Public private partnerships in agricultural insurance

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GFDRR
Global Facility for Disaster Reduction and Recovery

Agriculture Insurance Development Program

CONTEXT AND BACKGROUND

Increasing global focus on agricultural risk management

- **Underlying drivers for interest in agricultural risk management**
  - Agricultural productivity: major gains area needed to meet population growth
  - Climate change : increased yield volatility, extreme events and vulnerability
  - Food security and poverty reduction : needs for safety nets and disaster risk reduction
- **The context for agricultural insurance**
  - Insurance is one part of a larger *risk management strategy and framework*
  - Insurance is needed to protect investment into primary production and in agricultural supply chains, and facilitates access to finance
  - There are major technical, organisational and financial challenges faced in *scaling up* agricultural insurance in developing countries. e.g.
    - Small farm size, low financial literacy and low insurance awareness
    - Lack of rural extension services, poor access to finance, access to inputs, access to markets,
    - Limited capacity of insurers especially in rural areas
    - Limited or poor quality data

Lessons learned in developing countries

- **Agricultural insurance needs to fit national and local needs**
  - Experience shows that agricultural insurance needs to be *linked* to other services to provide value to farmers (access to credit, extension, input supply, seeds, markets)
  - Segmenting the client base to meet needs of different sectors
    - Commercial farming (e.g. linked to supply chains and credit)
    - Emergent farming (e.g. linked to development programmes)
    - Subsistence farming (e.g. linked to safety nets)
- **Agricultural risk is complex**
    - Farmers are faced by a range of *risks* and *constraints*
    - Insurance *programs* organise partners and stakeholders
    - Insurance *products* need to be technical but also operationally feasible
    - *Standardisation* is not easy in agricultural insurance
    - Index insurance is difficult to *scale up* beyond pilot phases

Public Private Partnerships: international experience

- **Sustainable agricultural insurance needs to be based on a partnership between public and private sectors**
  - Particularly the case in developing countries
- **Public sector strengths**
  - Provide an enabling environment, government policy, legislation and regulation
  - Data and services,
  - Long term investment in agricultural development programs where insurance sector and credit services can be crowded in
  - Financial strength (subsidies, reinsurance….)
- **Private sector strengths**
  - Market based innovation and dynamism
  - Insurance underwritten and delivered by the private sector through good insurance management principles and practices

