

Creating Agricultural Insurance Markets

The Global Index Insurance Facility (GIIF) is an innovative, global, IFC-led program that is expanding access to insurance against weather risks and natural disasters primarily to farmers and livestock herders. GIIF's six implementing partners are building weather index insurance markets in nine countries in Sub-Saharan Africa as well as in Sri Lanka, and in South Asia.

Through the program, **nearly 100,000 farmers** are now covered by index insurance and hundreds of thousands of farmers have learned about agricultural insurance and the benefits of covering risk. Through GIIF's grants, our implementing partners have helped build capacity and create partnerships with 30 insurance companies, and over a dozen banks and microfinance institutions (MFIs).

Most importantly, farmers are learning that index insurance can be trusted. The implementing partners have made immediate payouts to several thousand farmers in Kenya and Rwanda after excessive drought or rain as measured by weather indexes. These payouts provide important seed capital for the economic recovery of



GIIF Implementing Partners at second annual GIIF Workshop, Senegal September 2012

farmers when adverse weather negatively impacts crops and livestock, such as the 2010 and 2012 Kenyan droughts that led to livestock losses of 18-33% percent in parts of the country.

At the second Annual GIIF Workshop in September 2012, implementing partners shared lessons and challenges in scaling up their index insurance products to a sustainable market level. It was agreed that subsidizing premiums for selected products will be used to reach scale. Implementing partners will continue to work with banks, MFIs, agribusinesses, and non-government organizations as aggregators to reduce costs and expand their client base. There was also consensus

that implementing partners should use whatever mix of ground weather station and satellite technologies that works best for their projects.

Workshop participants also agreed that public-private partnerships and the right regulatory framework will help ensure the long-term sustainability of index-based insurance in Africa.

The World Bank is working closely with regulatory agencies and governments on regulatory issues and other policy matters in Africa, Caribbean, and the Pacific (ACP) countries as well as in Latin America. This includes West Africa, where the regional insurance regulator CIMA recently adopted a new micro-insurance code that allows for the sale of index-based insurance products.

By the end of the GIIF program, it is expected that at least 250,000 farmers will have index insurance protection, indirectly benefiting two million people. It is also expected that the growth in agricultural index insurance will lead to a more robust agricultural credit market in countries where GIIF is active.

HIGHLIGHTS FROM THE FIELD

GIIF's implementing partners continue to expand their insurance portfolios and geographic reach:

MicroEnsure: For the first time, Kenya Commercial Bank is lending to farmers in Rwanda who have index insurance coverage through MicroEnsure. Of the more than 7,000 farmers who have bought index insurance in Rwanda, 400 farmers have secured agricultural credit bundled with index insurance coverage. (Tanzania, Rwanda)

International Livestock Research Institute: In July 2012, ILRI launched a livestock index insurance project in Ethiopia based on insights gained from a pilot in Northern Kenya where 3,000 livestock herders have already bought index insurance coverage. (Kenya, Ethiopia)

PlaNet Guarantee: A technical meeting will be held in Paris on 15, 16 October with partners IFC, Swiss Re, CIRAD and EARS to discuss the efficiency of weather indexes and how to scale up. (Senegal, Mali, Benin, Burkina Faso)

Syngenta, has just launched its Kilimo Salama crop insurance in Rwanda and has installed eight weather stations in the country. (Kenya, Rwanda)



ILRI representatives play a game to illustrate insurance products to Maasai herders in Kenya

Guy Carpenter is in the process of completing an index insurance product design for implementation alongside the Cotton Institute of Mozambique in five major cotton growing districts in the country. (Mozambique)

Sanasa has successfully implemented a weather index insurance product for paddy and tea farmers in Sri Lanka. To date, over 3,000 paddy and tea farmers have purchased index insurance. (Sri Lanka)

Market Sustainability for Index Insurance

An Interview with Ulrich Hess, Vice-President, Agricultural Insurance, MicroEnsure

MicroEnsure, founded in 2002 by Opportunity International, is the world's first and largest organization whose exclusive focus is to address the mass market's need to mitigate risk. MicroEnsure serves over four million people around the world with insurance, including two million clients in Africa – covering credit, life, agricultural, health and funeral insurance. The majority of their clients have never been insured before.

In an interview, Ulrich Hess discusses the global micro-insurance market and why agricultural insurance has traditionally been a more challenging product to sell. Index insurance solves some of the hurdles. He elaborates on the key public and private investments needed for scaling up the index insurance market – both financial and in terms of infrastructure needed, the various risks involved and the promise that weather index insurance holds for low-income farmers worldwide.

Q: Can GIIF hope for a major expansion in Africa now that the pilot projects are firmly established?

A: Traditionally, agricultural insurance has been a hard sell as there is no standard product and the risk is widespread. The rate of agricultural insurance is non-existent in most African countries and reaches only 1.8% of farmers in South Africa, the continent's most developed country. Weather index insurance has been a breakthrough as it is much more scalable and easily standardized due to the measurable weather indexes. Good weather data is critical for measuring risk and attracting the insurance and credit

industries. So yes, index insurance is scalable in Africa, and the coverage can reach two million farmers.

Q: How did you build up your portfolio in Africa and how long did it take you to establish this market?

A: MicroEnsure started to build its micro-insurance market in Africa in 2004 and expansion came fairly quickly using mobile telecom providers as a distribution channel. Farmers and the market trust the immediacy of mobile technology. We started working with GIIF in Rwanda in 2011 to insure 935 farmers, and we hope to provide coverage for 30,000 farmers across Africa by early 2013. By 2020, we hope to reach at least 500,000 farmers in Africa with index insurance coverage.

