

## Global Action Network on Agriculture Insurance Kick-Off Meeting



**Sheraton Maria Isabel Hotel**

**Mexico City, Mexico**

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# Meeting Overview

## Meeting objectives

- To discuss the state of agriculture insurance, including successes and challenges, as well as impacts and gaps;
- To explore how the Global Action Network (GAN)<sup>1</sup> can address these key challenges and gaps through the activities of various working groups and of the GAN as a whole; and
- To agree on next steps and generate commitment of members to GAN activities.

## Agenda

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08:30	Registration and coffee
09:00	<b>(S1) Getting to know you</b>
	<b>(S2) Welcome and introduction to the Global Action Network</b>
09:30	Lena Heron (USAID) Craig Churchill (ILO) Michael Carter (BASIS/I4, UC-Davis)
	<b>(S3) The state of agriculture insurance: Challenges, successes, impacts and gaps</b>
10:15	<i>with resource persons:</i> Andrew Mude (ILRI) Daniel Clarke (AIDP/World Bank) Michael Carter (BASIS/I4, UC-Davis)
12:30	Lunch break
	<b>(S4) Formation of GAN Working Groups and discussion of key activities to address key gaps/challenges</b>
14:00	Contract design: Basis risk and quality standards Risk finance and reinsurance Models for market development, consumer education and technical capacity building Leveraging insurance for public policies
16:00	<b>(S5) Wrap up, commitments and next steps</b>

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## Attendance

Twenty nine participants joined the Global Action Network on Agricultural Insurance kick-off meeting. For detailed information on the participants (name, email and organisation), please refer to Annex 1.

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<sup>1</sup> With the support of the USAID, and in coordination with the BASIS/I4 Index Insurance Innovation Initiative at the University of California Davis (BASIS), the International Labour Office (ILO)'s Impact Insurance Facility created the Global Action Network, which is envisioned as a community of experts and practitioners on agriculture insurance.

## Session Highlights

### (S1) Getting to know you

The meeting started with a quick exercise in which participants coming from different types of organizations, including international development organizations, research institutions, funders, implementers, reinsurers and risk carriers had the chance to introduce themselves and get to know each other. Around 30 pictures portraying agriculture-related themes, such as crop fields, harvest, livestock, agriculture insurance loss assessment, agricultural engineers, weather stations, food distribution, among others, were shown to the participants. Each person was requested to choose a picture that they could relate to, literally or metaphorically, and to introduce themselves using this picture. This casual environment allowed participants to learn more about their colleagues and to get more comfortable to share their experiences during the following sessions of the day.



Participants introducing themselves with the help of pictures.

### (S2) Welcome and introduction to the Global Action Network

The first to welcome the participants was Craig Churchill, Team Leader at the ILO's Impact Insurance Facility. Craig Churchill emphasized that the Global Action Network is not an ILO's, USAID's or UC Davis' project: it is rather a community of experts and practitioners owned by its members and that aims to address the gaps that hinder the responsible scaling of agriculture insurance. By providing a space where experts can discuss key issues, explore

solutions and promote lessons and best practices, the GAN can allow for organizations to act together to promote agriculture insurance.



Michal Carter, Professor and Director of the BASIS Research Programme at UC Davis then highlighted the importance of coordinating efforts to solve the challenges related to agriculture insurance. Many challenges exist, and the potential to solve them is bigger if we act together.



Lena Heron and Craig Churchill welcoming the participants.

Lena Heron, Senior Rural Development Advisor at USAID, reinforced the need for such a global action network. She mentioned that USAID has already supported many projects and pilots on agriculture insurance, and that despite the criticisms related to scale, these pilots have

taught stakeholders a lot, established proof of concept in many cases, and advanced the risk management agenda. If some years ago few development practitioners talked about insurance, now it is being incorporated as an important risk management tool in broader development programs. Still, there are many constraints that are inhibiting the scaling of agriculture insurance, and therefore its use as a tool in development programming. As a group of experts and practitioners from across the field, the GAN may be better able to identify these constraints and develop solutions that will allow for the further advance of agricultural insurance for development. Some of the main challenges that she hoped the GAN will work on include basis risk and the design of insurance products for client value, unaffordable pricing from a market perspective, and low uptake, among others. These challenges are major and cannot be managed by one group alone: they require joint action.

