

## Parallel session 11

## Improving the value of agricultural insurance

By Marie-Christine Bélanger

*This session presented insights into improving agricultural insurance based on evaluations of several schemes using a new client value assessment tool<sup>16</sup> specifically designed for farming protection products.*

When exposed to a shock, relatively poor households will usually have few coping strategies. They will either reduce their consumption or sell some assets. These coping strategies can lead to long-term negative impacts such as stunting of children or inter-generational transfer of poverty.

### High quality, high value

Insurance has significant potential for positive welfare impacts on farmers, notably by enabling investment in their agricultural activities. These benefits can only be appreciated if the product designed is of a high quality and has demonstrated a high value to the client. If a low-quality insurance product is offered, and farmers experience an insurable loss, the contract could fail and these farmers could be left worse off than farmers with no insurance at all. A low-quality insurance scheme will increase distrust and eventually ruin the market. It is urgent to examine the quality and value of insurance contracts being offered to small farmers.

The pilot version of the new client value assessment tool is based on 14 indicators specially adapted to analyse agricultural insurance products. It evaluates products across four dimensions: the Product itself, its Access, Cost, and customer Experience (PACE) (see Figure 33).

In index insurance, because there are no defined or enforced quality standards, it is not easy for a customer to determine the quality of a product. At the very least, an insurance scheme should not make a difficult situation worse.

Figure 33  
ILO's PACE model

Dimension	Indicator
<b>Product</b>	1 Index reliability predicts farmers' experience
	2 Covers appropriate activities
	3 Covers appropriate risks
	4 Makes a positive contribution to clients' overall risk management capacity
<b>Access</b>	5 Minimises unintended gaps in coverage
	6 Covered farmers are adequately informed of product details
	7 Staff and sales agents are adequately trained, incentivised, and supervised to inform clients and sell responsibly
	8 Payment methods are appropriate
<b>Cost</b>	9 Price is affordable and accessible
	10 Product delivers adequate value for money
<b>Experience</b>	11 Benefits are delivered in a timely manner
	12 Procedure to collect the benefit is simple and easy
	13 Provider is responsive and proactive about questions, problems, and complaints
	14 Covered farmers receive evidence of coverage

16 The tool was created by the ILO's Impact Insurance Facility and the Feed the Future Innovation Lab for Assets and Market Access (AMA Innovation Lab)

Source: Steinmetz, Tara. Presentation "Improving the value of agricultural insurance". 13th International Microinsurance Conference 2017

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## Improving the value of agricultural insurance

**Commercial agricultural insurance in Peru**

In Peru, 13% of the cropped area is insured, 96% of this is insured under a fully subsidised catastrophic insurance scheme and 4% under an unsubsidised commercial scheme of La Positiva. This last scheme is an area-yield index insurance programme offered to small and medium agricultural farmers producing any crop in any region of Peru.

This product is one of those evaluated during the pilot of the adapted ILO-PACE tool. The scores for each of the 14 indicators were then ranked in four categories corresponding to their levels of compliance: high, medium, low, and very low.

For the commercial agricultural insurance product offered in Peru, only two indicators obtained a low score in the evaluation. They were both related to education. Therefore, for La Positiva the most important result of the analysis was the need to improve its communication with its clients. To do so, it analysed which communication means it should use, what the message should include, and also with which organisations it could be productive to create synergies.

**Commercial agricultural insurance La Positiva in Peru**

**Number of policies sold in 2017**  
7,761

**Insured risks**  
All climate risks

**Premium range**  
2.8 to 3%

**Insured yield**  
50% of predicted yield

**Sum insured**  
Credit value or production costs

**Index-based insurance in Guatemala**

According to the Microinsurance Catastrophe Risk Organization (MiCRO) it is possible to improve the value of agricultural insurance by using a client-centred approach for product development – empowering the client and monitoring and evaluating the impact of the product.

In November 2016, MiCRO launched an index-based insurance for business interruption in Guatemala. It is designed for agricultural producers as well as microenterprises that could be affected by natural risks such as drought, excess rainfall and earthquakes (see Figure 34).



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88 — Left to right: Lourdes del Carpio, Manager, Massive Channels and Agricultural Insurance, La Positiva Seguros, Peru; Andrea Camargo, Chief Strategy Officer, MiCRO, United Kingdom.

89 — Tara Steinmetz, Assistant Director, BASIS AMA Innovation Lab, UC Davis, United States.

90 — Alice Merry, Research and Innovation Officer, International Labour Organization, Peru.

To be appealing, the programme is bundled with financial education, game training on disaster risk reduction, a 72-hour emergency kit and delivery of relevant information via SMS.

The financial education programme is offered by a network of more than 600 trained officers. Didactic materials include simple contractual documents, videos, an action plan in case of emergency, welcome calls, games, etc.

All the processes included or bundled with the index-based insurance are constantly monitored and evaluated. The results are then used to adjust and improve the processes for future expansion.

**Business interruption insurance in Guatemala**

**Number of policies sold since Nov 2016**

1,600 (54% women)

**Insured risks**

Excess rain, drought, earthquake

**Bundled**

With credit from Banrural

**Lessons learnt**

- Index insurance can't solve every problem, but it can enable small-holder farmers to invest more in growth opportunities, and avoid costly coping strategies when a shock occurs.
- More needs to be done to ensure that the contracts brought to market are of high quality and well implemented so they can actually protect farmers as intended and achieve development impact.
- Creating value for clients means listening to them, empathising with them, and innovating to meet their needs.
- Insufficient information on insurance and services is a constant problem in rural areas. A cell phone app could be created so farmers could access the location of input suppliers, weather alerts, prices of products, local market and wholesale market, and insurance financial services options.

Figure 34  
Product design – client-centred approach

