



## SETTING THE SCENE

### The importance of scale for agricultural insurance

What roles stakeholders can play in achieving it

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Scaling up insurance as a disaster resilience strategy for  
smallholder farmers in Latin America

6 November 2017



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# Agriculture and smallholders

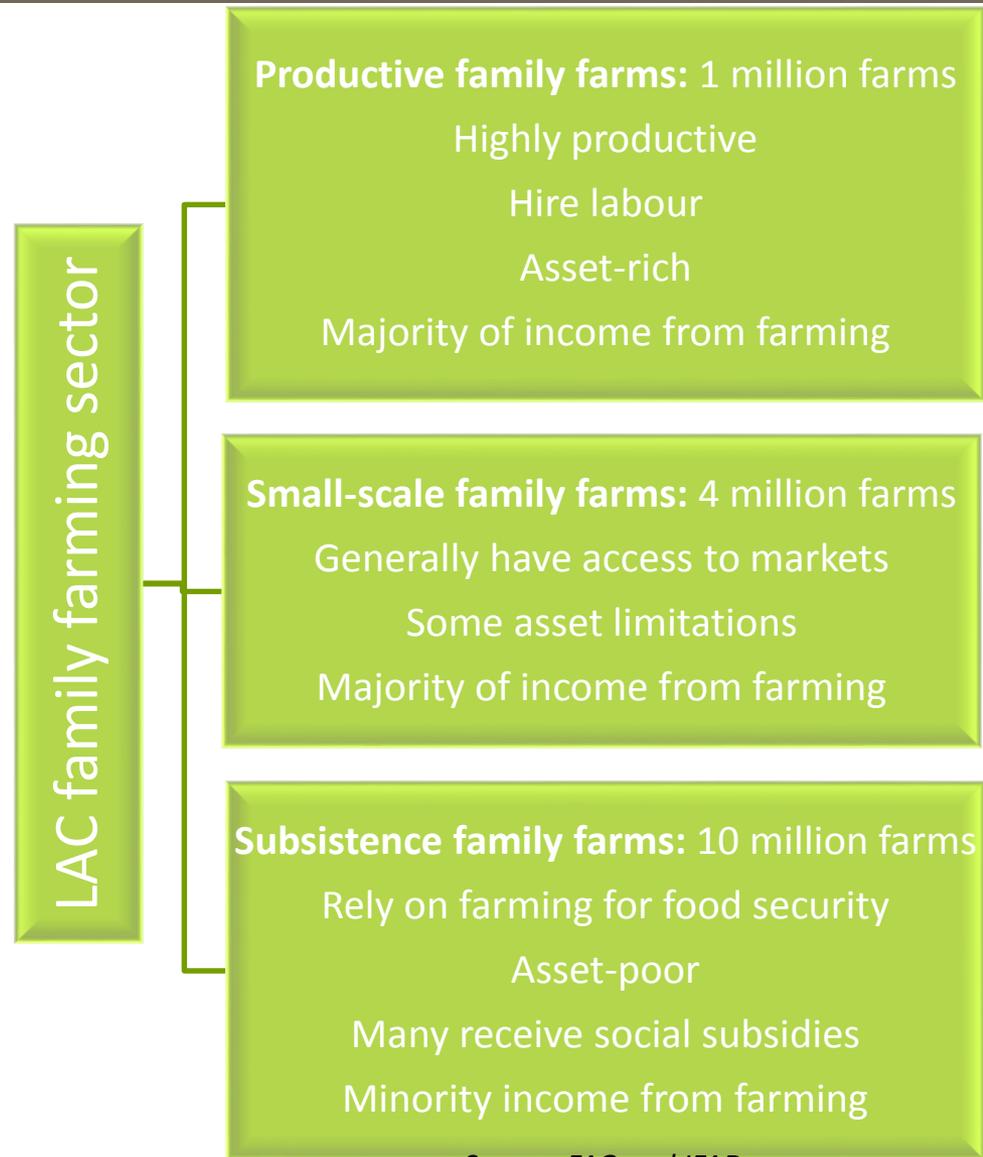
## Role and trends

Importance of agriculture: **food security & nutrition; income & employment; GDP & global food supply**

- Growth of population by 2050
- Production need to increase by 70%
- Smallholders play key role

### In LAC:

- 20% + of people currently live in rural areas
- Ag. 5.3% of GDP
- 10% of global production
- Food insecurity rising
- **Family farming** is main rural employment



