

# PERU: AGRICULTURAL INSURANCE



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# Agriculture and Climate Risk in Peru

Croplands  
4.5 MM

GDP  
7.3%

PEA  
Agriculture  
25%

2.2 million  
farmers

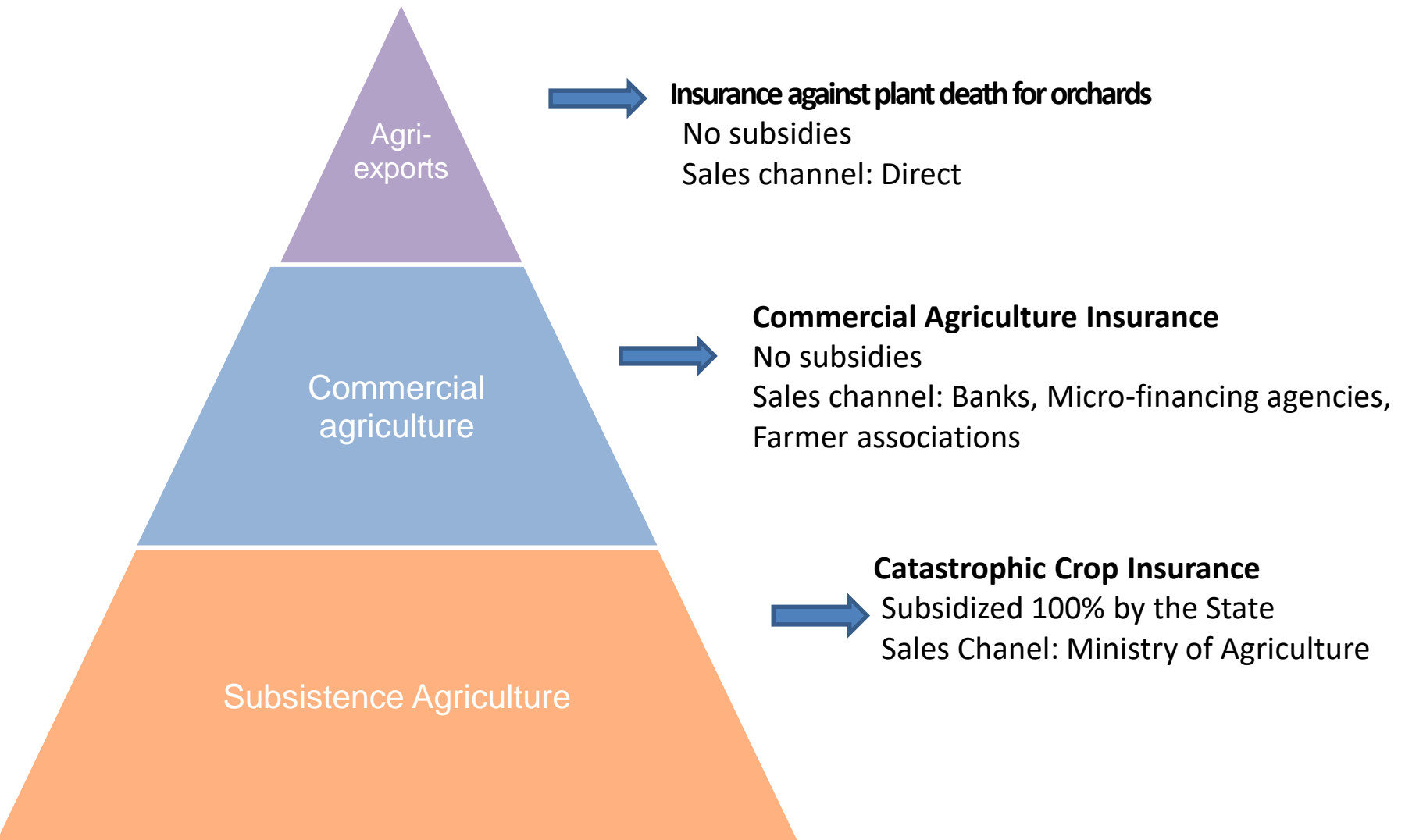
82% of  
farmers work  
less than 5  
hectares

