agreed model.

*Source: PICAP Climate and Disaster Risk Instruments*



## Taxonomy of Financial Instruments

With the combination of a risk layering approach and the key components of financial instruments, it is possible to create a taxonomy of financial instruments that can support a National Society understand available options. The National Society can then create its own Anticipatory Action financing strategy based on its Anticipatory Action role in the country and its own strategic priorities. The below diagram summarizes the Anticipatory Action Taxonomy of Financial Instruments. These are described in detail in the following section.

RISK LAYER	RISK STRATEGY	FINANCIAL INSTRUMENT	RISK HOLDER			PURPOSE OF FUNDS			TIMING OF SUPPORT			LEVEL OF RISK		
			Who owns that financial risk being covered?			What can the funds be spent on?			What window can be funded?			What level of risk is being addressed? (Return period)		
			INDIVIDUAL	COMMUNITY	NATIONAL SOCIETY	LIFE & LIVELIHOOD	PHYSICAL ASSETS	OPERATIONAL	PREPAREDNESS WINDOW	ANTICIPATORY ACTION WINDOW	RESPONSE WINDOW	1-10 YEARS	2-50 YEARS	50+ YEARS
INSURANCE	TRANSFER RISK	Health insurance	●	●		●				●			●	●
		Life and accident insurance	●	●		●				●			●	●
		Agriculture insurance	●	●		●	●			●			●	●
		Property and income insurance	●	●		●	●			●			●	●
		Disaster and climate insurance	●	●		●	●			●			●	●
		Takaful/ mutual insurance	●	●		●	●			●			●	●
		Replica insurance			●			●		●			●	●
POOLED FUNDS	SHARE RISK	Risk pools			●	●	●	●		●	●		●	
		Early action/ response funds			●	●	●	●	●	●	●	●	●	
NATIONAL FUNDS	RETAIN RISK	Budgetary allocation			●	●	●	●	●	●	●	●		
		Contingent or reserve funds			●	●	●	●		●	●	●	●	
		Crisis modifier			●	●	●	●		●	●	●		
		Grants			●	●	●	●	●	●	●	●	●	

Source: Based on Disaster Risk Finance: A Toolkit Diagram

NATIONAL FUNDS	RETAIN RISK	<b>BUDGETARY ALLOCATIONS</b>	
		<b>Overview</b>	Anticipatory Action can be supported through the National Society's regular budgetary allocation process. Budget allocations for Anticipatory Action can be funded through domestic or international fundraising, government appropriations, or other funds received. Most likely budgetary allocations for Anticipatory Action would be used to support mild-severity but high-frequency events that may be too small or too frequent to qualify for other financial instruments or capacity building to deliver Anticipatory Action.
		<b>Risk Holder</b>	National Society
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets, Operations
		<b>Timing of Support</b>	Preparedness, Anticipatory Action, and Response Windows
		<b>Level of Risk</b>	1 – 10-year returns
		<b>Pros</b>	Extreme flexibility in terms of the funding purpose and what windows can be covered.
		<b>Cons</b>	Limited funding and competing priorities make it difficult for the National Society to allocate funds for Anticipatory Action. Any ability to allocate funds will likely not be on a large scale.
		<b>Requirements</b>	The National Society must have its own funding to allocate.
		<b>Examples</b>	American Red Cross
		<b>CONTINGENT AND RESERVE FUNDS</b>	
		<b>Overview</b>	Anticipatory Action can be funded via a National Society's contingent or reserve funds, sometimes called emergency funds. These are funds held in a ring-fenced budget and used only in the event of a disaster or crisis. These funds are traditionally set up to allow for rapid response to a disaster or crisis. The terms of the contingent and reserve funds may need to be adjusted to allow for Anticipatory Action. The main difference between contingent and reserve funds is whether the funds are returned at the end of the fiscal year if not used (contingency funds) or accumulated over time (reserves). These types of funds would also generally be used for low-severity but high-frequency events. It may be possible to use reserve funds for medium-frequency, moderate-severity Anticipatory Action programs if the fund is large enough to support the related cost.
		<b>Risk Holder</b>	National Society
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets, Operations
		<b>Timing of Support</b>	Anticipatory Action and Response Windows
		<b>Level of Risk</b>	1 – 10-year returns
		<b>Pros</b>	There is a lot of flexibility in terms of the funding purpose and what actions and windows can be covered. Typically, contingent and reserve funds do not cover capacity-building but it can be included in the funding terms.
		<b>Cons</b>	Limited funding and competing priorities mean it may be difficult for the National Society to set aside contingent or reserve funds. If so, it will likely not be on a large scale.
		<b>Requirements</b>	The National Society must have its own funding to allocate and policies regarding when/how funds may be accessed.
		<b>Examples</b>	Myanmar Red Cross Disaster Response Fund



