

Agri-insurance for smallholder farmers

Industry perspective

October 26, 2021



ISF is an advisory team that develops financial solutions for the rural enterprise market



ISF transforms rural economies by delivering **partnerships and investment structures** that promote financial inclusion for rural enterprises and smallholder farmers.

ISF mobilizes financing for rural enterprises and seeds replication of innovative models through our role as a “**design catalyst**”.

ISF’s activities are informed by **proprietary research** into critical issues affecting smallholder finance.

**ISF partners
and clients**



TECHNOSERVE
BUSINESS SOLUTIONS TO POVERTY



**An initiative of the Global
Development Incubator**

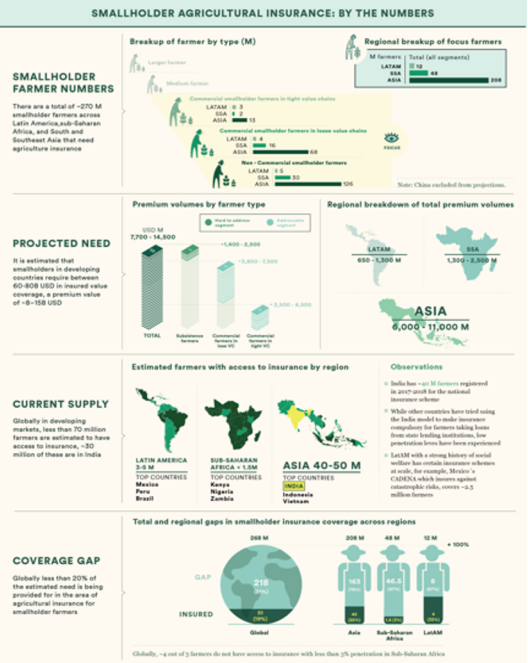


In 2018, we released the “Protecting growing prosperity” report which took stock of the global state of agri-insurance for smallholder farmers

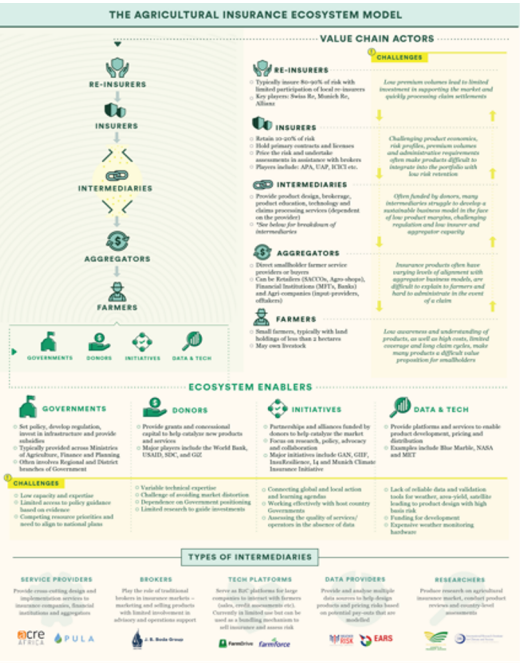
Major areas of 2018 research



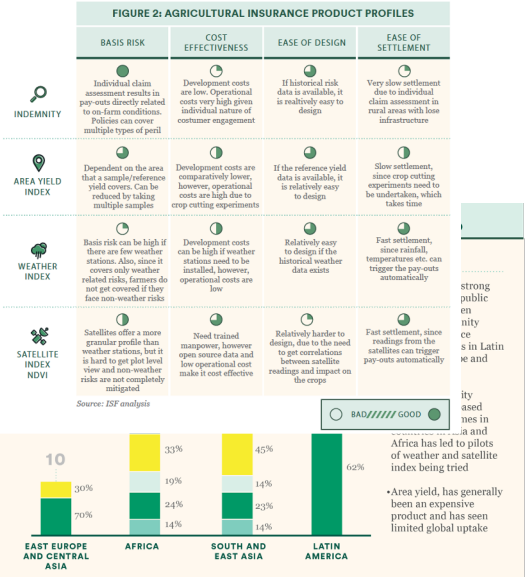
Global supply, demand and gap estimates separated by region and type of farmer



An ecosystem-based view of the market with major trends and key challenges identified



Product-based taxonomy, profiling and statistics based on a global database



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ACTION AGENDA

4 leverage points, associated areas for action and capital considerations

Since 2018, the context for agri-insurance has changed...