## Losses in agriculture caused by rain and floods

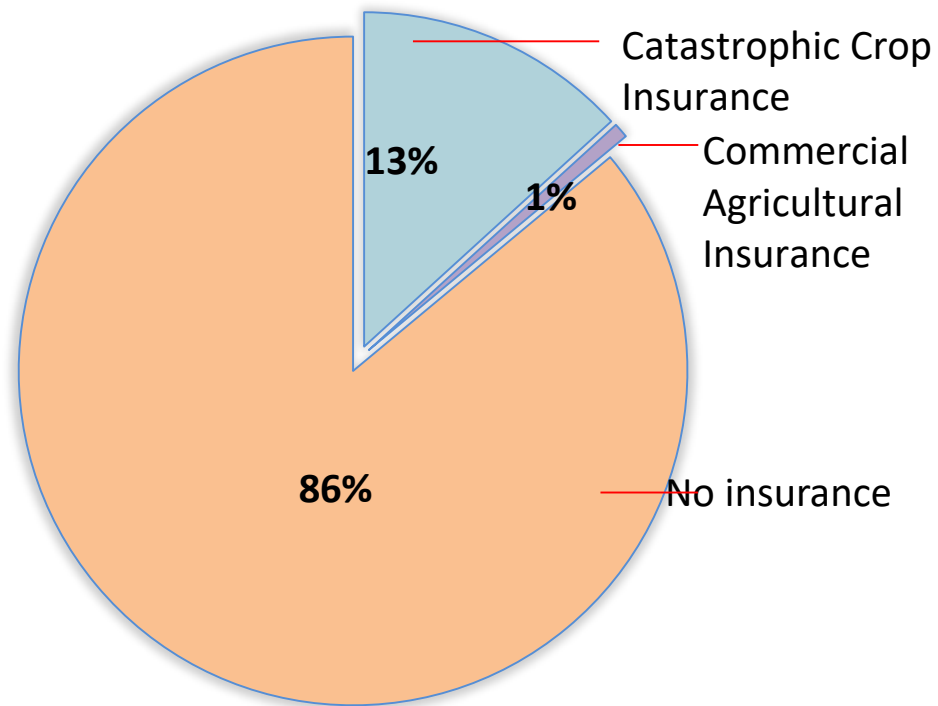
- 1982-1983 : US\$ 1.1 billion
- 1997-1998: US\$ 612 million
- 2017 : US\$ 380 million

(Source: *Gaining Momentum in Peruvian Agriculture*. World Bank, 2017)

# Insurance against climate risks for crops



# Penetration of Agricultural Insurance by Total Croplands



### Catastrophic Crop Insurance : 2009- 2019

**243,000** Insured through campaigns

**281,000** smallholder farmers as beneficiaries

**82,000** savings accounts opened

**S/68 million** paid out as indemnity

\* La Positiva Portfolio Data

### Commercial Agricultural Insurance: 2013-2019

**77,000** smallholder farmers insured

**3,500** smallholder farmer beneficiaries

**S/19 million** paid out as indemnity

\* La Positiva Portfolio Data

# Catastrophic Crop Insurance

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# Stakeholders – Catastrophic Crop Insurance

MINAGRI-COFIDE

**Ministry of Agriculture-MINAGRI**

- Is the **insured party**

**COFIDE:**

- **Manages the Trust** of the Rural Guarantee and Farming-Livestock Insurance Fund. Is the insurance **policy holder**.

FOGASA

**Approves the Directive**

establishing the conditions to be complied with by catastrophic crop insurance and insurance companies.

Regional Governments

- **Reports** on claim notifications
- **Prepares** beneficiary standards.