NATIONAL FUNDS	RETAIN RISK	CRISIS MODIFIER	
		<b>Overview</b>	If a National Society has multiyear development or resiliency grants funded by key donors (e.g., USAID, ECHO, etc.) as a prime or a subprime, the grant will often include a crisis modifier in the terms. Crisis modifiers are financing mechanisms within a development program grant that disburse early action and rapid response funding in the event of a new program area crisis. Early action or rapid response activities are then implemented through existing development program structures. Crisis modifiers are often structured as 1) pre-approved budget reallocation mechanisms at the program or project level, or 2) contingency funds held as reserves at the program or project level. Crisis modifiers are a practical way to prevent or reduce the impact of a crisis and protect the development gains of the funded project.
		<b>Risk Holder</b>	National Society
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets, Operations
		<b>Timing of Support</b>	Anticipatory Action and Response Windows
		<b>Level of Risk</b>	1 – 10-year returns
		<b>Pros</b>	Crisis Modifiers could offer an untapped source of funds for the National Society's Anticipatory Action efforts and provide an avenue to protect development or resiliency gains in the project area.
		<b>Cons</b>	It is not common for a National Society to have multiyear development or resiliency grants. Crisis modifiers are not likely to include capacity-building funds.
		<b>Requirements</b>	The National Society must be prime or subprime in a development or resiliency grant. There must be an agreement in place with the donor that crisis modifier funds can be used for Anticipatory Action.
		<b>Examples</b>	
		GRANTS	
		<b>Overview</b>	There are funds available for small-scale or “under the radar” disasters or crises that the National Society can access for their Anticipatory Action programs. These funds are usually held at the national level by the PNS or donor and are designed for the types of mild-severity, high-frequency events that fit under National Funds.
		<b>Risk Holder</b>	National Society
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets, Operations
		<b>Timing of Support</b>	Preparedness, Anticipatory Action, and Response Windows
		<b>Level of Risk</b>	1 – 10-year returns
		<b>Pros</b>	Grants can be flexible in design and cover smaller-scale disasters. Often grants can include a capacity-building component.
		<b>Cons</b>	Grants are likely not going to be large enough to cover medium-scale or large-scale disasters.
		<b>Requirements</b>	Requirements vary per donor.
		<b>Examples</b>	American Red Cross Quick Action Fund (QAF) and the Start Network Start Anticipation Funds are two examples of funds in this category.