- 1 **The climate crisis** is escalating with extreme weather events like storms, floods, and droughts doubling from an average of 300 events per year in the 1980s to 600 per year in 2010
- 2 **The COVID-19 crisis** has highlighted rural communities' extreme vulnerability to shocks, governments' lack of preparedness to offer social protection at scale and the volatility of global supply chains
- 3 **A new emphasis on food systems** is creating a more inter-connected context for how agri-insurance is positioned

ISF and the Microinsurance Network (MiN) are currently working with a consortium of interested donors including the Gates Foundation, Syngenta Foundation, Swiss Re Foundation and Financial Sector Deepening Africa (FSDA) to take stock again of agri-insurance for smallholder farmers and engage the industry in a new reflection process

SEVEN MAJOR AREAS OF CHANGE

DEEPENING FINANCE LANDSCAPE

Broader financial resources being mobilized with some impact investment and commercial capital being deployed

CHANGING GOVERNMENT ATTENTION

More engaged governments around the need for a disaster insurance and integrating micro and meso level insurance

MATURING PRODUCTS

Maturing products with increasing scale, commercial orientation and diversity in coverage but many still highly “development anchored” and dependent on subsidy

CHANGING CONTEXT

The changing imperative around climate adaptation, and holistic view of food systems and risks, is creating a new inter-connected context for agri-insurance for smallholder households

MORE EVIDENCE, PERSISTENT GAPS

Lots of practical learnings and some emerging evidence but still lots of gaps to fill

DISRUPTIVE LEADERSHIP

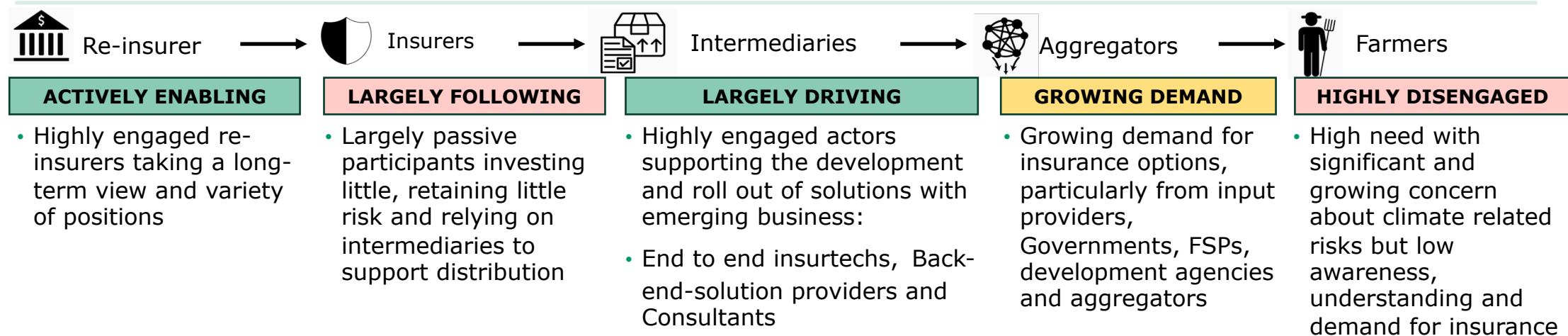
A small set of pioneering insur-techs and re-insurers are leading the way, focusing on filling in the technical and capability gaps of hesitant traditional insurance players

DATA AND TECH EVOLUTION

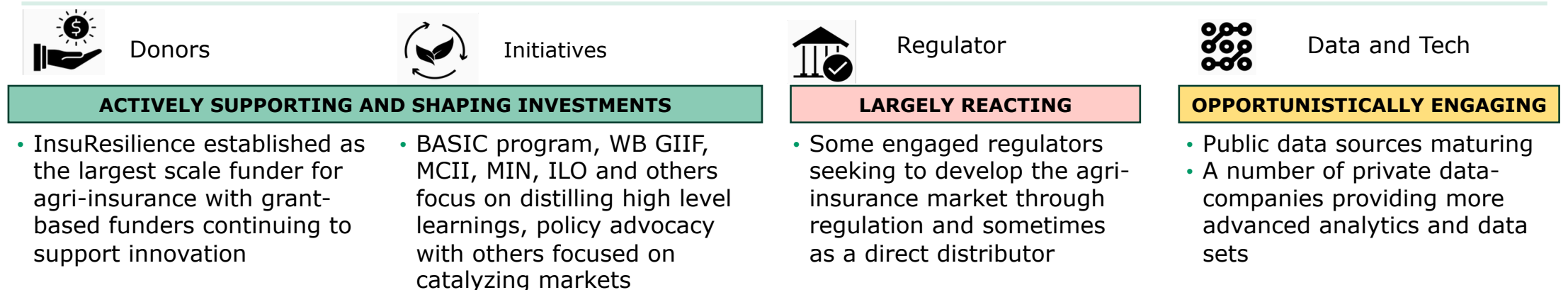
Incremental innovations on data and technology but no easy game changers