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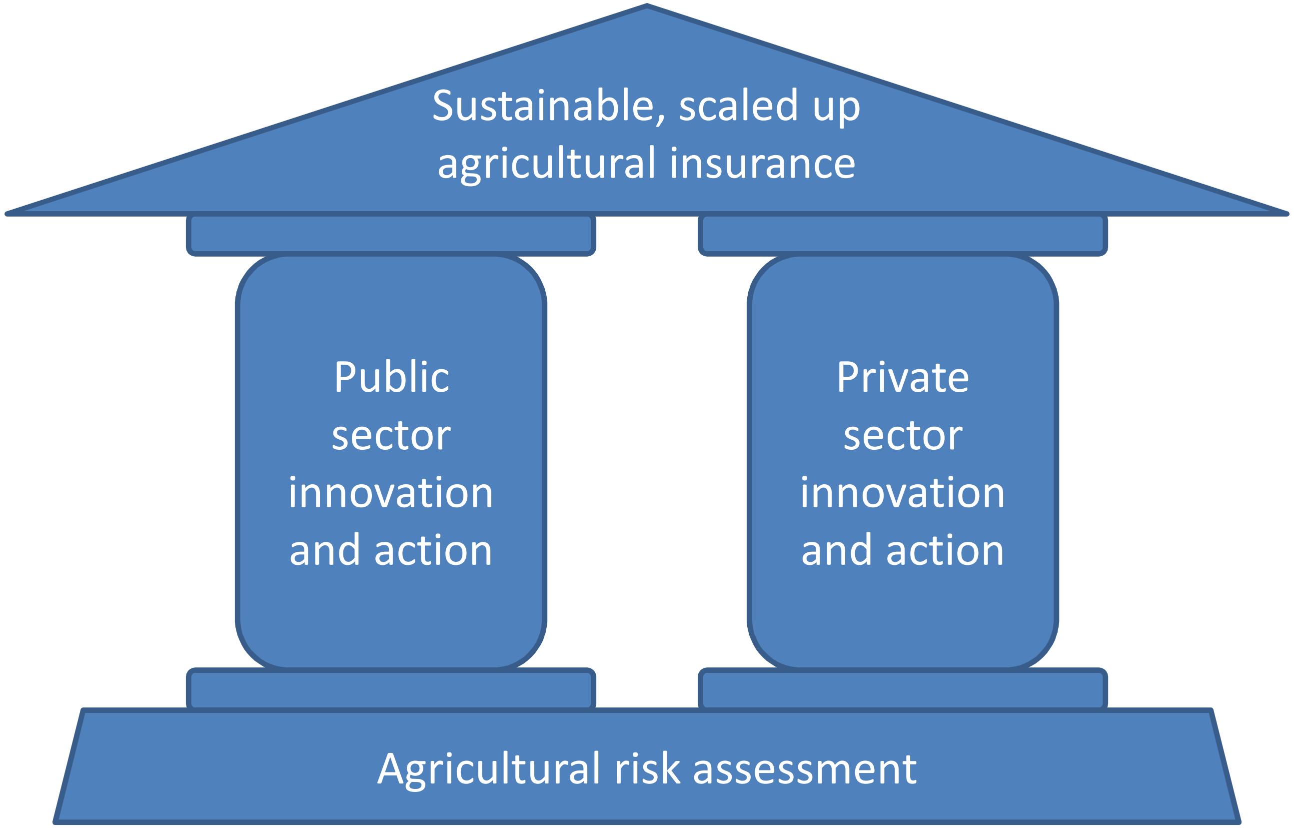
THE AIDP PROGRAM

How can AIDP help governments achieve their objectives?

- **A:** The AIDP can assist governments in implementing **sustainable, cost-effective public private partnerships** in agricultural insurance
- **B:** The AIDP **builds on IBRD experience** working with agricultural insurance programs that have **achieved scale** (*India case study*)
- **C:** The AIDP can assist the governments with enhancing **data market infrastructure** (*examples : satellite remote sensing, mobile phones*)

Programs that have scaled up have strong public and private sector pillars



Cost-effective public private partnerships in agricultural insurance

- **Public private partnerships in agricultural insurance can address multiple objectives:**
  - ✓ Farmers
    - Reduce **vulnerability** & **food insecurity** and support livelihoods
    - Support agricultural **productivity** through sustainable **credit markets**
  - ✓ Government
    - More **effective** use of government financial support
    - Reduce its **contingent liability** to agricultural shocks
    - Better (ex-ante) **budget planning** and management
    - **Policy signalling** (e.g. crop patterns)
  - ✓ Banks
    - Better management of **balance sheet risk**
    - Supports **responsible expansion of ag-credit** to farmers
  - ✓ Insurers
    - Provides **scale** to unlock new market & support market investments

Cost-effective public private partnerships in agricultural insurance

- **Government's role in agriculture insurance goes <u>beyond premium subsidies</u>**

Data (weather, satellite and yield)
- Collect
- Audit
- Finance

Ensuring outreach
- Integrated within social safety nets
- Compulsory with loans
- Subsidies

Risk Financing
- Public sector risk financing for new data
- Public sector retention of catastrophic losses
- Coinsurance pools

Execution of technical tasks
- Product design
- Actuarial pricing
- Product evaluation

Regulation
- Enabling regulatory framework
- Capital adequacy for rural banks
- Consumer Protection

Monitoring and evaluation
- Understanding product quality
- Understanding who is covered
- Understanding impact of subsidies

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SOME PPP EXAMPLES

Case Study: India

WB has assisted the Government of India (GoI) with its agriculture insurance program : about 30 million farmers are now covered