POOLED FUNDS	SHARE RISK	RISK POOLS	
		Overview	The Start Network has developed a humanitarian risk pool called Start Ready. This funding mechanism allows Start Network members to pool funds and risks that can then be accessed by a variety of countries and actors depending on the situation on the ground. Start Ready is designed for medium-severity and medium-frequency events like regional flooding and typhoons. By pooling funds and risks globally, rather than at the country level, the risk approach in this layer is for the National Society to share the financial risk of this type of crisis or disaster. Risk pools use funding more efficiently and provide better coverage by deploying funds as needed rather than allocating them at the country level waiting for a crisis or disaster to strike.
		Risk Holder	National Society
		Purpose of Funds	Life & Livelihoods, Physical Assets, Operations
		Timing of Support	Anticipatory Action and Response Windows
		Level of Risk	2 – 50-year returns
		Pros	This fund could provide a new source of Anticipatory Action funding for a National Society and may be used to complement existing plans a National Society may have.
		Cons	A National Society is expected to be an active member of the Start Network throughout the process, placing additional expectations on a National Society that might be difficult to meet. Start Ready is in its second year of existence and not all countries are covered as yet. Start Ready does not include capacity building funds at this time (although there are complementary grants that can be applied to for capacity building funds).
		Requirements	A National Society must be an active member of its country Start Network and participate with other Start Network members to conduct risk analysis and develop protocols for priority hazards. They then apply for coverage from the Start Ready Fund. If the plan is accepted, the group is covered for a one-year period and then must reapply annually.
		Examples	Start Ready Fund
		EARLY ACTION/RESPONSE POOLS	
		Overview	Early Action or Response pools refer to nationally or globally pooled funds that can be accessed by a variety of countries and actors depending on the situation on the ground. These instruments are designed for medium-severity and medium-frequency events like regional flooding and typhoons and in some cases low-severity and high-frequency events. By pooling funds globally, rather than at the country level, the risk approach in this layer is for the National Society to share the financial risk of this type of crisis or disaster. Early Action/Response Pools use funding more efficiently and provide better coverage by deploying funds as needed rather than allocating them at the country level waiting for a crisis or disaster to strike.
		Risk Holder	National Society
		Purpose of Funds	Life & Livelihoods, Physical Assets, Operations
		Timing of Support	Preparedness, Anticipatory Action, and Response Windows
		Level of Risk	2 – 50-year returns
		Pros	Early Action/Response Pools can offer higher sums of money to address larger scale disasters. Some pools offer capacity building funding.
		Cons	Many Early Action/Response Pools are still in the piloting stages for Anticipatory Action and have not yet reached scale.

		<b>Requirements</b>	To access Early Action/Response Pools funding, the National Society will need to have action plans or protocols in place and pre-agreed with the Pool owner. An element unique to Risk Pools is that they often intentionally facilitate a national approach to Anticipatory Action, working with a variety of actors and the government to create complementary action plans or protocols for different hazards.
		<b>Examples</b>	CERF, SFERA, Forecast-based Action by the DREF and DREF Allocation for Imminent Crisis, UN Country-Based Pooled Funds (CBPF)

INSURANCE	TRANSFER RISK	<b>HEALTH INSURANCE</b>	
		<b>Overview</b>	Health micro-insurance products include medical expenses and surgery, hospital cash (a set monetary benefit per night spent in the hospital), specific diseases (e.g., dengue, Covid-19, malaria, etc.), telemedicine, and health emergencies. Including national and government schemes, as of 2021, there were more than 100 health micro-insurance products in existence reaching nearly 30 million people. Geographically, Asia has the highest coverage with products primarily delivered via Mobile Networks Operators (MNO), followed by Africa with products delivered primarily by agents and brokers, and lastly, Latin America and the Caribbean with products delivered primarily by financial institutions. Health meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	Dengue Fever Microinsurance, ACA Indonesia
		<b>LIFE &amp; ACCIDENT INSURANCE</b>	
		<b>Overview</b>	Life and accident micro-insurance products are the most common micro-insurance products and include life insurance, funeral insurance, credit life or loan protection insurance, personal accident insurance, and investment or savings insurance. As of 2021, there were over 600 life and accident micro-insurance products available reaching over 161 million people. Asia has the highest coverage, delivered primarily through microfinance institutions, followed by Latin America and the Caribbean also delivered primarily through microfinance institutions. Lastly, in Africa, agents and brokers are the primary distribution channel. Life and accident meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	FijiCares Micro-insurance



INSURANCE	TRANSFER RISK	<b>AGRICULTURE INSURANCE</b>	
		<b>Overview</b>	Agriculture insurance includes agriculture, aquaculture, and livestock. Micro-insurance products protect crops, fisheries, and livestock against loss due to drought, pests & disease, cold waves, and water events (floods, etc.). As of 2021, there were over 71 agriculture, aquaculture, and livestock micro-insurance products available reaching over 8 million people. Latin America and the Caribbean have the highest coverage followed by Asia, then Africa. For all three regions, products are primarily delivered by financial institutions. Agriculture, aquaculture, and livestock meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	Catastrophic agriculture for smallholder farmers, Crédito Hipotecario Nacional (CHN), Guatemala
		<b>PROPERTY &amp; INCOME INSURANCE</b>	
		<b>Overview</b>	Property and income micro-insurance products are one of the newest and least common micro-insurance products available in the marketplace. They include business interruption insurance, extended warranties, car or motorcycle insurance, and property insurance. As of 2021, there were over 76 property and income micro-insurance products available reaching over 22 million people. Asia has the highest coverage followed by Africa and then Latin America and the Caribbean. For all three regions, products are primarily delivered by financial institutions. Property and income meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, there are still not a large variety of products widely available yet. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	Livelihoods Insurance, Kotak Mahindra Life insurance company Ltd, India