Highlight 1: Industry structure

Value chain players



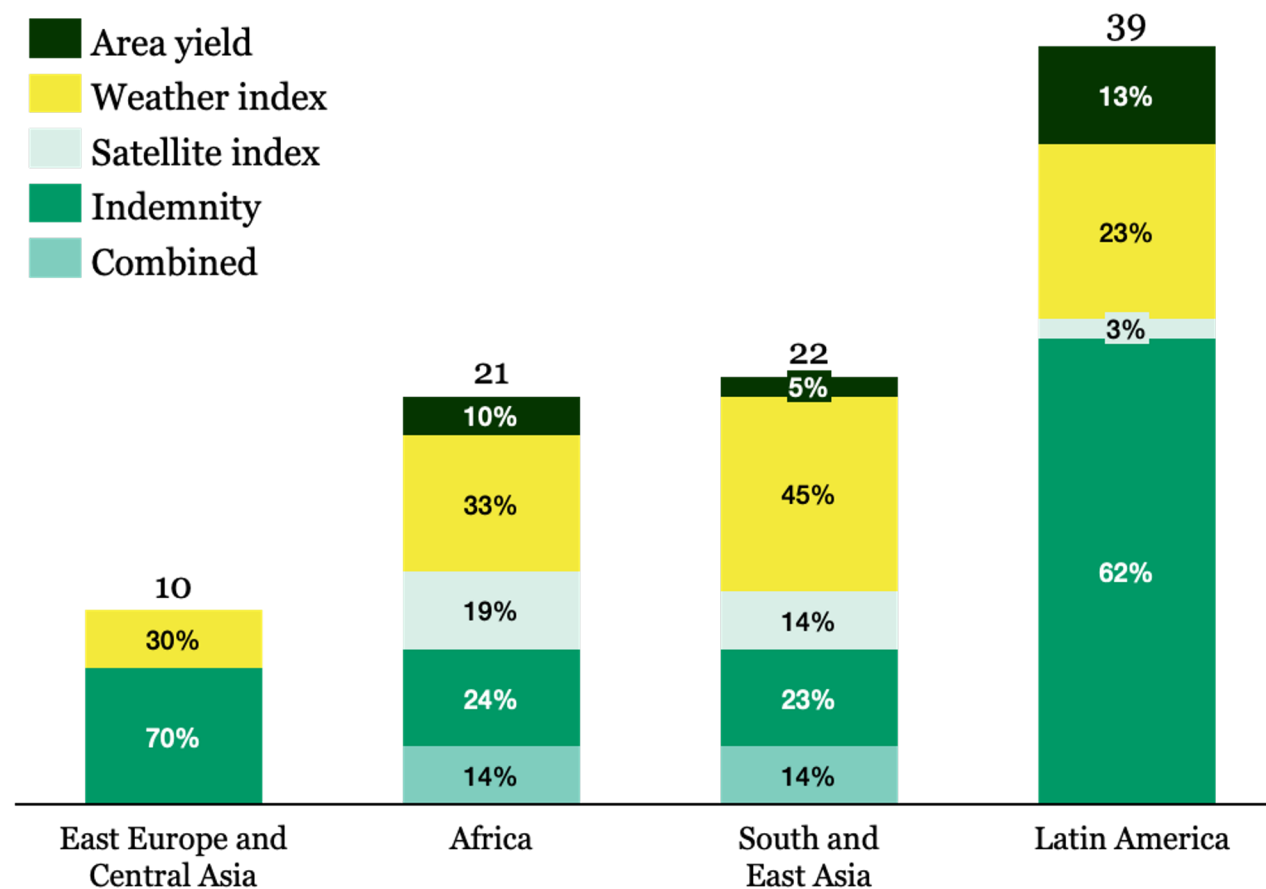
Ecosystem enablers



In a traditional insurance market local insurers (supply) and customers (demand) would be the primary drivers of market activity, in this market intermediaries are actively driving

