SUBJECT

Sustainable insurance solutions for agricultural and climate risk requires a joint effort of both the public and the private sector: the partners need to cooperate and commit to facilitating a market development process.

Private insurance companies design appropriate insurance products, establish administrative processes and carry the risk. They invest financial and human resources, and commit themselves to the agricultural and climate risk insurance markets.

Government support that goes beyond creating an enabling regulatory environment can be critical to the sustainability of such systems. This support can take different forms, including premium subsidies, tax exemption or acting as a reinsurer of last resort.

The public sector can also foster market development and bear part of the high start-up costs by investing in data market infrastructure and weather stations, product design and rating as well as awareness creation, education and training. Donors and development agencies can provide additional assistance during this initial investment phase. A product alone is not enough.

CHALLENGES IN PERU

1. Lack of understanding/interest with respect to index-based insurance products among parties involved (insurance companies, financial institutions, national and regional government, re-insurance companies, etc.).
2. On a whole, insurance companies are not interested in offering agricultural insurance, mainly due to lack of information and uncertainty, lack of support by international re-insurer, lack of knowledge about agricultural sector, among others.
3. Lack of communication and mistrust among key stakeholders; little cooperation between public and private sector.
4. Lack of information regarding benefits, costs and risks of insurance products associated with natural hazards.
5. Lack of information systems adequately quantifying and assessing losses in agriculture of weather-produced damage in Latin America.
6. Limited financial and human resources and inadequate expertise in developing weather insurance products.
Creating a suitable policy environment

1. Defining possible regulatory barriers for market development and, when necessary, adapting the legal and institutional framework for promoting innovative insurance markets. A study was carried out examining international experience with index insurances in legal and regulatory frameworks around the world.

2. Ensuring that governmental institutions actively support the creation of an insurance market associated with natural hazards. Periodical meetings with each actor individually or as joint meetings were organized to define roles and responsibilities.

LESSONS LEARNED

1. Developing weather insurance capacities is a long-term process that is hindered by a limited culture of financing and insurance. Pioneering insurance products, such as index insurance, are particularly difficult to understand for stakeholders – not only at a grassroots level.

2. Important messages in favor of index insurance products have to be promoted. In the case of the El Niño insurance product, it was the fact that the insurance pays in advance and quickly before catastrophic flooding even starts of advantage.

3. Small holders need a wide range of financial products, such as savings, credit, and insurance, to manage risk associated with weather conditions. Insurance is not necessarily the first choice for those on a grass root level. Index insurance products are especially difficult to understand and therefore have difficulties gaining acceptance by smallholders owing to the existing basis risk.

4. However, Index insurance products have the characteristic of paying quickly because the payment does not depend on loss evaluation but on the determined index, which makes these products suitable for disaster risk management.

5. The best way to efficiently harness the limited financial and human resources for developing weather insurance products is to establish a cooperative, instead of competitive, approach in creating the market.

6. To develop weather insurance, one must generate reliable information and data.

7. It is necessary to adapt financial instruments to specific contexts and to develop different tools for different types of risk (trust funds, insurance, stocks, cat bonds, subsidies, and derivatives).

8. It is not possible to create a market from pilot projects that only works with a few, very specific, and innovative products (their impact and sustainability are very limited).

9. To develop financial instruments, like weather insurance, the role of each sector and stakeholder must be clearly defined.

Name: Insurance for Climate Change Adaptation

Duration: November 2010 – October 2013

Name of component activity: Legal and institutional framework suitable for developing innovative insurance products associated with natural hazards

Program Area: The Regions La Libertad, Lambayeque, Piura on the northern coast of Peru

Cooperation: Peru’s Superintendence SBS

Local partner: Insurance Company La Positiva Seguros

Target group: Small businesses, producer organizations, sub-national governmental institutions

Documentation: www.seguros.riesgoycambioclimatico.org

Contact person: Philine Oft (philine.oft@giz.de)

Agricultural and Climate Risk Insurance (acri@giz.de)

SOLUTION

Raising awareness of the topic

1. Raising awareness and starting a discussion on the topic amongst the different stakeholders is crucial. An effective and necessary starting point in raising interest and making stakeholders sensitive to the issue was a study that quantified the possible losses in monetary terms that could be accrued by the extreme El Niño phenomenon.

2. To bring stakeholders together to create spaces for dialogue (e.g. through meetings, workshops, international conferences). Clearly defined roles of each party involved in the development of the market strengthen a sustainable prospect. The Ministry of Agriculture, setting policies and guidelines for agricultural insurance, should take a leading role in this process. Private sector initiatives can only be sustainable with clear directives and policies from the central government.

3. Encouraged cooperation between the public and private sectors, as well as internally within the public and private institutions and sectors. Furthermore, it is important to maintain the relationship among key stakeholders. For Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH as an independent party it is easier to bring together different stakeholders on a regular basis. This is done through regular meetings in the office, as well as working breakfast sessions or workshops on specific topics.

4. Providing (technical) information and training for financial institutions, government agencies, and Peruvian insurance companies (e.g.; demand and market studies, technical notes, and digital courses on risk management and agricultural insurance offered by the Superintendence of banking, insurance and private pension funds.

5. Generating reliable information and data to develop index insurance products. During this project, information from the National Oceanic and Atmospheric Administration (NOAA) were used for developing the El Niño index insurance. NOAA data was used because available data from the national meteorological service (SENAMHI) and the institute of the ocean (IMARPE) was not reliable enough for the reinsurer's requirements.

6. Raising awareness concerning the possibilities of protecting public goods through insurance (among regional governments).