Source: FAO and IFAD

# Why agricultural insurance?

- Part of **holistic approach** to rural & agricultural development and risk management
- Farmers face a variety of price and production risks
- Helps **manage unpredictable events or risks**
- **Transfers risk** away from individuals, HHs, MSMEs, Governments
- Increases **resilience** = protects livelihoods and promotes investments
- Increases access to credit and value chains
- Enhances productivity and food security



Source: ILO Impact Insurance Facility; MicroInsurance Centre



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# Agricultural insurance in Latin America

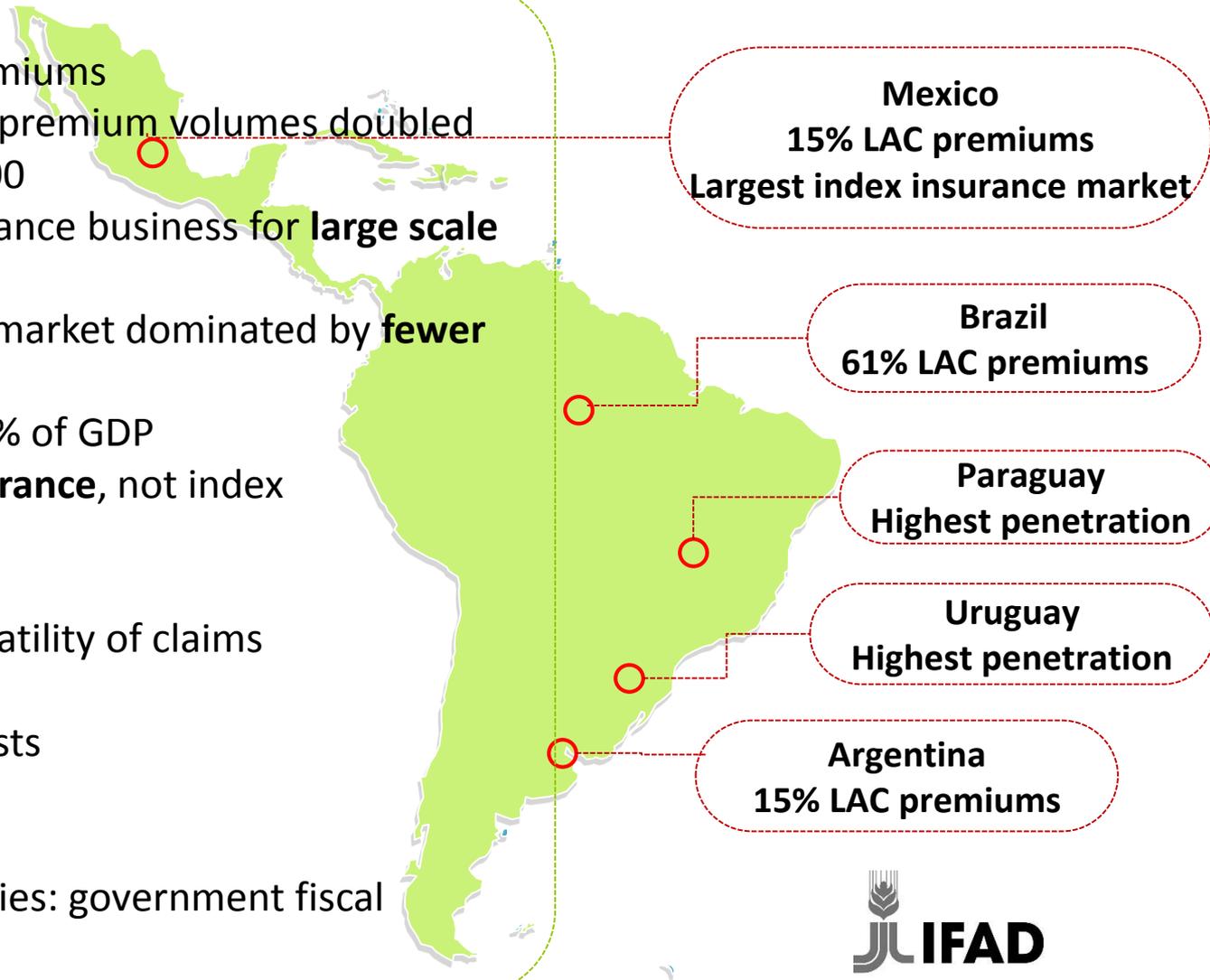
## Challenges to scale

### Market features

- 6% share of global premiums
- **Rapid market growth:** premium volumes doubled every 5 years since 2000
- Most agricultural insurance business for **large scale farming**
- Agricultural insurance market dominated by **fewer countries**
- **Low penetration:** 0.03% of GDP
- **Mostly indemnity insurance, not index**