Insurance Companies

**Accepts the risk** and **pays** out indemnity to farmers.

Farmers

**Beneficiaries** of the crop insurance – they are subsistence farmers

## What risks are covered by insurance?

## Catastrophic Crop Insurance

### Weather:

1. Drought
2. Extremely heavy or unseasonal rain
3. Mudslides, avalanches or landslides
4. Flooding
5. Lack of land to harvest
6. Excessive humidity
7. Frost and low temperatures
8. Hail and snow
9. High temperatures
10. Gales

### Biological:

11. Pests and predators
12. Diseases

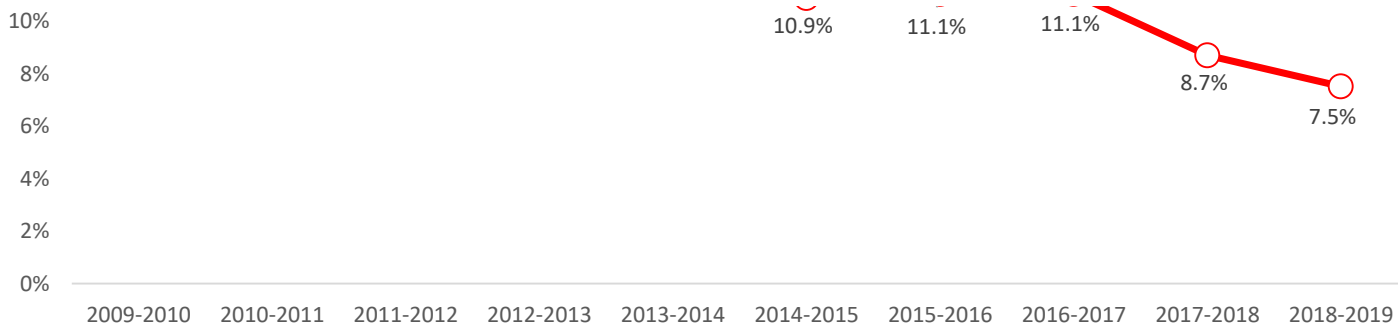
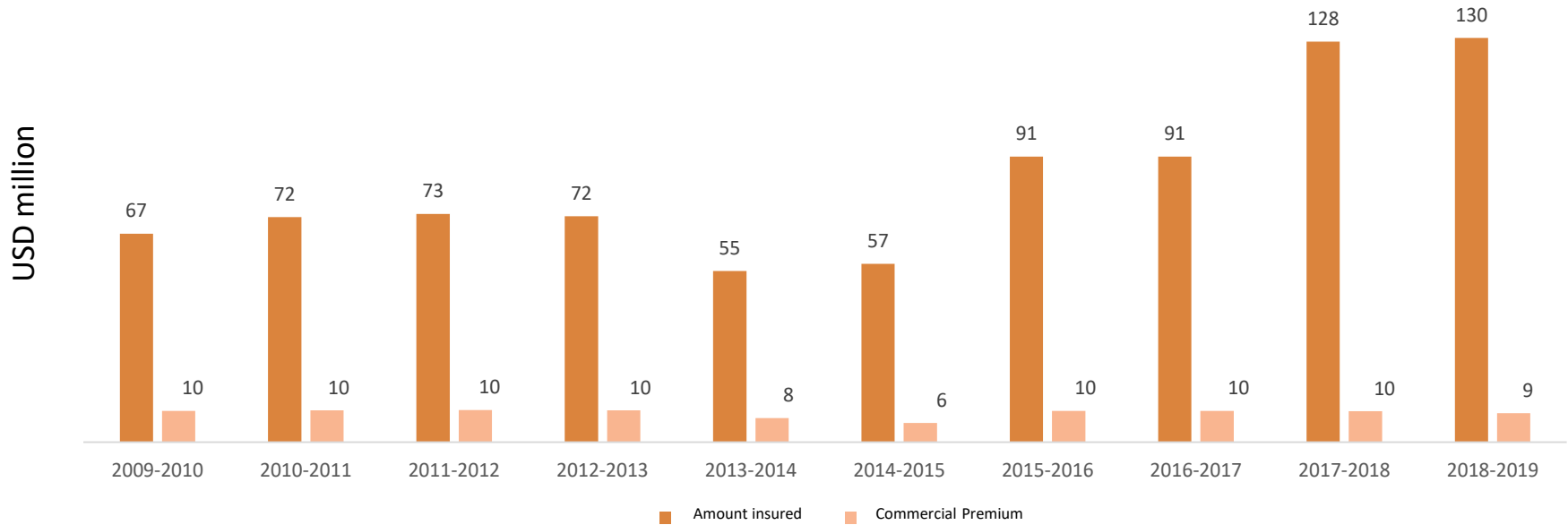
### Natural:

13. Volcanic eruption
14. Earthquake
15. Fire



# Amount Insured, Premium and Rates (Country Data – All Insurer Portfolios)

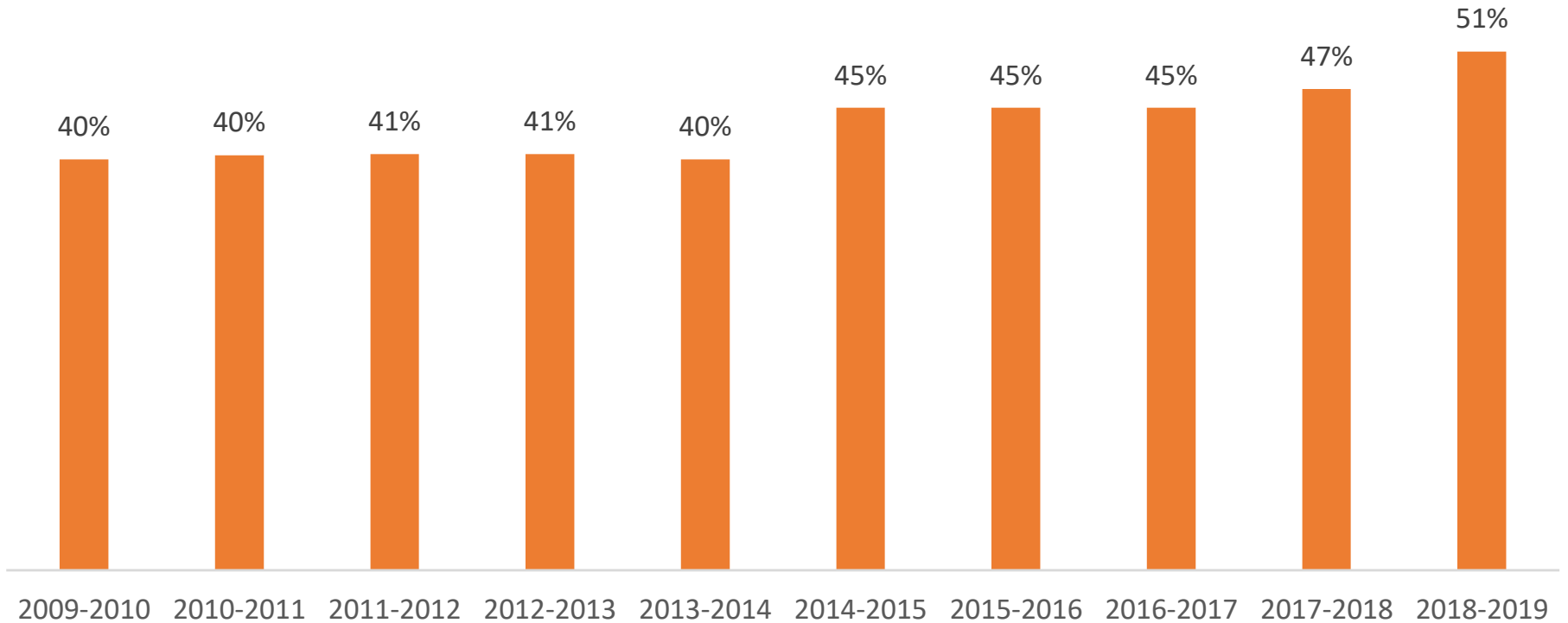
## Catastrophic Crop Insurance



Rate

## Return Generators

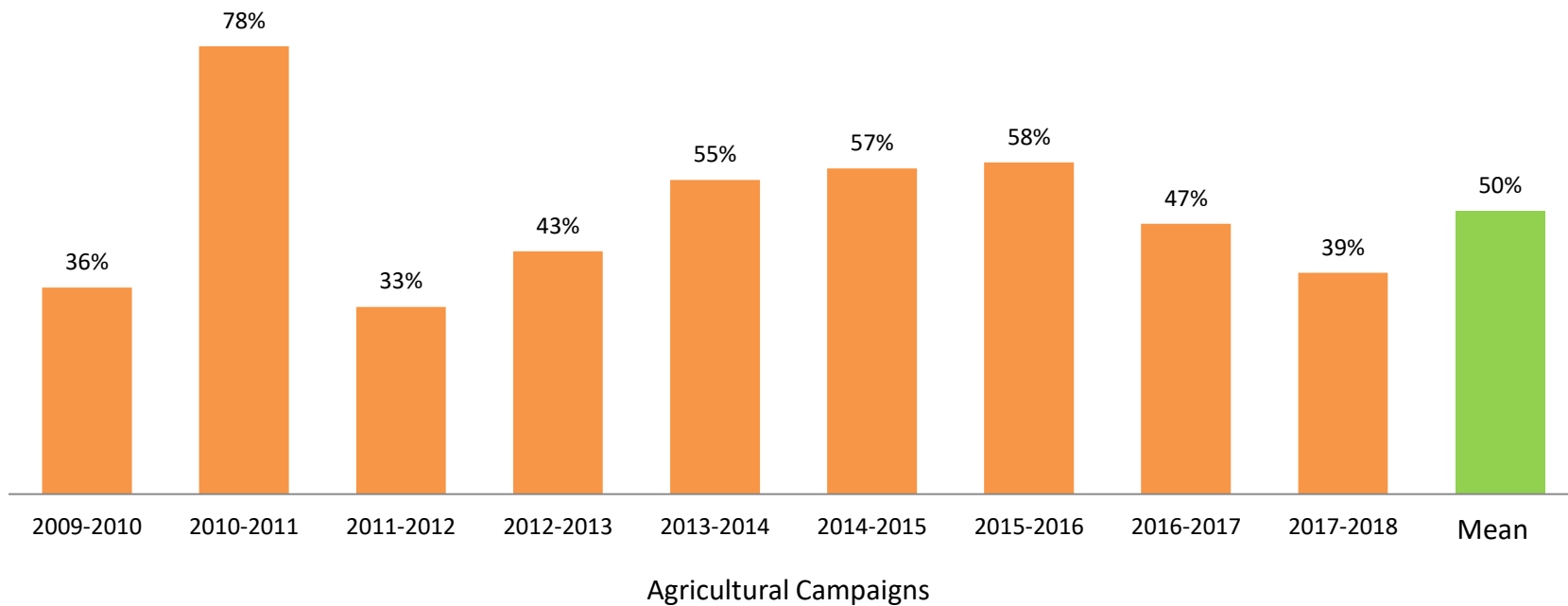
## Catastrophic Crop Insurance



### Agricultural Campaigns

# Claims Rate (Country Data – All Insurers Portfolio)

## Catastrophic Crop Insurance



The mean Claims Rate for the Program is 50%

# Commercial Agricultural Insurance

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# Characteristics

# Commercial Agricultural Insurance

## For whom?

Farmers who are clients of micro-financing agencies

Small and medium-sized farmers

## What crops and zones?

All crops and zones agreed by La Positiva and the micro-financing agencies

## How is it taken out?

When applying for a farm loan

## Who is the Beneficiary?

The first beneficiary is the Micro-financing agency. The indemnity is intended to repay the loan granted to the Farmer.  
Any amount left over, if any, is handed out to the farmer.

