



Agricultural Microinsurance
The Landscape

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Agricultural Microinsurance

- Scope
 - Crop & Livestock Insurance
 - Micro - insurance targeted to the low income people

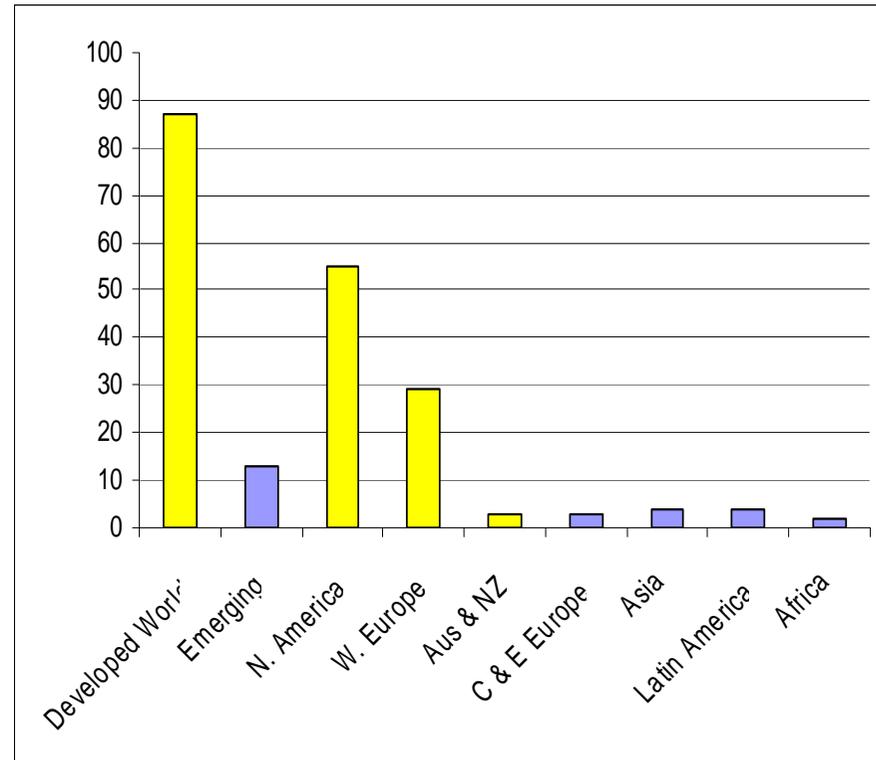
Why is agricultural microinsurance important

“three quarters of the world’s extreme poor live in rural areas, and most of them are dependent in some way on agriculture”

(IFAD, 2007)

The landscape: Agri Insurance

The developing world contributes a small fraction of global agricultural insurance premiums



Global Crop Insurance Premiums: From Roberts, 2005

The Landscape: Agricultural Microinsurance

- Within that small fraction the vast majority of policies are not micro policies
- There are a handful (>20) of agricultural microinsurance schemes that are targeted at low-income farmers.
- Approx 14 index schemes

Reasons for the dearth of Agricultural Insurance schemes

- All agricultural insurance is expensive and hard to do, and very frequently dependant on government subsidy.
- Moral hazard, Fraud & Adverse Selection are difficult and/or expensive to manage
- Loss Adjustment is costly

Country	Time	Period	(Claims + Admin Cost) / Premium
Brazil		1975-81	4.57
Costa Rica		1970-89	2.80
México		1980-89	3.65
Philippines		1981-89	5.74
USA		1980-89	2.42
		1999	3.67

Source: Skees (2003)

- Index Insurance ... basis risk

Additional Reasons for of Agricultural Microinsurance Schemes

Further difficulties of microinsurance

Low premium business



High volumes

+

Low costs

Ensuring High Volumes

The features of more successful agricultural microinsurance schemes

- ✓ They all require some form of aggregator to sell the products – NGO, MFI, a co-operative (BAOViet)
- ✓ Successful aggregators collect premiums and pay benefits cheaply (usually MFIs)
- ✓ Successful aggregators have a history of collecting money from their clients/members and understand their cashflows.
- ✓ Some successful schemes rely on centralised buyers (e.g. Winward Island Banana insurance scheme) or processors (Mauritius Sugar Insurance Fund)

Ensuring Low Costs / Managing Risks



Aggregator is key

- Hard to imagine as successful agricultural microinsurance distributed outside of a socially embedded aggregator
- Clients need to trust the aggregator to buy the product, and a degree of social connectedness between policy holders to manage the product.
- They work best when the costs of managing fraud, moral hazard and adverse selection are transferred (as much as possible) to the policy holders through groups.
- A control employed by the livestock microinsurance scheme ADR-TOM in Burkina Faso (*ala* Grameen) to have provide insurance to groups who select the members of their group and each make a co-payment when an animal dies.
- In a scheme run by Shepard, fraud was partially controlled by the threat of loss of membership from Shepard and the attendant benefits of that membership.
- More typical controls – Waiting period (Groupama in Vietnam), No claims bonus (Mauritius Sugar Insurance Fund)

Aggregator is the key

- Facilitates the provision of associated risk reduction services - Shepard (India) & GRET (Vietnam) facilitated access to and monitoring of the take up of veterinary services.
- The aggregator, if it has been involved in other areas related to the insurance cover e.g. loans for crops or livestock, can help provide useful actuarial data

What can donors do to scale agricultural microinsurance?

- Macro level (policy)
 - Appropriate regulation e.g. sensible capital requirements.
 - Consider impact of emergency disaster aid.
 - Help ensure functioning legal system that can enforce insurance contracts.

Meso level (infrastructure)

- Help create reliable data (e.g. on livestock mortality & morbidity & weather)
- Create training institutes to develop agricultural insurance expertise (e.g. actuaries & loss adjusters) and associated necessary personnel such as vets.

Micro level (risk carrier, aggregator, policy holder)

- Research on market demand e.g. farmers risk aversion & willingness & capacity to pay.
- Market education
- Train risk carriers and aggregators in good practice



Thank You