INSURANCE	TRANSFER RISK	<b>HEALTH INSURANCE</b>	
		<b>Overview</b>	Health micro-insurance products include medical expenses and surgery, hospital cash (a set monetary benefit per night spent in the hospital), specific diseases (e.g., dengue, Covid-19, malaria, etc.), telemedicine, and health emergencies. Including national and government schemes, as of 2021, there were more than 100 health micro-insurance products in existence reaching nearly 30 million people. Geographically, Asia has the highest coverage with products primarily delivered via Mobile Networks Operators (MNO), followed by Africa with products delivered primarily by agents and brokers, and lastly, Latin America and the Caribbean with products delivered primarily by financial institutions. Health meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	Dengue Fever Microinsurance, ACA Indonesia
		<b>LIFE &amp; ACCIDENT INSURANCE</b>	
		<b>Overview</b>	Life and accident micro-insurance products are the most common micro-insurance products and include life insurance, funeral insurance, credit life or loan protection insurance, personal accident insurance, and investment or savings insurance. As of 2021, there were over 600 life and accident micro-insurance products available reaching over 161 million people. Asia has the highest coverage, delivered primarily through microfinance institutions, followed by Latin America and the Caribbean also delivered primarily through microfinance institutions. Lastly, in Africa, agents and brokers are the primary distribution channel. Life and accident meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	FijiCares Micro-insurance

INSURANCE	TRANSFER RISK	DISASTER & CLIMATE INSURANCE	
		<b>Overview</b>	Disaster and climate micro-insurance products are designed to improve human resilience in disasters, including geophysical and climate-related events such as droughts or floods. Products are often weather index-based and bundled with promotion of disaster risk reduction activities. Products often estimate the loss and damage a household will face (e.g., property and asset damages, income loss, health issues, etc.) and pay out cash when the weather index-based trigger is met. Disaster and climate meso-insurance products may be offered by associations or cooperatives to their members.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level of financial risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular premium payments
		<b>Examples</b>	Cyclone Micro-insurance, Sun Insurance Company, Fiji
		TAKAFUL/MUTUAL INSURANCE	
		<b>Overview</b>	Takaful is similar to commercial insurance products, but it is Sharia-compliant making it a good alternative for Muslim households and MESMs. It is a cooperative insurance mechanism where policyholders are also the owners. Mutual insurance is similar to Takaful in that the policyholders become company members, paying specified amounts into a common fund from which they are entitled to receive payouts. Both Takaful and Mutual Insurance companies have micro and meso insurance products that can be a part of an Anticipatory Action funding strategy.
		<b>Risk Holder</b>	Individual, Community
		<b>Purpose of Funds</b>	Life & Livelihoods, Physical Assets
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	Insurance products bundled with other services can be an effective way to improve the financial resilience of individuals and communities. Market-based insurance products can cover a higher level financial of risk than other instruments.
		<b>Cons</b>	While micro-insurance has existed for several decades, only a limited variety of products is widely available. As micro-insurance products determine payouts based on index-based triggers (e.g., wind speed, earthquake magnitude, etc.), there is always a risk that the payout is not enough to cover actual damage (i.e., basis risk).
		<b>Requirements</b>	Regular payments into common fund
		<b>Examples</b>	Micro-Takaful Insurance “SI BIJAK,” Indonesia