## Amount Insured

The production cost or the amount of the loan

## Insured Income

50% of the expected income

# Insured Risks

# Commercial Agricultural Insurance



**1. Rains**  
(Extreme or unseasonal)



**2. Droughts**



**3. Floods**  
(caused by rain)



**4. Gales**



**5. Low Temperatures**



**6. Fire**



**7. Hail**



**8. Snow**



**9. Mudslide or Landslip**

# Program figures

# Commercial Agricultural Insurance



Signed up	7,782	9,316	11,179	18,535	14,793	14,204	1,982
Net Premium (\$)	\$ 1.1 MM	\$ 1.2 MM	\$ 1.5 MM	\$ 2.0 MM	\$ 1.7 MM	\$ 0.8 MM	\$ 0.2 MM
Claims Rate	35.75%	60.62%	78.21%	143.99%	68.62%	19.49%	6.96%

**Program Claims Rate = 77.14%**

**Net Rate**  
2.5% -2.8%  
of insured amount

**Commissions**  
Broker: 0% - 4%  
Sales Agent: 0% - 7%

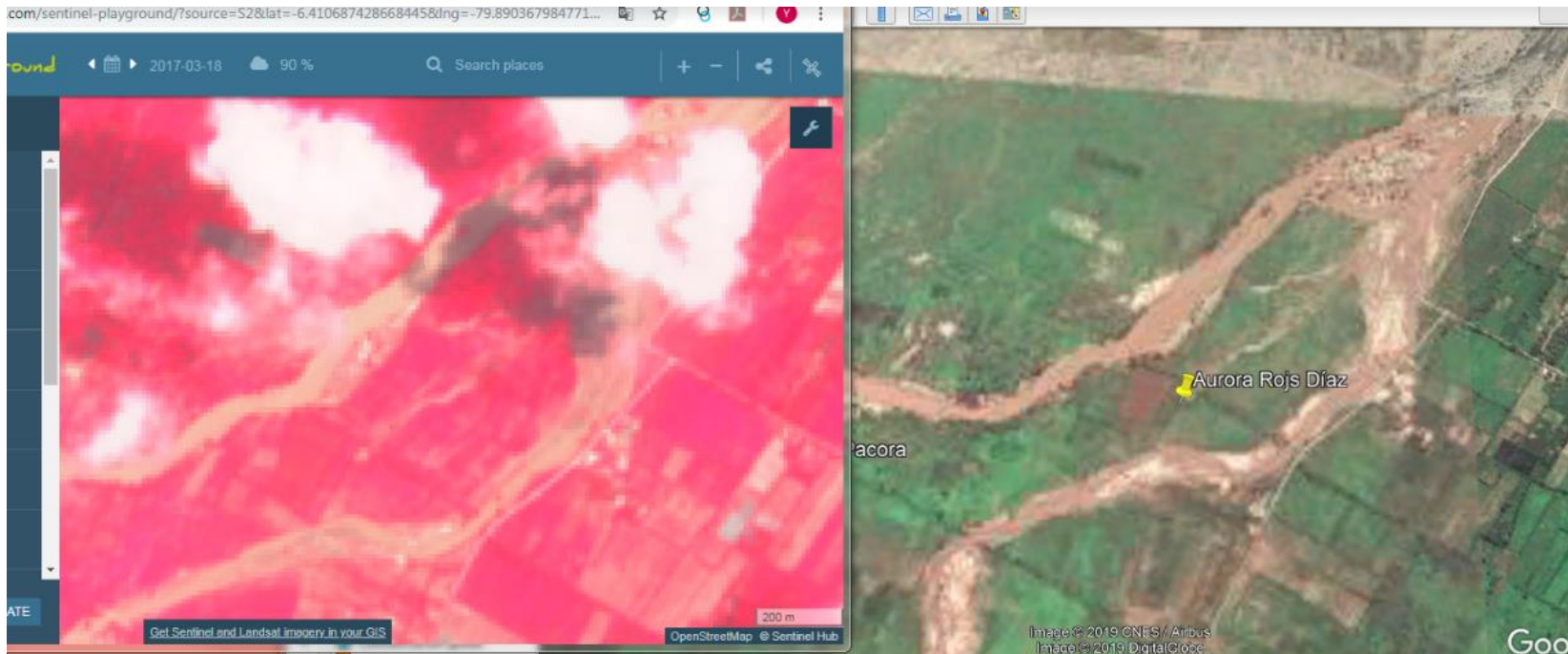


# Review of land parcel location before granting loans

# Commercial Agricultural Insurance

## MAIN INDEMNITIES

Client: Rojas (Lambayeque Department)



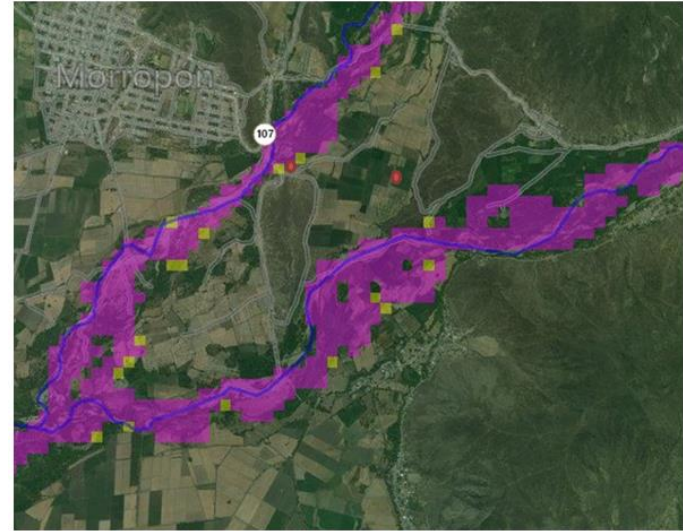
Land parcel located between two river tributaries, showing the area affected in 2017.

Signing up for agricultural insurance: N/A



# Commercial Agricultural Insurance

Clients: López and Zeta (Piura Department)



Client: López Rojas: The coordinates are located in a high flood-risk area; signing up for insurance: N/A

Client: Zeta Ortiz: Land parcel is located in a low flood-risk area, thus signing up for insurance is applicable in this case.

