

Summary

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**Munich Re
Foundation**
From Knowledge
to Action



Session 9 – Agriculture/Disaster

Aaron Oxley, Micro Insurance Agency, USA
Index-based solutions for drought, floods and typhoons

Most developing economies are largely driven by agriculture yet the use of high yielding inputs and chemicals is hampered by the lack of financial resources. Financial institutions see smallholder farmers as very risk and do not want to lend to them without some form of security. In the countries that MIA is operating, MFIs have indicated their willingness to lend provided there is insurance against catastrophes such as drought, flooding and typhoons. In response to this demand, MIA have developed drought contracts that have been sold in Malawi since 2005. New drought contracts for Paprika and tea are being developed for the season 2008/9, with around 4000 potential policyholder for the coming season in Malawi..

In response to problems of basis risk associated with weather index drought insurance, MIA is considering alternatives to the three phase contract design. A new product with more frequent evaluation periods has been developed, using moving averages. The relative importance of rainfall within each evaluation period is given considerable attention in the whole design process. We believe that weather index business can only grow if the contracts are designed to have regular payouts, whilst keeping the premiums affordable.

In the Philippines we expect about 3000 farmers to be covered for both drought and typhoons in the next September cropping season. For the June season we are currently covering around 1000 farmers for drought only, based on a similar product design to that used in Malawi. The Typhoon product we are offering has an automated payout to farmers based on the intensity and distance of the typhoon track from the farm, during the growing and post harvest season. Using the GPS location of each farm (or group of farms) payouts are based on the distance of typhoon tracks from this GPS point.

Key messages:

1. With input financing, smallholder farmers' yields increase significantly. To unlock this finance, weather risks must be managed.
2. Typhoon/Cyclone is a major risk for large parts of the world, and our product covers this risk without reliance on weather station infrastructure.
3. Our drought and excess rain products have been shown to be realistic and sensitive to weather.
4. We develop and coordinate the delivery of products in partnership with key local and international stakeholders.

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