

Looking beyond loss and damage

Reframing Insurance to Promote Adaptation and Resilience



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Background & Aim

- In much of the developing world, climate change is expected to increase the risk from extreme weather events, and **scaling insurance is vital to enhance agricultural risk management and adaptation among the rural poor.**
- Insurance program impacts however too often claim impacts based on the number of farmers insured, or total payouts made; instead of documenting livelihood impacts, and/or addressing key challenges that hamper impacts on resilience.
- A mix of stakeholder expertise is required to design, evaluate and scale insurance programs that have the potential to enhance resilience among the rural poor. **We highlight the contribution that agricultural research-for-development (AR4D) can play to help strengthening scaling efforts and evaluating the impacts of insurance on resilience.**

Challenges

-  **Data availability** to develop and implement good indices that correlate with yield losses is often of poor quality or unavailable
-  **Targeting and design of insurance** needs to consider the diversity of smallholder farmers' needs and appropriate role for insurance to play
-  **Distribution channels and use of technology** need to be identified and leveraged to build trust and insurance education
-  **Bundling index insurance with other products and capturing the full value chain** is needed to add value beyond insurance its risk-reducing benefits
-  **Regulatory environments** need to be strengthened and established by the public sector to enforce contracts that both buyer and seller can trust.
-  **Enabling environments** through investments in weather stations and other agro-meteorological research/data, insurance education, and facilitation of reinsurance are needed combined with **smart subsidies** to correct initial market failures that hold back insurance market development.

Agricultural research-for-development

Synergy between insurance industry and AR4D in addressing these challenges is largely underutilized. The CGIAR offers knowledge, tools and research products to advance the scaling of resilience-building insurance schemes.

AR4D highlights roles of alternative climate-risk management options (risk-reducing technologies and practices originating from AR4D versus index-based insurance and social protection through adaptive safety nets) **in efforts to reduce rural poverty**, particularly for different types of environments and farmers.

AR4D has also focused on the design, testing and evaluation of agricultural insurance more specifically, and research on insurance has spanned the following themes:

-  **Weather security units** to give farmers more flexibility, improving the targeting and design of insurance.
-  **Weather simulations and crop modeling** to address limitations in data availability.
-  **Gap insurance and fail-safe triggers** to reduce basis risk in index insurance where poor index quality is a constraint.
-  **Remote sensing** to overcome issues with data availability and optimally utilize technology.
-  **Linking value chain actors with insurance industry** to leverage the value chain in improving distribution channels.
-  **Bundling with other climate risk management options** to create complementary risk management options with value beyond the risk-reducing benefits of index insurance.
-  **Participatory approaches to index design and implementation** to make the insurance process more transparent
-  **Impact evaluation** to move beyond take-up and renewal towards resilience as performance metric for insurance.

Conclusions

- AR4D has shown that index insurance payouts improve coping with extreme weather events, and help smallholder farmers increase agricultural investments during years without payouts.
- However, index insurance often does not translate into the envisioned transformative impacts on productivity, profitability and resilience.
- Both ex-ante and ex-post impact studies of different types of insurance initiatives are needed to better understand context-specific impacts of insurance on resilience.
- Doing so requires a mix of stakeholder expertise to address the key challenges and opportunities that insights from AR4D can offer in this regard.