Info Note

10 things to consider for scaling climate-smart agricultural index-based insurances

Insights from the first CCAFS South-South Cooperation for Accelerating Climatic Risk Management in the Developing Countries

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Key messages

- Insurance schemes can complement agricultural de-risking programs, increasing farmers' resilience.
- More is not always better: efforts to scale agricultural insurance schemes need to carefully weigh their goals, required resources and benefits.
- The biggest challenge is to effectively target the "big gains" within the system.

Agricultural index-based insurances can increase smallholder farmers' resilience in a changing climate. CCAFS science successfully informs different insurance schemes around the globe. However, scaling up insurance products for the most vulnerable population remains a challenge, beyond the need to identify locally viable indices. In July 2018, CCAFS organized a South-South Cooperation event to facilitate exchange and learnings among its participants and partners, including government officials, private sector representatives and climate finance specialists and professionals. Their insights can give a first orientation to peer practitioners with plans to scale climate-smart agriculture (CSA) through insurance schemes.

Key learnings from CCAFS South-South Cooperation learning event

Defining the purpose: commercial or welfare schemes

Insurance actors can have different goals, which entail different challenges and bottlenecks. Private sector schemes with commercial goals (e.g. input guarantees) often fail to include the most vulnerable farmers, while governmental schemes with social welfare goals mostly run with subsidies. Insurance programs can aim from increasing farmers' early adaptation options on farm level, up to securing direct investment towards more effective disaster planning and financing on national levels.

Embedding insurance in wider risk mitigation strategies

Insurance is no stand-alone solution. Risk mitigation strategies should include the whole range of climate risk management tools on farm level, with insurance addressing only the gap between the other climate-smart technologies and practices. Insurance is only cost-effective and sustainable when it raises agricultural production and farmers' income. Hence, basic agricultural services need to be in place. Otherwise, community safety nets might provide more viable options.

Transparently managing information and interests

Sustainable insurance schemes need to create win-win situations, catering for the dissecting interests of the very diverse actors involved. Goals, but also the modalities of the different services, need to be transparent, understood and accepted by all parties. Often, especially the calculation of credit and insurance products, and the costs and benefits of the different entities, happen in a black box. Trust needs to be established and contained, especially between clients and local providers. Farmers can also harbor different kinds of biases that can contribute to information asymmetries and need to be addressed.

Connecting grassroots, national and international levels

Many donor driven initiatives aim high, targeting millions of people, but often omit to involve the local insurance companies, thus achieving limited evidence on scale. In turn, many pilots working on local level with approximately 25 to 2,500 sample households are successful when working with the smaller lending conduits, but fail to expand their reach. Local networks are limited and lack capacity to translate local models into scalable ones. Further, climate hazards usually affect large areas, and risks need to be shared by a multitude of local and national actors. This also includes a suitable system of re-insurance to reduce losses of national insurance entities.

"Slow scaling" – growing reach through growing trust

Scaling insurances to smallholders takes place in the tension between the need to quickly obtain a large client base for covering the fixed costs, while at the same time, the farmer-provider relationships rely on emotions and intangible assets like reputation, customer loyalty and trust, which require time to grow. Reputational damage is very difficult to repair. For commercial insurers, taking distribution slowly might mean having to cover for initially limited or even zero returns. Social welfare initiatives, in turn, benefit from reduced demand that might result from promoting the uptake of CSA as risk mitigation technologies and practices.

Increasing targets with public private partnerships

Since financial resources are limited, targeting of insurance coverage is crucial, but a tough decision. Many developing countries subsidize insurance premiums as a way to support small holder farmers. This also limits the possible coverage and reduces the sum insured/payouts, which in turn can negatively affect farmers' acceptance and demand for the product. In many countries, public private partnerships (PPPs) provide effective solutions for increasing market penetration and cost-efficiency at scale.

Designing packages for different segments

Agriculture is a highly segmented sector. Therefore, also agricultural finance products need to be tailored for the respective agricultural products and production systems. Agricultural insurance options and product packages need to cater for farmers' diversity and flexibility. Classically, insurance options are bundled with loans. Involving multiple sector groups in the design of the products and services can significantly enhance their uptake.

Empowering women and youth

The design of insurance packages also needs to be gender and youth sensitive. This refers as much to the selection of the targeted crops, as also to considerations about access, (e.g. financial literacy, access to resources) and governance (e.g. the role of group risk management schemes individual products). Especially around issues of empowerment and social inclusion, improving soft skills and social capital is often highly valued by the beneficiaries, but rarely counted as indicators success.

Facilitating farmers' data ownership

The quality of insurances largely depends on the available data on farmers' decisions. Crowdsourcing might be an opportunity to get the needed massive and valid data at large scale, while bringing about a new kind of "data democracy" and ownership among farmers.

Redefining roles of scientists and governments

Apart from providing scientific tools and knowledge about CSA and climate-related science, the role of the CGIAR is increasingly seen in supporting policy work, e.g. developing strategies to improve regulatory frameworks. When promoting PPPs, governments' roles would remain to support the data infrastructure (speed, reliability/ quality and transparency), education, training and capacity building, technical support on product design and rating, creation of enabling legal and regulatory frameworks, development of smart subsidies to support well-defined social objectives, and the development of innovative channels for distribution and delivery mechanisms.

This Info Note is based on insights and discussions of CCAFS participants, partners and stakeholders working on climate-smart agricultural index-based insurances, during the first CCAFS South-South Collaboration Meeting in New York, July 2018.

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