access to insurance initiative

4th IAIS/A2ii Consultation Call
"Agricultural Insurance"

The following questions have been received during the 4th IAIS-A2ii Consultation Call on "Agricultural Insurance" on **June 26th** at 10am and 4pm and via email and answered by our experts on the call.

With the monthly consultation calls the Initiative together with the IAIS is facilitating a dialogue on current regulatory and supervisory topics and trends around access to insurance between supervisory and regulatory authorities and selected experts. With the document at hand we would like to record the answers to the questions related to the topic participants shared prior to the call. Please note the development of this document is not a static process but will require ongoing input as learning occurs.
Therefore, we kindly invite you to complement the questions and responses with your comments and additions in order to maintain an updated list which reflects current trends, experiences and learnings. To do so please send us an email to: consultation.call@a2ii.org.

	Question received from participants	**Answer by experts of the call**
1.	Why are insurance companies afraid /reluctant to sell specially-formulated insurance products in the rural sector?	Rural markets feature *prima facie* higher transaction costs and higher entry barriers with similar to urban if not lower margins and therefore do not look profitable. They also require considerable effort and involve considerable (underwriting, expense overrun etc.) risks. Until markets in their comfort zone are saturated, the resources necessary to develop rural markets can be invested more rewardingly in "lower hanging fruit", that is, easier markets.
2.	What are the reasons for the insurance companies not covering their risks on other agricultural-based products other than crop insurance?	Agriculture machinery insurance is rather common in some countries even if it does not benefit small scale farmers. Livestock insurance is increasingly common especially in India. But farmer income insurance – which would protect against crop production losses as well as price decline – is scarce because it is difficult and expensive to insure price fluctuations (amongst other obstacles).
3.	Can insurance companies bring innovative insurance products to cover the risks arising out of pest attack on seed/standing crops	Area Yield Index Insurance would seem to be such a product.

4.	In spite of the world witnessing repeated occurrence of natural disasters, why insurance industry has not come up with specialized policies to cover such risks of the farming sector, when his land -holding is also affected due to earthquake, floods, landslides, etc. & occurrence of drought due to lack of rainfall affects his crop production?	Insurance is organized solidarity for the redistribution of money between individuals and in time. It does not increase the amount of money in a community, and all the expected payments have to be funded by premiums at some level. Events that are frequent will need costly insurance premiums and suggest other risk management mechanisms such as prevention or coping strategies.
5.	What can a regulator do when there is one government agricultural insurance company in the country that writes all insurances where the government or a financial institution such as a bank had given credit to the farmer and the rest of the other commercial insurers can only participate in other non-government/bank funded credit?	This suggests a broader approach to agricultural risk management including roles for public and the private sectors and a review of the rationale for and objectives of the current arrangement as well as interests of key stakeholders. Governments tend to mix social with agricultural growth objectives and therefore load agricultural risk management instruments with agendas that these instruments sometimes cannot deliver on. (see http://documents.worldbank.org/curated/en/2005/01/7141381/managing-agricultural-production-risk)) One scenario includes full competition of public and private insurers for government sponsored agricultural insurance subsidy schemes. Government of India practices this type of scheme. With such a scheme all insurers can quote for business where government/financial institution such as a bank had given credit to the farmer so as to stimulate competition – within a suitably defined framework to ensure client value. This suggests a broader approach to agricultural insurance between the public and the private sectors. It should be borne in mind that regulatory authorities can facilitate the development of insurance markets, but in most jurisdictions it is not one of their formal responsibilities, nor is it a core regulatory function. Without the development of strong public/private partnerships, agricultural insurance is unlikely to develop strongly. Specifically, it will be necessary to revisit the reasons for the current arrangements and, if they are still convincing, the objectives that are sought to be achieved and whether they are being achieved. If the current arrangements are crowding out the private insurance sector, to no clear benefit, the only long term solution may be to consider whether the monopoly is justified. Possible obvious scenarios include that all insurers can quote for business where government/financial

