



Africa-Asia Conclave on Loss and Damage Due to Climate Change
Instituting a global agricultural insurance programme as a risk-sharing and transfer
mechanism for developing countries

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Overview of challenges in implementation of Agricultural Insurance

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Agricultural insurance and Financial Risk mechanism



- Agricultural insurance and financing is critical for enhancing the resilience and coping capacity of farmers in developing countries.
- African countries and South Asian countries are inadequately insured.
- According to recent estimates, about 100 million people in developing countries and emerging economies are currently covered by climate risk insurance

'Ideal type' Agricultural insurance scheme



- **Good insurance penetration** and wide coverage to the smallest insurance unit possible (individual farmer)
- **Covers multiple perils**
- Index used addresses and **covers all farmers** (including small and marginal farmers)
- **Reliable, timely & high quality data:** Well built database with proper weather parameters and/ or historic yield information to risk assessment and evaluation- backed by robust satellite data and ground truthing evidence
- **Less paper work** for the farmer and insurance company
- **Fast claim settlement process – payout**

Hassle free – easy – quick – effective – makes everyone is happy!

Way to 'Ideal' type: riddled with Challenges



Road to the realizing the 'ideal type' has challenges and obstacle :

Challenges faced by farmers:

- **Insurance scheme mostly loan linked** therefore mandatory for farmer (pros and cons)
 - Small & marginal farmers limited loan access- so almost no coverage
 - Avail insurance to get loan for others
- **Lack of awareness of insurance scheme:** Most farmers' have limited or no knowledge about insurance scheme
 - India experience- even if there was a scheme applicable to their area and premium had been deducted – did not know for which crop

Challenges faced by farmers (contd.)



- **Access to insurance:** Access to insurance is very limited- almost negligible for small and marginal farmers- lower still for share croppers
- **Premium** paid for crop insurance is considered an **additional burden** and farmers often request for premium not to be deducted from the loan
- Clauses **difficult** to comply with
- **Long wait** for final settlements: delay in payments shake their confidence in agricultural insurance mechanisms
- Insurance payout **not at individual level**
- Dealing with **corruption:** reports of malpractices/ fraud while implementation of these scheme

Some challenges in weather index based insurance



- **Weather stations** – less in number/ inaccurate information/ dysfunctional/ limitation- to cover micro level weather information
- **Satellite data not reliable:** For weather based index insurance - satellites that track rainfall levels etc. not always reliable, there can be gaps in the data.
 - In case of flooding, the data reflects limitation – shows green cover under NDVI (Normalized Difference Vegetation Index) - *remote sensing measurements-assess whether the target being observed contains live green vegetation or not.*
- **Lack of long, clean, and internally consistent historical record to allow for a proper actuarial analysis** of the weather risks involved.

More challenges



- **Market opportunity and risk:** Insurers understand market opportunity in agricultural insurance, but remain uncertain on how to access markets and to assess and price the risk.
- **Data gaps affect designing product:** Insurers do not have much knowledge about crops and data about losses.
 - Lack of data on historical exposure & crop yield is one of the biggest challenges - increases uncertainty about product design and associated basis of risk.
 - Farmers' needs rarely factored in
- **Administrative cost too high – cannot work without subsidy** – some Govt. lack fund to support

More challenges (contd.)



- **Tax concerns:** Tax is a large factor in the cost of insurance products and taxes levied on agricultural insurance premiums.
 - Rwanda experience: in Rwanda tax levied on premium is greater than regional peers: Kenya, Uganda and Tanzania all waive VAT and WHT taxes on agricultural insurance premiums.
- **Reinsurance??:** Domestic reinsurers are not yet confident in their ability to assume the risk of an index-based weather insurance product...So competition in reinsurance players very limited
- **Livestock insurance:** biggest challenge for successful implementation of livestock insurance is the lack of data in the livestock sector. Fraud and malpractices (tagging)



Question open to the panel:

How can we attain the ‘ideal type’ – an agricultural insurance mechanism which is fair, effective, affordable – provides quick payout- and not heavily built on profit margins?



Thank you!