Q: How do you plan to scale up to a sustainable index insurance market in Africa in the long term?

A: Public-private partnerships will be key to building the infrastructure and market support for index insurance in Africa. There are four major needs: more automatic weather stations; better historical weather data; affordable online access to weather databases; and an enabling regulatory environment that allows for the commercialization of weather index products including smart government subsidies for insurance premiums that do not distort the market but provide a solid foundation for poor farmers. It is also important to focus initially on a select group of countries in the region which present the most promising markets for index insurance.



Ulrich Hess

Q: Do you think index insurance has the potential to improve farmers' harvests and incomes through increased agricultural credit and improved inputs?

A: Traditionally banks have been reluctant to lend to farmers in developing countries even though the agricultural sector is important economically in terms of GDP and employment. Hopefully, index insurance can expand agricultural credit markets substantially and improve farmers' incomes and harvests.

In India, there are 20 million farmers with agricultural insurance: 3.5 million farmers are covered with weather-based index insurance and 16.5 million farmers are covered by area yield index insurance. Most of the farmers were able to get agricultural credit tied to insurance, and they used the credit to take on risk. They bought better inputs (seeds, fertilizer, pesticides) and planted higher value cash crops.

UPCOMING EVENTS

11 October, 2012

Brussels

[Open Day Event of the ACP's Department of Sustainable Economic Development and Trade](#)

15-16 October 2012

Washington DC

[World Bank International Insurance Symposium](#)

16 October 2012

Brussels

[GIIF at the European Development Days](#)

6-8 November 2012

Dar es Salaam

[8th International Micro-insurance Conference](#)

WHAT IS GIIF?

Index-based insurance pays out benefits on the basis of a parameter or a pre-assigned value for losses resulting from weather and catastrophic events. When one of those events is triggered, the insured party receives an insurance payment according to the pre-defined payment formula. For example, insurance will be paid out in the event of drought, defined as a result of less than

an anticipated amount of rain.

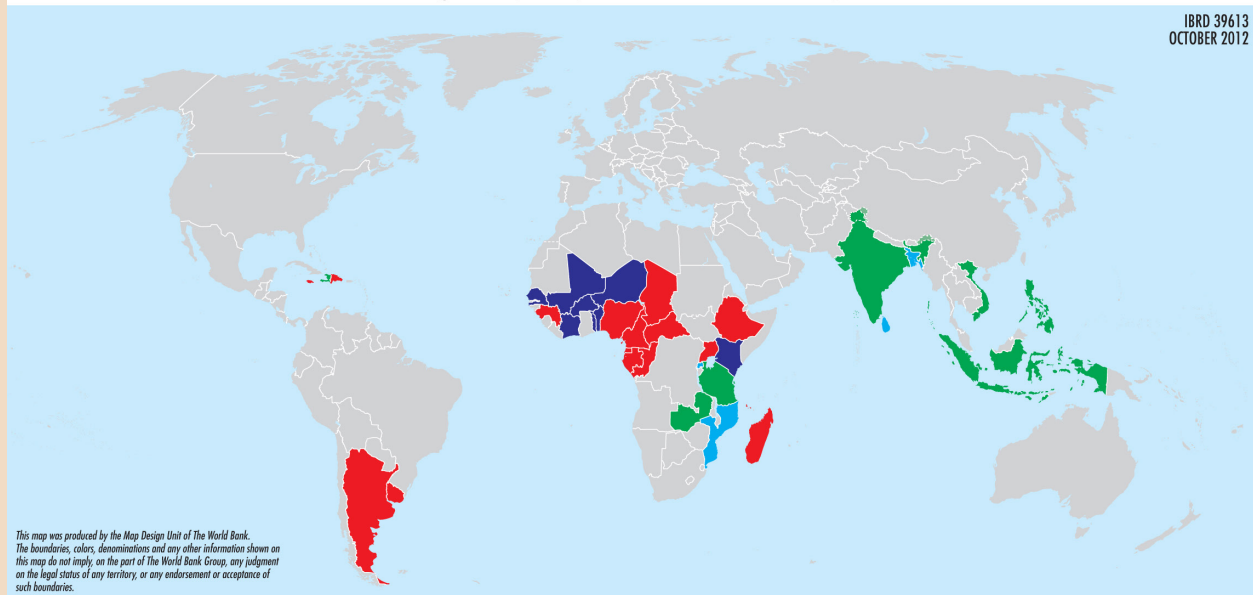
This innovative approach to insurance provision means that policyholders qualify for pay-outs as soon as the statistical indexes are triggered, without having to wait for claims to be settled in the traditional way. Insurance will also pay out if the index is triggered irrespective of the actual loss.

Index-based insurance reduces moral hazard and adverse selection, ensures

timely payout, reduces administrative costs, and provides a standardized and transparent structure. The product can also be combined with other financial products, such as loans.

Farmers and herders with insurance also enjoy improved access to finance, as banks are more willing to lend to those whose assets are insured.

- Active GIIF/IFC Countries (capacity building & premium subsidies)
- Active GIIF/World Bank Countries (regulatory component)
- Active GIIF Countries (all components)
- Pipeline GIIF Countries



Our Partners

The European Union is the primary donor partner to the GIIF Trust Fund with a focus on the African, Caribbean and Pacific Group of States (ACP). The governments of Japan and the Netherlands are providing additional support for further countries.



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