### Challenges to scale

- High claims costs & volatility of claims
- High premiums
  - High operating costs
  - Data availability
- Distribution challenges
- Sustainability of subsidies: government fiscal constraints



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# Growth opportunities and innovations

- Size of market and gap is a big opportunity for insurers
- **Index insurance can overcome some challenges of indemnity insurance**
  
- **Improved access** to insurance to benefit smallholders:
  - **Reduced administrative costs** - no loss assessment required – based on a predefined index
  - **Simplified claims process** and timely payout
  - Provide faster payment/funding after a disaster
  
- **Objective and transparent:**
  - Eliminates most of the asymmetric information problems of MPCl (moral hazard and adverse selection)
  - Can be used at different levels (micro, meso, macro)
  - Facilitates risk transfer (insurance/reinsurance)

# Index insurance

## Challenges for scaling up

### Product challenges

- **Basis Risk:** mismatch between the actual loss and the payout
- **Development costs and replication:** products need to be specifically tailored to each location and crop
- **Limited quantity and quality of on-the-ground weather and yield data**

### Distribution challenges

- **Delivering at scale** and low-cost
- **Limited demand and uptake**
- **Insurance awareness and understanding** amongst clients and partners
- **Local capacity and ownership**

#### Game changers:



➤ **Remote sensing +**

➤ **Use of aggregators +**

➤ **Digitalization +**



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# Achieving scale

## Stakeholders and their roles

- Requires a **multi-stakeholder approach**
- **PPPs**: employ market-based instruments and public-sector initiatives

- **Insurers and reinsurers:**
  - Underwrite risk - Accept transferred risk
- **Delivery channels**
  - E.g. Mobile platforms, input suppliers, MFIs, cooperatives
  - Distribute policies
  - Client education
- **Farmers:**
  - Cooperatives, unions
  - Represent farmers as buyers
- **Donors:**
  - Technical assistance during design and implementation phase
  - Invest in research and development & promote innovations
  - Solutions to market constraints
- **Government (including regulators)**

# Achieving scale

## Government and regulators

### **Government**

- Provide smart subsidies
- Build a sustainable ecosystem around insurance
- Provision of public goods such as data and information systems
- Human capital (research & development, training, extension services, etc)
- Provides incentives to stimulate the market (e.g., lower solvency capital requirements for microinsurers; tax exceptions)
- Education and capacity building for farmers, distributors and insurers

### ➤ **Insurance regulator**

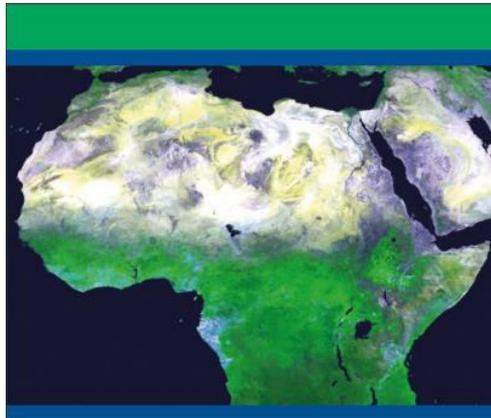
- Adjust regulatory requirements and supervisory tools to keep up with the pace of technological advancements
- Protect consumers' interests, make sure that products meet quality standards
- Create level playing field for insurers, intermediaries and alternative, innovative distribution channels like MNOs or retailers
- Micro-insurance and index insurance enabling regulation

- Sustainable growth needs effective and responsive legal and regulatory frameworks
- Government role is not limited to premium subsidies
- Balancing act: consumer protection + ensuring financial sector stability + development goals for the agriculture sector

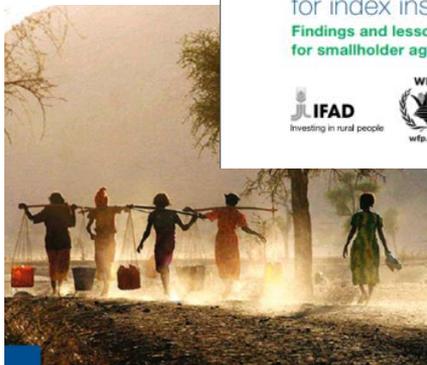
# Thank you

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**Web:**  
[https://www.ifad.org/en\\_GB/topic/wrmf/overview](https://www.ifad.org/en_GB/topic/wrmf/overview)



Remote sensing  
for index insurance  
Findings and lessons learned  
for smallholder agriculture



The Potential for Scale and Sustainability  
in Weather Index Insurance  
for Agriculture and Rural Livelihoods



Weather Index-based Insurance  
in Agricultural Development  
A Technical Guide



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