Minutes of the Savings and Credit Forum

Agricultural Micro Insurance: Powerful Tool for Vulnerability Reduction of the Poor?

November 26th, 2010, Berne, Switzerland

The objective of the Savings and Credit Forum of November 26th 2010 was to provide an overview and case studies of innovative agricultural micro insurance schemes around the world (Asia, Africa and Latin America) and implemented by different institutional set ups involving national insurance companies, input providers, NGOs and reinsurers.

The forum was opened by Peter Tschumi, head of SDC's focal point Employment and Income, who welcomed the speakers and participants and recalled SDC's Savings and Credit Forum in November 2007 on micro insurance. He pointed out the growing importance SDC and other donors are attaching to micro insurance as potentially an important risk mitigation instrument for poor people. Hans Ramm, responsible for Financial Sector Development within SDC's focal point Employment & Income, presented the speakers, the programme and moderated the discussions during the day.

The morning session was opened by Roland Steinman from the MicroInsurance Center who presented an **overview, methodologies and key challenges of agricultural micro insurance**, a risk management tool with specific challenges in the rural and agricultural sector. After an overview of the different microinsurance products available, the characteristics and challenges of index based products were discussed. He pointed out that not only interest from donors in agricultural microinsurance is rising but also from important states such as India, Brazil or China where government involvement is strong.

The presentation was followed by a short discussion which focused on several aspects. First, although agricultural insurance focuses on protecting agricultural yields, it also protects the assets of agricultural households. The reason why insurers do not insure assets is because they fear that people will neglect these assets once they are insured. Informal insurance schemes are common in many countries at the level of communities, but work only if people know each other very well and if the likely financial loss of disasters are limited. Can agricultural insurance work without subsidy? Usually, reinsurance companies and NGOs work together. Cross-subsidizing is fine as long as the financing mechanism of the insurance scheme is clear and the private company does not make a profit out of the NGO. In Switzerland and Germany, hail insurance is not subsidized, which could make a business case.

The second presentation was given by Harini Kannan from SwissRe India who presented the first case study, **an innovative weather index-based agricultural micro-insurance scheme for small holders in India**. She pointed out that weather insurance may not be a substitute but a complementary tool for effective risk management. On a larger scale, the build-up of microinsurance markets would allow governments to shift from ex-post disaster relief aid to a more preventive risk management framework based on ex-ante financing and transfer of peak risks to international reinsurance markets.

The questions following the presentation allowed specifying diverse issues. The trigger for claim settlements depends on the weather index which is established on the base of agronomical research for each crop, discussed with the ministry of agriculture and explained to the farmers. Agricultural insurance does not cover the price volatility risk at the level of individual farmers. They can rather protect themselves by accessing commodity exchange markets through aggregators (cooperatives, traders). Insurance products exist on the international market to protect traders against volume and

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price risks. The role of SwissRe in the development of weather index insurance markets in India and Africa is first, to reinsure national insurance companies and second, to provide professional advice to these companies. In markets where the infrastructure (delivery channels) does not exist, donors can fund projects which promote the access to agricultural extension services in rural areas and contribute to farmer organization.

The afternoon session was opened by Eric Seuret from the Syngenta Foundation for Sustainable Agriculture. He presented the second case study of the day: **Kilimo Salama, using solar powered weather stations and mobile phone technology to drive micro insurance plans for Kenyan farmers.** He highlighted specific challenges and success factors like the importance of the first pay out for trust, the credibility of the partners distributing the products, the affordability with the possibility of reducing premiums through partnerships, the benefits of mobile technology with no paperwork to reach scale and finally, the possibility of including extension services. As elsewhere, historical weather data and stations as well as financial literacy and distrust of farmers are common challenges.

The last case study of the day was presented by Nathalie Wyser from the Fundación Profin in Bolivia, showing the example of how **Profin promotes agricultural micro insurance in Bolivia**. This foundation, grown out of a SDC project, seeks to improve smallholders' access to financial services. Among others, it supports winegrowers to insure their plots against hail. After a presentation of the set-up and initial effects on stakeholders, important lessons learnt were presented. Besides a solid risk calculation and knowing the client well, the product and the processes have to be kept as simple as possible. As in Kenya, Nathalie pointed out the importance of adequate and trusted distribution channels. Financial education is crucial not only for the demand but also for the supply side. Private public partnerships can bring huge benefits, but partners must be well selected and committed. Finally, the mandatory nature of the insurance scheme in order to control adverse selection was discussed.

The presentation of the case studies was followed by a discussion with all the panellists. First, the compulsory nature of insurance was discussed. The opt-in model of Syngenta in Kenya works well and it needs to stay optional, especially since it is still a new product that needs to be tested. For large scale models in India, SwissRe argues it should be compulsory. The issue of how to work with inconsistent or weak governments was raised. Dealing with governments will depend if the project is with an official, regulated insurance company or if the partner is an NGO, most likely not regulated. In the first case, the risk can lie with the regulator not permitting the development on a new insurance model. The benefit can on the other hand lie in the access to the reinsurance market. In any case, governments need to be included in the dialogue. The durability of the weather stations was also questioned (degradation, theft, etc). In Kenya, Syngenta has started working on a new model with smaller panels and has installed them in more looked after areas like schools.

Comments and experiences were sought on composite product packages for production systems. SwissRe explained that index Insurances have to go hand in hand with other solutions. For example in India, a new area scheme has three different components including an index based insurance and an assessment of losses in the field. This is also being considered by Profin with a composite microinsurance (agriculture, livestock, life and property). In general, there is an increase in the demand for composite products. But in many markets, the regulations do not allow such products to be offered.

Hans Ramm concluded the forum with three closing remarks, drawn from the three very different cases presented. For microinsurance to work effectively, you need 1) a market infrastructure with organized farmers or active and effective aggregators, 2) to start at the level of the smallholders. If no support from the government can be obtained, transaction costs can be reduced by using new technologies. For increased benefits, technical assistance to farmers is essential, whether through farmer organizations, NGOs, government or others, and 3) for viability in the long term, there needs to be enough scale and access to the international reinsurance market because of the covariant agricultural risks.

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