### (S3) The state of agriculture insurance: Challenges, successes, impacts and gaps

#### Presentation by Andrew Mude, ILRI

Andrew Mude's presentation focused on his experience with index-based livestock insurance programs for pastoralists in Kenya and Ethiopia. Andrew explained that the motivation to invest in index-based insurance in these areas came from the fact that pastoralists faced significant herd losses caused by severe droughts, but conventional commercial insurance was not viable due to high transactions costs. The results of the willingness to pay studies that were conducted to understand if the population would buy the product showed that pastoralists would be willing to pay for the coverage. Therefore, efforts to create an index-based product began in 2008 with research on contract design and creating interest among insurance companies.

The first product launch was in Marsabit, with UAP underwriting the risk and Swiss-Re as reinsurer. Implementation challenges appeared right in the beginning. For instance, after the first payouts were made, the commercial partners (insurer and distributor) did not proceed with selling the product in the following seasons, thereby missing an opportunity for to capitalize on the powerful demonstration effect of the claims payments. Andrew presumes that some challenges may have emerged as a consequence of too much expectation put on the commercial partners.



Presenters Andrew Mude and Michal Carter.

After three years, a new insurer, APA, came on board, with Africa Re as the reinsurer. At the same time, new products emerged, including takaful insurance. In 2013, the government of Kenya expressed interest in scaling up the project and integrating it into their broader resilience and agricultural development strategies. Still, these developments were not without challenges. Some of the barriers faced were:

- Contract design issues:

- Due to variability in data availability between different districts, for example between Marsabit and Borana, consistency of linkage between forage scarcity and livestock mortality was challenging to establish;
- Covariate risks: Building an index to track covariate losses is difficult, since household losses, and reasons for those vary greatly;
- Basis risk: Both “positive” and “negative” basis risk issues had an impact on the contract design. As IBLI expanded to additional northern Kenyan districts and into south Ethiopia, there were a few instances of payouts being triggered even in the absence of actual mortality. This mismatch between losses and payouts, even though “positive” for the pastoralists, had a negative effect on building trust on the product.
- Uptake and renewals: In Marsabit, even though the contract sales in the beginning of the project were higher than expected (around 2,000), but it has reduced a lot more than expected due to both distribution and product understanding challenges.

Despite the challenges, the impact of the insurance on the pastoralists who bought the insurance has been encouraging. For instance, pastoralists with IBLI reported a subjective well-being and experienced less adverse post-drought coping strategies.

To continue, long-term support is needed to scale the product until there is a critical mass of awareness. The current interest of the government of Kenya to promote a substantial contribution for crops and livestock insurance will be a good opportunity for that.

#### **Presentation by Daniel Clarke, AIDP/World Bank**

Daniel Clarke’s presentation focused on defining and understanding **basis risk**. According to Daniel, the lack of empirical attention to basis risk is disturbing because without this knowledge, there is no guarantee of risk reduction.

Unfortunately, learning about basis risk from the experience of a single index-insurance product requires a long period of time. However, it might be possible to learn about basis risk more quickly from a number of index insurance products in different geographies, if they are united by a common analytical framework. The bigger and the more diversified the collection of products, the quicker is the learning process.