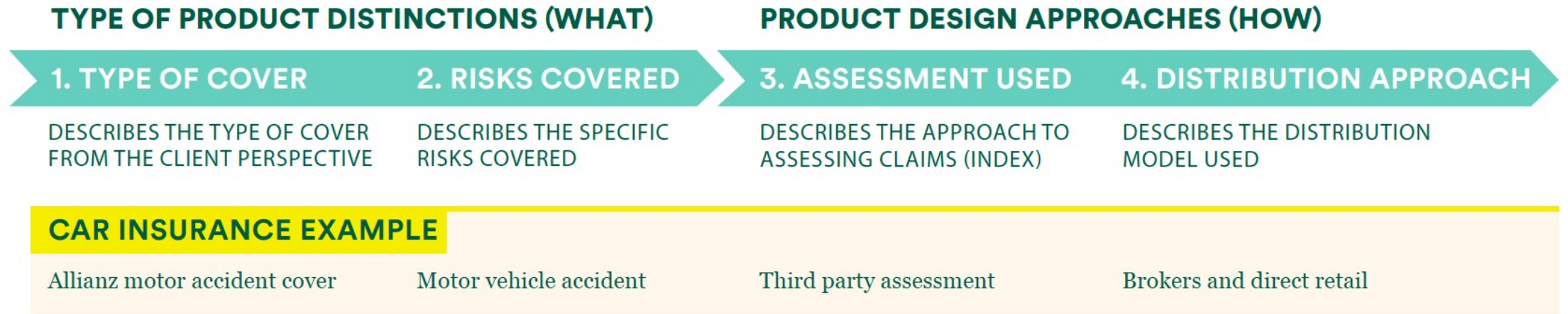
Highlight 2: Product landscape

Profiled agriculture insurance schemes by region



In 2018 the industry was still primarily considering agri-insurance in terms of the index approach used...

Highlight 2: Product landscape



Reconsidering the product landscape in more traditional terms would focus in the first instance on the type of cover and the risks covered...

Highlight 2: Product landscape

Agri-insurance product map for smallholder farmers

Cover value, cost and complexity Lower Higher	RISKS COVERED ► TYPE OF COVER ▼	DROUGHT/ TEMP	EXTREME PRECIPITATION	TYPHOON/ CYCLONE	PESTS AND DISEASES	PRICE VOLATILITY	Other...
	INPUT COVER (Cost of seed/ fertilizer)	Seedco/ACRE Kenya (P: Rainfall)				N/A	Many other events may be covered in addition to the major categories depicted here
		OAF/Global Parametrics Kenya (P: Evaporisation/Rainfall)				N/A	
		Pula input subsidy scheme Nigeria (P: Area Yield)				N/A	
	PRODUCTION EVENT COVER (Cost of alternatives, e.g. animal fodder)	Pula IBLI Kenya (P: NDVI)	MICRO catastrophic event protection against extreme rainfall, drought, earthquake; business interruption & production cover (P: weather)			N/A	
	LABOR COVER (Cost of labor)				PepsiCo India (P: humidity and temperature)	Risk Shield trial (P: area yield index + price)	
	REVENUE PROTECTION (Revenue below expected threshold)	OKO Mali (80% revenue; P: Rainfall)				Value chain contract derivatives (floor prices)	
		Vision Fund (P: Portfolio default rate; Yield index)					
	ASSET PROTECTION (Livestock death)	IBLI Mongolia (P: Regional livestock mortality rates)				N/A	