- **Programs features allowing scale up:**
  - Commitment to program over a **long time period** (since 1985)
  - **Compulsory** for borrowing farmers
  - **Subsidies**
    - Linked to actuarial revisions to improve sustainability
  - Coordinated long term **investments in data**
    - Crop cutting experiments (CCE)
    - Weather station infrastructure
    - Remote sensing data
  - **Application of technology** to support insurance operations
    - Remote sensing to complement and target CCE's
    - Mobile phone data infrastructure for rapid reporting of field surveys
- **Substantial involvement of private sector since 2007**

$\Rightarrow$ Currently 29m insured

Case Study: Mexico

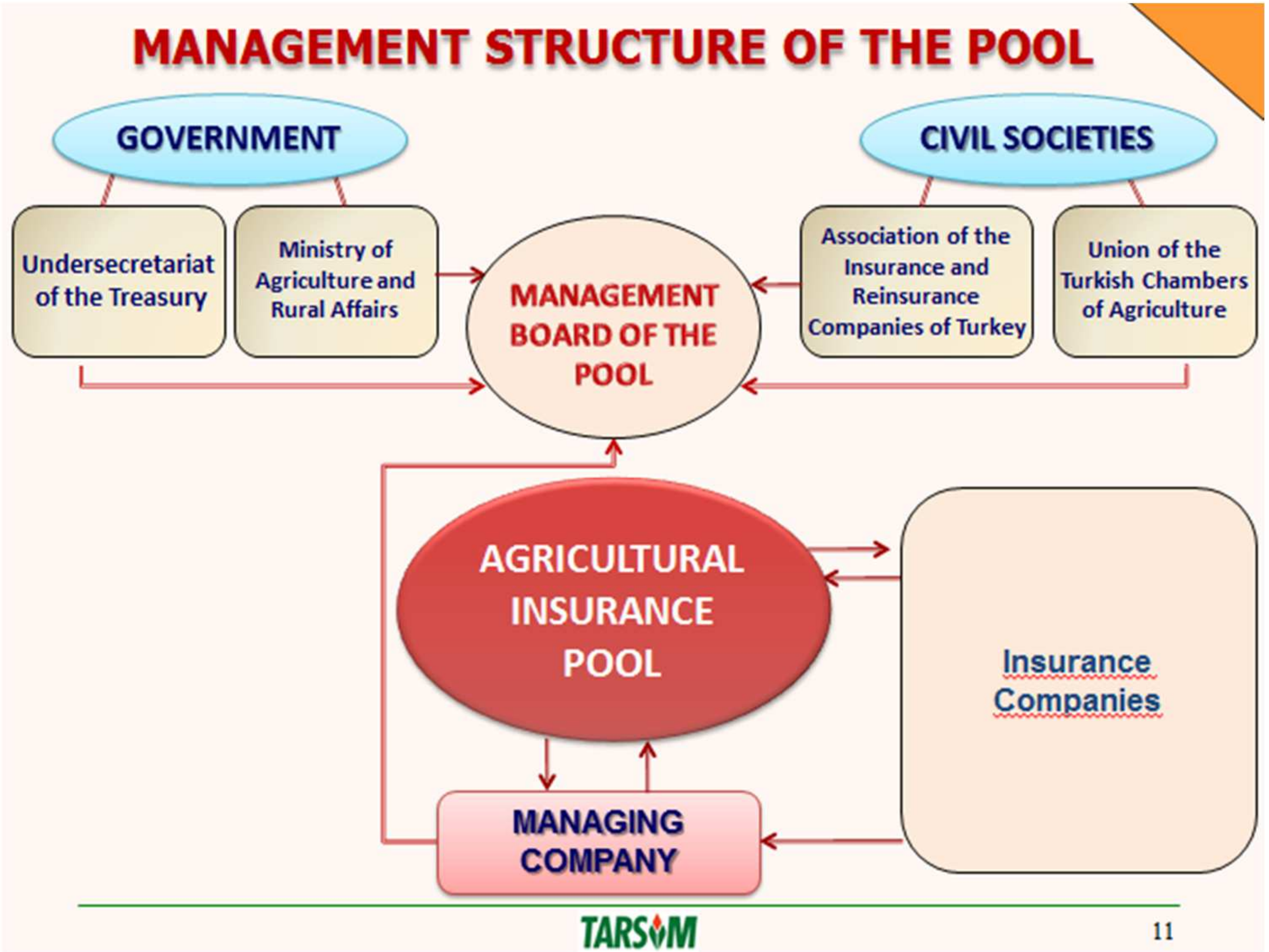
WB has assisted the Government of Mexico with a comprehensive analysis of its programs