But how can basis risk be defined in a way that it can be measured? Without a consistent definition, it is not possible to measure it. Broadly speaking, basis risk is the risk that an index-based insurance product does not pay an appropriate amount. But what is an appropriate amount? To make it more precise, five questions need to be answered:

1. Should the claim payments be compared with losses from all sources or only losses from agricultural insurance? Ideally, only losses from agricultural production.
2. Should index insurance claim payments be compared with decreases in assets, decreases in revenue or increases in expenditure? In this case, it depends.
3. Should index insurance claim payments be compared with output losses (and therefore future incomes) or input costs (bags of seeds/fertilizers)? For statistical reasons, it should compare with the costs.
4. Should index insurance claim payments be compared with losses from all perils or only losses due to perils explicitly named in the insurance contract? In this, it depends if we are looking at client value or business performance.
5. Should it be compared with area-average losses for a typical producer, including idiosyncratic losses? It depends.

Daniel ended his presentation by reiterating the fact that even if we are not short of ideas for how to reduce basis risk, greater emphasis should be placed on monitoring it in order to initiate relevant action.

#### **Presentation by Michal Carter, BASIS/UC Davis**

Michael Carter focused mainly on the impact of index-based insurance products. According to Michael, in Kenya the index-based livestock insurance contributed to a reduction in risk coping strategies that have potentially negative long-term consequences. Specifically, the IBLI study showed a 36 percentage-point decrease in livestock sales and a 25 percentage-point decrease in meal consumption reduction among households that had insurance over uninsured households.

Further evidence also shows that reduction in risk exposure induces advantageous behavioural change. While it has long been believed that risk keeps smallholder farmers locked into low return strategies, there is increasing evidence (from Ghana, Mali, Burkina Faso, and elsewhere) that improving risk management can boost investment and adoption of productivity enhancing technologies among these producers. Recent work on flood-tolerant rice in Bangladesh is another case in point.

Michael highlighted that if properly designed, index-based insurance can generate positive impact by promoting investment and technology adoption. He emphasized, however, the need for public reinsurance pools, which can help support private actors' investments, develop the market and expand impact.

#### **(S4) Formation of GAN Working Groups and discussion of key activities to address key gaps/challenges**

The presentations by Andrew Mude, Daniel Clarke and Michael Carter touched a number of challenges that hinder the effective offer of agriculture insurance. These challenges were written in metacards, clustered in four main categories and put on the wall, so that participants could go through each of them and add any missing points. The four clusters and the challenges identified were:

##### **1. Contract design: Basis risk and quality standards**

Associated Challenges: Lack of data, idiosyncratic risks, calculating basis risk, measuring and monitoring basis risk to learn about good and bad initiatives, positive basis risk (which may also break-up trust of consumers), developing key performance indicators (KPIs), minimum regulatory standards before contract implementation, integrating risk transfer into a comprehensive risk management approach, and meeting the real needs of the farmers.

##### **2. Risk finance and reinsurance**

Associated Challenges: Insurance as one of many other risk management tools; cost of reinsurance; role for public sector in covering uncertainty layer of insurance costs; remote sensing techniques, bundling with other products, linking index insurance with other financial services, availability of demand and supply data, developing best practices for national data management, optimal retention for alignment of interest and cost reduction, and pricing procedures.

##### **3. Models for market development, consumer education and technical capacity building**

Associated Challenges: Developing national cross-sector risk management agendas; government participation as facilitator; building market infrastructure and capacity along the value chain; increasing actuarial capacity in the local markets; catalyzing the development of (private sector) intermediary service providers; premium collection timing; putting clients at the center; building uptake and demand; building trust in insurer after no show post-claims; ongoing education beyond sales; long-term funding for capacity building initiatives; information sharing by the private sector; partnership challenges; managing client expectations; and creating more case studies with failures and successes.

#### **4. Leveraging insurance for public policies**

Associated Challenges: Establishing linkages to other policy areas (agriculture risk management, financial sector development, public financial management, social protection) linking social protection and market mediated instruments; better understanding of productive and welfare impacts; regulation of index insurance (as insurance and not derivative); long-term support needed for scale; finding the most promising level of intervention (micro, meso or macro); and sparse data problems.