Source: ISF analysis

MANY
EXAMPLES

SOME
EXAMPLES

FEW
EXAMPLES

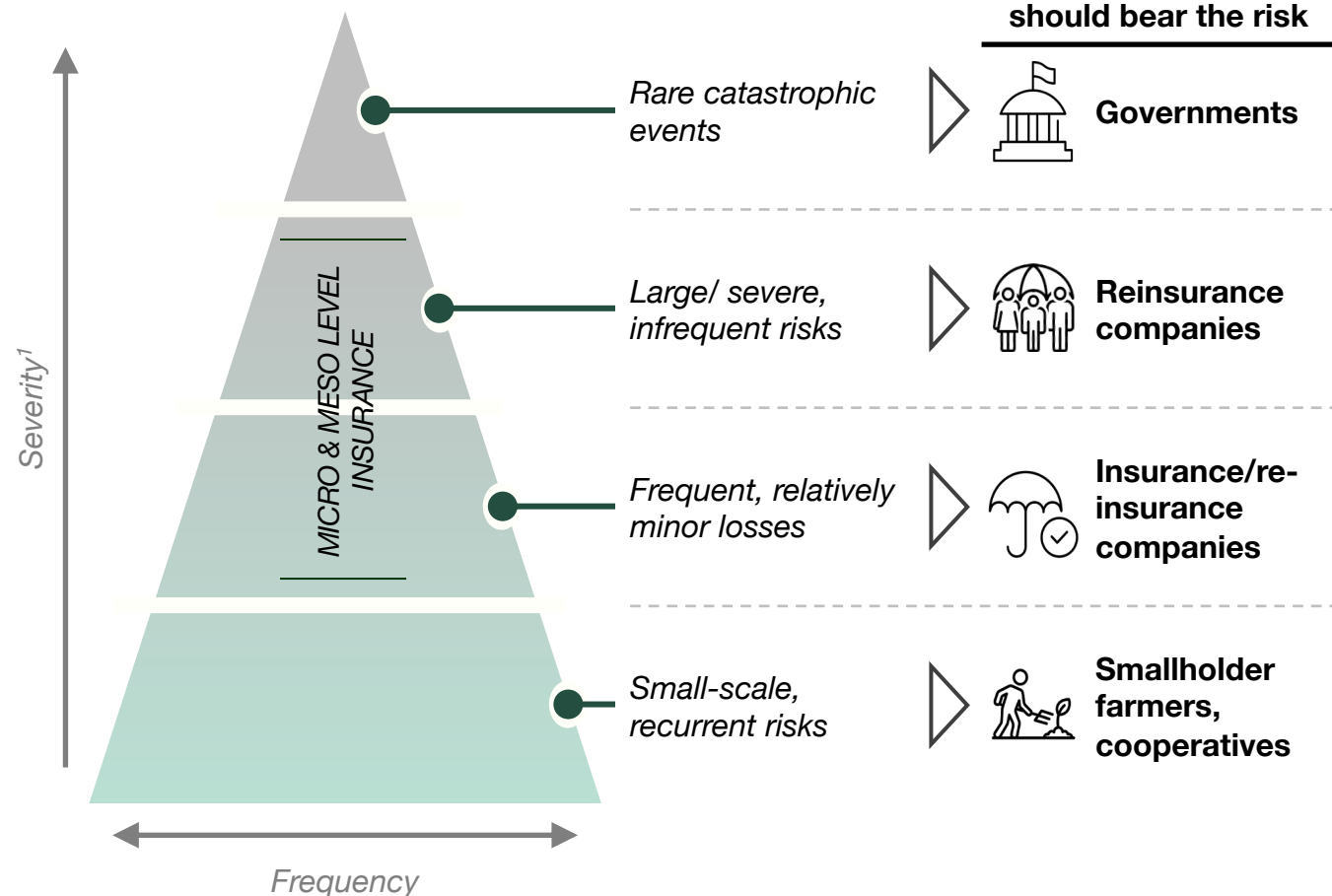
P: Key parameter

Highlight 3: Intermediary business models

TYPE OF INTERMEDIARY (NON-EXHAUSTIVE)		INTERMEDIARY SERVICES AND BUSINESS MODEL
INSURTECHS	<p>END TO END PROVIDERS</p> 	<ul style="list-style-type: none"> Focus on providing services to the farmer or to the farmer aggregator such as input provide, FSP, cooperative or government program Offer back-end and front-end solutions to support design and delivery of services to the farmer This business model requires continuous adaptation of the product and pricing based on unique client context, which results in more proactive feedback loops Some of the end-to-end players provide customer helplines, additional customer engagement function, including farmer training Often <i>engage re-insurer strategically</i> in advance of market entry
	<p>SPECIALIST TECHNOLOGY PROVIDERS¹ (BACK END)</p> 	<ul style="list-style-type: none"> Focus on providing services to the insurer or offering a meso level cover Offer index, index customization, pre-select global data sources and proactively engage in finding ground-truthing data for creating and validating the models Support parameters' assessments and model updates into the future In some instances could <i>recommend a reinsurer</i> to their client
CONSULTANTS AND ADVISORS		<ul style="list-style-type: none"> Support insurer and development sector partners in finding appropriate indices, data sources, actuary modelling and best practice in delivering to the end customer 

Highlight 3: Emerging integrated approaches

Risk management | Layers of agricultural risk



NOTE: 1. With climate change many risks (floods, droughts, typhoons) are becoming more severe and more frequent, compromising the prediction accuracy of historical models and the appetite for insurers to be involved

Examples of integrated approaches

RISK LAYERING APPROACH: IBLI MONGOLIA

Drawing on historical livestock losses data, Mongolia has developed an insurance scheme that combines self-insurance, market based insurance and a social safety net



INTEGRATED APPROACH: ONE ACRE FUND

One Acre Fund sees insurance as a part of an integrated suite of products and services that include pre-financing, inputs, training an agricultural technologies for climate mitigation and adaptation, storage at the end of the season and market facilitation

ONE ACRE FUND

Engaging further

If you are interested in this initiative or would like to learn more please get in touch:



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