Microinsurance for the rural poor: Weather-indexed agricultural insurance

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Outline

- Microinsurance – overview
- Weather index insurance
- IFAD-WFP Weather Risk Management Facility (WRMF)
- Key outputs in the coming year
- Timeline
Microinsurance – Improving Risk Management for the Poor

- insurance that is accessed by low-income population, provided by a variety of different providers and managed in accordance with generally accepted insurance practices
- low-premium products with limited benefits, short-term contracts, simplified products and coverage of limited risk events (high frequency, low impact events): credit life, health, property, group underwriting, education endowment funds, informal insurance (e.g. funeral parlors), agricultural microinsurance
Constraints of traditional crop insurance

- Poor rural insurance infrastructure and capacity
- Operationally difficult for small-farmer agriculture
- Loss adjustment, availability of farm level data
- **Fraud and moral hazard**
- **Adverse selection due to asymmetric information**
- High costs of monitoring and verifying individual losses and determining eligibility for coverage
- Yield-based and individual assessment insurance is not sustainable
Index insurance

- An index is a variable that is highly correlated with losses but that cannot be influenced by the insured — high or low rainfall, temperature, regional yield, river levels, etc.
- An index insurance contract pays out on the value of the index, not on losses measured in the field.
- Key advantages: Overcomes many supply side constraints of traditional insurance and can generate rapid payments after a triggered event.
- Main shortcoming: **Basis risk**, the potential mismatch between losses and payout.
Micro-level index insurance to date

- At the micro level, most index insurance is used to address drought risk
- Pilot scale implementation in several countries
- Private sector scale-up has been in India, where over one million policies have been sold
- Research is needed to expand coverage to other risks: Floods, El Niño/Southern Oscillation (ENSO), hurricanes, etc.
IFAD-WFP
Weather Risk Management Facility

• Goal:
  ○ Improve livelihoods and reduce vulnerability among poor, rural smallholders by improving their access to index-based weather insurance

• Objectives:
  1. Facilitate the access of significant numbers of smallholders to index-based weather insurance
  2. Develop replicable models with potential for scale and sustainability
WRMF Operating Principles

- Focus on the micro level
- Work in strong partnerships, leveraging the experience, capacity, and on-the-ground presence of IFAD and WFP, the wider UN family, and a range of key partners and stakeholders
  - Key panel of advisors
  - Collaboration with WB-CRMG, WMO, IRI for Climate and Society, MIA (new: Micro Ensure), ILO, and other centres of excellence
  - Dialogue and eventually partnership with reinsurers and primary insurers
  - Participation in CGAP MicroInsurance Working Group

Enabling the rural poor to overcome poverty
Status of index insurance schemes*

- Proposed: Malawi 2006, Bangladesh, Honduras, India, Kazakhstan, Mexico, Peru, Senegal (all 2007)
- Status pending: Argentina, China

- IFAD/WFP fact finding missions to: Kenya, Ethiopia, China, Indonesia, Tanzania, Madagascar, India, and South Africa (potential countries of initial operations)

* In fact, only Mexico, Mongolia and India are in full operation and are relevant to poor farmers (2007)
Conclusions

The very few instances of successful agricultural microinsurance make it premature to recommend a definitive list of best practices; activities to remove uncertainties and constraints include:

- Create appropriate regulations
- Work towards a set of “smart subsidies”
- Manage ad hoc disaster relief so that it does not dampen the demand for insurance
- Increase quantity and quality of ag. Insurance skills
- Improve data collection
- Provide consumer education
- Improve feasibility analysis
- Facilitate spread of affordable reinsurance
- Improve product quality
- Reduce costs through technology, new distribution channels etc.
Thank you for your attention