Seminar on Government Support to Agricultural Insurance

World Bank Agricultural Insurance Framework:
Market-Based Solutions for Better Risk-Sharing

Olivier Mahul
Program Coordinator
Insurance for the Poor & Disaster Risk Financing
GCMNB
The World Bank

June 1, 2010
The Insurance for the Poor Program

• Created in 2008
  ▫ Housed in the Global Capital Market Non-Banking Unit, Financial and Private Sector Development Vice Presidency, World Bank

• Developmental objectives
  ▫ Reduce the vulnerability of the working poor
  ▫ Develop sustainable livelihoods
  ▫ Enhance access to insurance and related financial services

• Lines of business
  ▫ Health insurance
  ▫ Life insurance
  ▫ Natural disaster insurance
  ▫ Agricultural (crop and livestock) insurance
Why World Bank is interested in agricultural insurance?

- High exposure of low income countries to weather risks (drought, floods...), pests and diseases
- Lack of insurance and other agricultural risk management tools
- Costly government ad-hoc schemes
- Need of innovative approaches to deal with the covariate nature of agricultural risks
IfP Business Approach for Agricultural Insurance

- IfP follows a market-enhancing approach, recognizing that market failures can create sub-optimal wealth allocation
- Promote public-private partnerships
- IfP aims to support insurance solutions that
  - Respond effectively to the priority needs
  - Can be included in a comprehensive financial strategy (e.g., savings, credit, insurance)
  - Can be scaled up (through public-private partnerships)
  - Create financially sustainable solutions without heavy public intervention
Country Agricultural Risk Management Model

Institutional capacity building
- Data management
- Regulatory/supervisory framework
- Information and education
- Technical expertise

Agricultural risk assessment
- Risk identification
- Probabilistic agricultural risk model

Agricultural risk financing
- Risk layering
- Insurance product design
- Insurance pool
- Insurance and rural finance

Agri-business segmentation
- Social vs commercial insurance
- Traditional farming sector
- Emerging farming sector
- Commercial farming sector
Why should governments support agricultural insurance?

- Systemic risk
- Informational asymmetries
- Post-disaster assistance programs
- Limited access to global reinsurance
- Undeveloped risk market infrastructure
- Low awareness
- Regulatory impediments
Challenges and options for scaling up agricultural insurance

- **Institutional challenges**
  - Promoting market-based agricultural insurance
  - Facilitating access to technical and financial assistance
  - Promoting an enabling regulatory framework
  - Promoting voluntary insurance

- **Financial challenges**
  - Efficient agricultural risk layering
  - Role of government as reinsurer/lender of last resort

- **Technical challenges**
  - Innovative product design (index-based insurance)
  - Ratemaking

- **Operational challenges**
  - Delivery channels
  - Loss assessment
WB provides technical assistance in more than 20 countries

- Livestock Insurance
  - Index based livestock insurance in Mongolia
  - Livestock micro-insurance through self-help groups in India

- Weather based crop insurance
  - India, Malawi, Thailand, Central America, Kazakhstan, etc.

- Area yield crop insurance
  - India National Agricultural Insurance Scheme
What can we learn from international experience?

Estimated 2007 agricultural insurance premium

<table>
<thead>
<tr>
<th>Development status</th>
<th>Number of countries</th>
<th>Estimated crop premiums ($ million)</th>
<th>Estimated livestock premiums ($ million)</th>
<th>Estimated agricultural premiums ($ million)</th>
<th>Percentage of global agricultural premiums</th>
<th>Agriculture insurance penetration (premiums as a percentage of 2007 agricultural GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-Income</td>
<td>21</td>
<td>11,869.0</td>
<td>1,192.3</td>
<td>13,061.3</td>
<td>86.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Upper Middle-Income</td>
<td>18</td>
<td>872.6</td>
<td>40.1</td>
<td>912.7</td>
<td>6.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Lower Middle-Income</td>
<td>20</td>
<td>789.3</td>
<td>334.1</td>
<td>1,123.5</td>
<td>7.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Low-Income</td>
<td>6</td>
<td>0.2</td>
<td>4.8</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>All Countries</td>
<td>65</td>
<td>13,531.1</td>
<td>1,571.4</td>
<td>15,102.4</td>
<td>100.0</td>
<td>0.9</td>
</tr>
</tbody>
</table>
### Agenda of Today’s Seminar

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
</table>
| 9:30 – 9:40 | Welcome & Introductory Remarks  
  - Loic Chiquier, Manager, GCMNB |
| 9:40 – 10:00 | World Bank Agricultural Insurance Framework  
  - Olivier Mahul, Program Coordinator, Insurance for the Poor, GCMNB |
| 10:00 – 10:45 | Comparative Analysis of Agricultural Insurance Programs  
  - Charles Stutley, Consultant, GCMNB |
| 10:45 – 11:00 | Coffee Break |
| 11:00 – 11:30 | Tailoring Agricultural Insurance Products for Developing Countries  
  - William Dick, Consultant, AMRT, ARD |
| 11:30 – 12:00 | Role of Reinsurers in Financial and Knowledge Transfer  
  - Ramiro Iturrioz, Sr. Agricultural Insurance Specialist, Insurance for the Poor, GCMNB |
| 12:00 – 1:00 pm | Questions & Answers |
| 1:00 – 1:45 pm | Lunch |