		institutions such as banks had given credit to the farmers so as to stimulate competition – within a suitably defined framework to ensure client value. Or a reform of the rules for government/bank funded credit so that more institutions benefit from it and more insurance demand is created than the regulator can itself service.
6.	How can agricultural losses be fairly assessed in light of fraud and moral hazard and what would be the role of the supervisor?	Supervisors can assess the adequacy of underwriting and claims policies and procedures, through off-site monitoring, on-site inspection, and following up on consumer complaints.
7.	How can private insurance forms make agricultural insurance profitably?	Profitability will depend on building sufficient technical expertise, along with enough scale and geographic spread to develop efficiency and reduce concentration risk. Good reinsurance is essential. Competition from subsidized programs can make it difficult for private insurance to compete.
8.	In the absence of weather infrastructure in many developing countries how can correlated risks such as weather events be insured?	Satellites often provide good weather data, and area yield index insurance can address weather – and other – events, provided the crop yield assessment systems are reliable and there is sufficient and reliable historic data.
9.	Challenges in countries where the agricultural sector has a low or null financial education?	Nationwide public-private sector awareness / education campaign (starting in schools if possible for best long term impact). Look at South Africa for an example of compulsory insurance education. Also, marketing agricultural insurance at the meso level can enable insurers to deal with more knowledgeable buyers.
10.	How could the Government, Regulatory Agencies, Insurance Companies and the Agricultural Sector, encourage the use of insurance in agricultural and related activities.	Get all stakeholders at the table and establish a dialogue starting with everyone's objectives and the resources available. Consider inviting experts to moderate and help make well informed decisions, and nominate a topic owner responsible for achieving results. Well known outcomes of such initiatives are government implemented schemes which bundle mandatory crop insurance with all or some agriculture loans, usually requiring substantial premium subsidy (but various other forms of fiscal support are possible). It's important to consider the bigger picture of how value chains, access to finance, inputs and markets is organized, what the government's agriculture policies objectives are, what issues insurance is expected to address etc.
11.	In the case of corn and rice is it essential to ensure these items so that the seed is certified by a national committee of seed requirement?	Not necessarily, but it would be better as it contributes to reduce the perception of basis risk (that farmers' harvest fails because of bad seeds but the insurance does not

		pay).
12.	Are there jurisdictions with a Rural Life Insurance that covers the balance that has the producer with a financial institution for natural or accidental death of the insured?	Yes, there are numerous examples, see e.g. http://www.ifad.org/ruralfinance/pub/weather.pdf incl. annex with 36 agricultural insurance cases or http://www.fondation-farm.org/zoe/doc/micro_network-brochure_agriculture-def-low.pdf
13.	What kinds of species are insurable by the livestock insurance in your countries?	Poor people's small animals are seldom insured as they are a risk hedge in themselves and the premium would be too low to bother. Generally mostly cattle, pigs and buffaloes are insured.
14.	What are the basic coverages of livestock insurance?	In the microinsurance world of small coverages, death of the animal due to any unusual cause seems to be the basic coverage.
15.	In your countries, is it common for farmers or agricultural loans are granted without being required to producer / debtor rural life insurance to cover the balance owed to the bank?	No, it's increasingly common that credit life insurance is required (again referring to microinsurance markets).
16.	Is index insurance the same as agricultural insurance?	Agricultural Insurance can be traditional loss adjustment based or index based. Most agricultural insurance is traditional loss adjustment based. And some index insurance is not agriculture related, for example the Caribbean Catastrophe Risk Insurance Facility (which insures Caribbean Governments against hurricane and earthquake insurance risk). A number of index insurance products have been, and are being, developed to insure banks and MFIs against their portfolio default risk.
17.	What can be done when the law requires that insurance pays an indemnification for an actual damage and it is argued that this is not the case in index insurance? Is it necessary to issue a new regulation?	Yes, amending the regulation accordingly is the only way to overcome any doubts. Until then, many regulators give ad hoc dispensations.
18.	Do you normally see that jurisdictions regulate index insurance in order to make it viable or does it depend on the legal system?	Regulators have approached this issue broadly in three different ways: A) promote a special Law (e.g. Mongolia) B) amend existing regulations to create certainty for market players (S. Korea) C) approve index insurance products under dispensation or pilot rules (India, Bangladesh, Thailand). Most regulators had to deal with an index based product recently and usually dealt with these products according to contingency insurance principles. For example some interpret index based agricultural insurance as "business interruption insurance" which then deals with the indemnity issue.