Participants were then requested to divide themselves in working groups (one for each category of challenges), according to their area of interest, and discuss in detail for that specific category:

- What are the top 3 challenges/gaps that if addressed can have a significant positive impact on agricultural insurance?
- What can your working group do or initiate to address these challenges/gaps and what are the tools that can be produced to help in this process?
- What can the working group commit for the next year?

The issues under the category “leveraging insurance for public policies” were redistributed to the three other categories to enable a richer discussion of the topics. The results of these discussions are described in more details below.

##### **1. Contract design: Basis risk and quality standards**

Challenges/gaps: 1) Defining basis risk (people like to have a definition constructed, that brings together different ideas); 2) Monitoring and evaluation guidelines to learn about what works and what does not; 3) Designing and implementing solutions with quality at scale.

Activities: 1) Drafting a document on basis risk and circulate among GAN members, to build together a basis risk definition; 2) Creating a minimum list of what should be monitored so that stakeholders can know what is working and what is not in their projects (guidelines).

Regarding challenge 3 (designing and implementing solutions with quality at scale), participants believe that the GAN should be involved with ideas rather than be responsible for implementing actual insurance projects.

##### **2. Risk finance and reinsurance**

Challenges/gaps: 1) Price as a roadblock (not pure risk price) due to data quality, small market volume, and lack of competition; 2) Finding the most promising level of

intervention (micro, meso or macro), which would have big implications on pricing; 3) Generating incentives for the private sector to invest in insurance market development.

Activities: 1) Develop a concept for a public fund for risk finance that would complement commercial reinsurance, especially covering the uncertainty layer of pricing for extreme shocks. Principles: Complement/crowd-in private reinsurance; incentivize better data (especially yield data) collection at country level; and be time-bound in particular geographies. ((Kenya was recommended as a good country to test this approach for creating a fund for risk finance.)

### **3. Models for market development, consumer education and technical capacity building**

Challenges/gaps: 1) Lack of shared knowledge databases, such as an inventory across programs and a matrix of best practices and lessons learned; 2) Lack of a clear definition of roles and responsibilities (lack of clarity from funders and different actors regarding their own roles); 3) Lack of informed demand (consumers don't understand insurance).

Activities: 1) Creating a living matrix of different programs that can be shared among actors on real time to keep them informed; 2) Conducting an analysis of lessons learned in agriculture insurance; 3) Creating a set of suggested conversations that should take place between partners; 4) Creating a set of recommended roles for different actors (or a document highlighting successful models); 5) Creating an inventory of existing insurance literacy tools; 6) Support instructional manuals; 7) Funding for training of trainers.

Some of the activities identified are already being done by other organizations. Therefore, it will be important to identify synergies with these other actors to build on what exists and work collaboratively on other necessary activities.

The results of the discussions in this session will be processed by the ILO and will serve as inputs to the work plan of the Global Action Network particularly for 2015.

### **(S5) Wrap up, commitments and next steps**

The kick-off meeting ended with remarks from Jasmin Suministrado, Senior Knowledge Management Officer at the ILO's Impact Insurance Facility, informing participants about the next steps for the GAN, which include:

1. Putting together a concrete work plan for 2015 to be shared with the GAN which will be based on the results of the discussions during the day;
2. Convening specific working group meetings around the topics so that concrete activities can be initiated;
3. Inviting more relevant participants to join the network;
4. Explore the idea of bringing practitioners to the network to implement ideas, as theories alone are less likely to have much impact; and
5. Build synergies with other related networks and groups such as the Microinsurance Network's Agriculture and Capacity Building Working Groups.

As a last activity, participants were invited to say one word that in their opinion described the meeting. Some of the words mentioned were: inspiring, sharing, illuminating, enriching, diverse, innovation, snacks and people challenging people.

## Annex 1: GAN Kick-Off Meeting Attendees' List

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