- **Mexico has achieved a PPP strategy to serve all farming sectors:**
  - Long term commitment of government
  - National System for Insurance of the Rural Sector (SNMAR) involves ministries of agriculture, finance, State Governments, Agroasemex, the regulator, private insurers and Fondos (mutual funds);
  - Closely linked to national agricultural credit system (FIRA) and other providers
  - Outreach and distribution is adapted to farming structure
    - Commercial farming sector is served by insurance companies and Fondos
    - Small farmers are reached by State governments through CADENA
  - Agroasemex also provide strong technical capacity to support the market
  - Market is open to international reinsurance competitively in addition to reinsurance through Agroasemex
  - Innovative use of indexed products for both insurance and reinsurance
  - Premium subsidies

⇒ Market premium income $222million

Case Study: Turkey

- **Turkey restructured its market in 2005 to concentrate technical and underwriting resources through the TARSIM pool:**



Case Study: Turkey

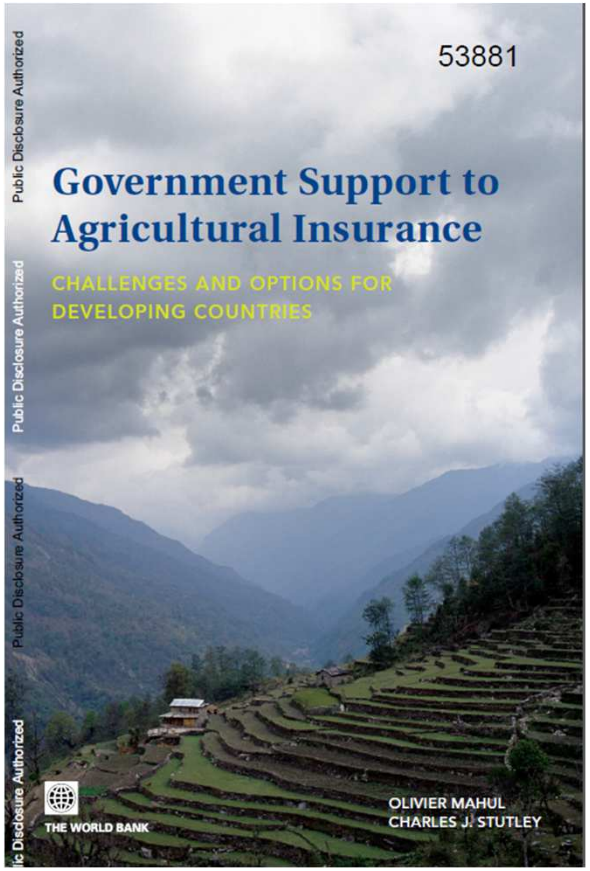
- **Features of TARSIM:**
  - Established by law in 2005
  - Standardised products
  - Tariff based on region, policy type and crop
  - Centralised loss adjustment service and training
  - Insurance pool
  - Centralised reinsurance purchase by the pool
  - Collaboration and concentration of expertise from companies
  - Premium subsidies (50% to 66%)
  - Expansion of policy sales from 218,000 to 744,000 (and premium TL 47m to TL 273million)

- **Reform of the market significantly improved the technical standards and outreach of agricultural insurance**

Some features of PPP's

- **Characteristics of successful PPP's**
  - Successful PPP's extend beyond the provision of premium subsidy
  - PPP's work best where government infrastructure and policy to support agriculture is in place
  - Good definition of role of insurance and disaster management
- **Challenging situations for PPP's**
  - Poor governance or weak economies
  - Poor standards and development of insurance markets
  - Agriculture in very high risk climates
  - Weak innovation within agricultural sector
  - Poorly developed supply chains

Other background on government intervention and AIDP:



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Thank you ! williamdick@intamail.com