INSURANCE	TRANSFER RISK	REPLICA INSURANCE	
		<b>Overview</b>	Regional insurance pools (ARC, CCRIF SPC, PCRIC, and the Southeast Asia Disaster Risk Insurance Facility/SEADRIF) provide governments an opportunity to transfer financial risks related to natural hazards and climate change to insurance products. By pooling risks and efforts across countries, the regional pool reduces costs and provides better coverage. Pools offer macro-level parametric products that provide governments with liquidity when facing large-scale disasters. Some regional pools develop meso-level products called Replica Insurance that allow humanitarian actors to purchase coverage from a regional pool under the same terms and conditions as the government. Coverage provides the humanitarian actor with financial liquidity for their role in responding to crises in the country. This supports government provision of expanded and coordinated coverage to more vulnerable households.
		<b>Risk Holder</b>	National Society
		<b>Purpose of Funds</b>	Operations
		<b>Timing of Support</b>	Anticipatory Action Window
		<b>Level of Risk</b>	10 – 50 years, 50+ years
		<b>Pros</b>	This type of product can provide the National Society with much needed financial liquidity in large scale and catastrophic disasters and crises.
		<b>Cons</b>	Not all regional risk pools have developed Replica products.
		<b>Requirements</b>	This typically requires joint contingency planning with the government.
		<b>Examples</b>	ARC Replica in Senegal, Somalia, and Zimbabwe



# Anticipatory Action Financing Strategy

Many National Societies have experience with Anticipatory Action and may already have monitoring, protocols, and funding in place. It is useful to discuss a National Society's Anticipatory Action strategy, determine any gaps in financial coverage and whether there is interest in expanding its Anticipatory Action programming. Once the strategy is understood, support can be provided to the National Society to align and perhaps expand its financing options. If the Anticipatory Action strategy is not yet available, the following questions can help articulate the underlying strategy.

## Who/what is being protected?

Discuss what geographic areas or beneficiary populations the National Society has a role in protecting. Determine if there are any physical assets the National Society would like to protect (e.g., homes or schools that have been reconstructed by the National Society, emergency shelters or RC/RC medical facilities, etc.).

## What are they being protected from?

Discuss the hazards that may impact the "who and what" that the National Society would like to protect. There may be hazards in which the National Society does not have a role (e.g., conflict, etc.).

## What are the likely scenarios for those hazards?

For the identified hazards, discuss the likely scenarios for those events. Ideally, this information is available from risk modeling and statistical analysis, but it is also possible to rely on the National Society's experience and knowledge to develop the scenarios. Ideally, it will be possible to sort the scenarios into the three risk layers based on frequency and impact.

## What are the priorities between and within those scenarios?

Depending on the National Society's role and capacity, there may be certain scenarios that they would prioritize over others (e.g., high frequency/low impact disasters that no one else covers, disasters that impact rural parts of the country, crises with "soft" triggers over "hard" triggers, etc.).

## Are any priorities not covered or not fully covered by existing financial instruments?

From the National Society's priority scenarios, discuss which are covered and by what instrument. Determine whether existing financing covers all crisis scenario needs or if additional funding is needed. Identify any gaps in funding.

## What additional financial instruments can the National Society access?

Based on where the gaps are (e.g., National Funds level, Pooled Funds level or Insurance level), discuss funding options with the National Society. For the Insurance level, it is possible the National Society will be familiar with what insurance products are available in the country; in addition, it may be necessary to do an insurance landscape survey to fully understand this option. For the Pooled Funds level, it may be necessary to meet with the Start Network or relevant UN agency to see if the National Society may access funding for their priorities and see how that might fit into the overall plan. For the National Funds level, it may be necessary to include the National Society financial manager to see if any domestic options are feasible. The American Red Cross is building a database of specific funding instruments in the strategic Priority and Climate Countries. This database should be consulted to determine if any relevant tools have been researched for the country context.

## Conclusion

If you find financial coverage gaps in the National Society's Anticipatory Action strategy, use the taxonomy included in this guide together with the National Society's local context knowledge to determine which types of financial instruments may be appropriate. Informational interviews, insurance landscape mapping and the American Red Cross database of available financial instruments in Priority and Climate countries all provide valuable information. They will guide you to develop a strategy to acquire additional funding instruments and sources of financing for the National Society's Anticipatory Action toolkit.