



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

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Status of index insurance schemes*

- **Full scheme in operation: Mexico 2001, South Africa 2002, India 2003 and 2004, Mongolia 2006, Peru 2006**
- **Pilot: Morocco 2003, Malawi 2005, Nicaragua 2005, Thailand 2006, Tanzania 2007, Viet Nam 2007, Caribbean 2007**
- **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

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