# Commercial Agricultural Insurance

## Suggested information to be obtained in the field

a) The manager must obtain the following information on the area :

EXPOSURE:

- CLOSE TO A RIVER
- FLOOD ZONE
- LANDSLIP / MUDSLIDE ZONE
- CROP BURN-OFF ZONE

b) The manager must ask the farmer about:

RISK-LOWERING ACTIONS UNDERTAKEN:  \*indicated by Agri-Bank

YEAR LAST AFFECTED BY CLIMATE-RELATED EVENT OR OTHERS:  \*indicate year

INDICATE THE EVENT:

- HAIL
- DROUGHT
- FLOODS
- RAIN
- GALE
- MUDSLIDE
- FROST
- PESTS/DISEASES:

## Some challenges

1. Obtain **income information** on each farmer.
2. Work with **geo-referencing** for all land parcels to be insured.
3. **Ensure the understanding** of the financial and micro-financing sectors that agricultural insurance does not blunt their competitive edge by increasing final credit costs through purchasing agricultural insurance. Instead, it underpins the economic sustainability of farmers and pays their debts.
4. Work with *ad hoc* **rules and regulations** for agricultural insurance.

## Closing Remark

In a 2017 study of agriculture in Peru, the World Bank stated: “Prospects for achieving sustained **productivity** growth and **competitiveness** in Peruvian agriculture are threatened by the risk of extreme weather events. Surveys consistently show that farmers and livestock keepers perceive **climate events as the single most important risk determining their incomes.**” (*Gaining Momentum in Peruvian Agriculture. World Bank. 2017*)

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