

PPP Approach in Scaling up Agricultural Insurance

Lessons from Latin American countries

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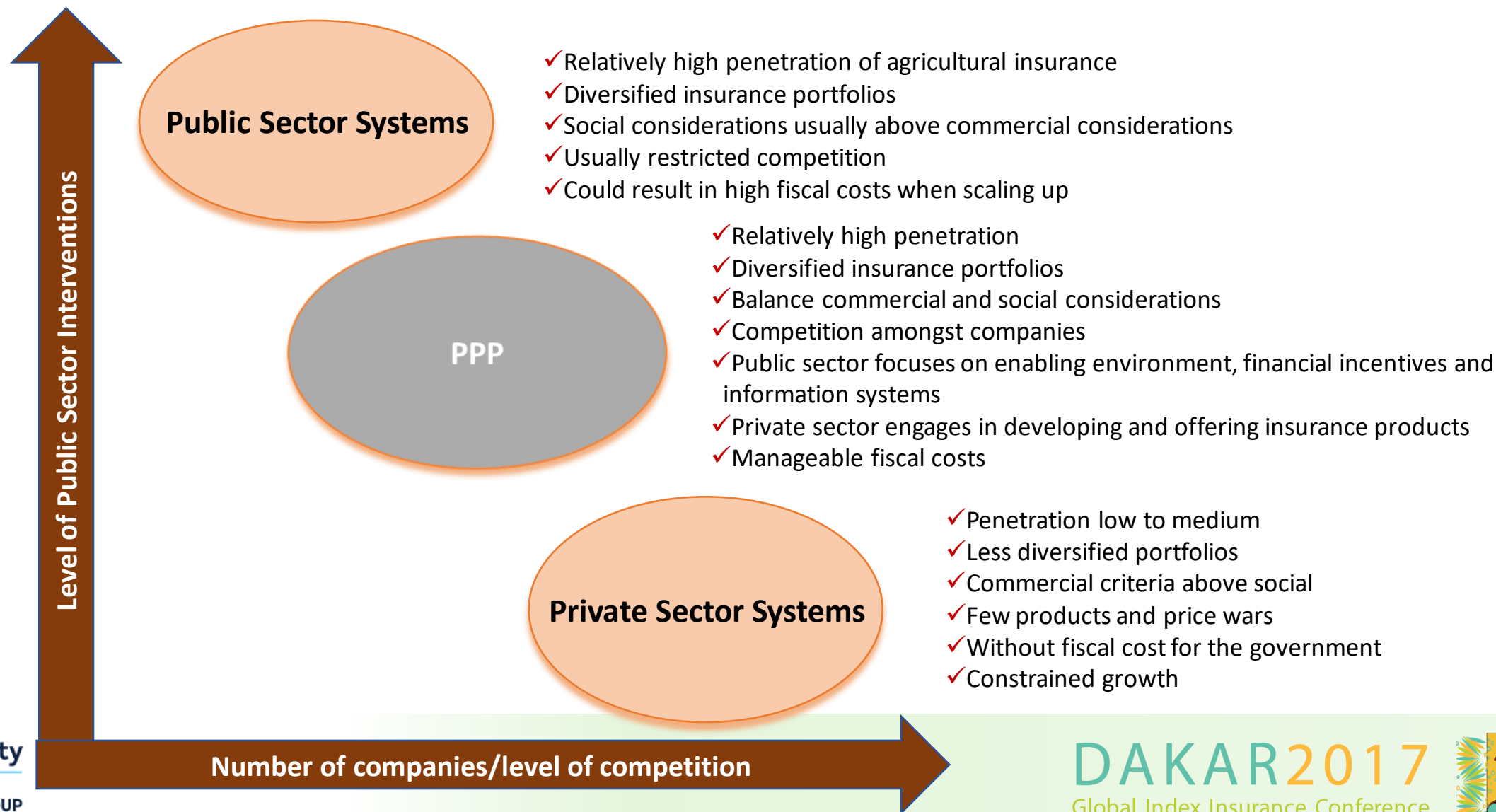
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Characterization of Agricultural Insurance Systems



Status of Agricultural insurance in LAC

- Agricultural Insurance is available in 18 /25 countries with agricultural basis in LAC.
- 77 insurance companies are offering agricultural insurance.
- Main products are MPCl and named peril insurance.
- Argentina, Brazil and Mexico account for the majority of premiums (also they are the biggest agri-markets).
- Still relatively low Ag Insurance Premiums/Ag GDP (approx. 0.37%).
- Catastrophe/disaster insurance purchased by Governments is also attracting strong interest.



Main takeaways from LAC

- Agricultural Insurance is available in most of the countries in the region;
- There is growth in premiums and products;
- Public sector plays an important role in supporting agricultural insurance;
- Agriculture insurance penetration is still uneven and far away from being optimal.



Notable trends in agricultural insurance in LAC

- Insurance offered through private sector companies with financial support from the government (mainly premium subsidies and in some/few cases dedicated re-insurance);
- Replacement of government ad hoc disaster assistance through mechanisms that include insurance as part of a disaster risk finance strategy;
- Insurance programs distinguish between commercial agriculture and protecting the low income (family) farmers;
- New technologies open opportunities for the development and design of new products and distribution channels to reduce costs and improve loss measurements;
- Insurance has more impact (and bigger demand) if it is part of a broader strategy to reduce risks and part of a package of products and services that improve access to new technologies, credit and markets;
- Insurance does not replace ex ante measures to reduce risks, but can be designed in ways to promote climate adaptation (promote investments in smart agriculture).



Current Government support in LAC for agricultural insurance

- Development of Agro-climatic information systems and risk mapping
- Insurance premium support: about 38% on average in LAC is the share of public sector support for premiums (wide variation across countries)
- Contingent payments to family farmers when disasters occur based on observed parameter (e.g. area yields, weather, etc.)---but through private companies (usually premiums paid fully by the government)
- Mexico has a public reinsurance in agriculture (AGROASEMEX) while some other countries have multi-lines reinsurers that support also agricultural reinsurance (e.g. Brazil)
- In most cases, insurance is not mandatory with government credit programs; notable exceptions Brazil and Mexico
- Awareness raising, financial/insurance education, and consumer protection
- Suitable legal and regulatory framework to develop agri insurance
- Product development, design, marketing, payment of indemnities all by the private sector



Summary of key features in government support in main LAC agricultural insurance markets

Country	Agri insurance pools	Public agricultural insurer	Premium subsidies	Subsidies for admin cost	Subsidies for research & develop	Catastrophic insurance	Public investment in info systems	Type of insurance system
Argentina	No	No	No	No	No	No (plans to develop)	Yes	Private
Brazil	No	Yes (Government acts as reinsurer for public programs)	Yes	No	No	Yes	Yes	PPP
Chile	No	No	Yes	No	Yes	No	Yes	PPP
Colombia	No	No	Yes	No	Yes	No (plans to develop)	Yes	PPP
Mexico	No	Re-insurer	Yes	No	No	Yes	Yes	PPP
Peru	Yes	No	Yes	No	No	Yes	Yes	PPP
Uruguay	No	No	No	No	No	Yes (for some crops/producers)	Yes	Private



Case study: Agricultural insurance in Mexico

- To deal with the vulnerability of agricultural and livestock production, the Government of Mexico has adopted a PPP strategy by establishing systems and government assistance depending on agricultural producer sub-segments.

Type of Producer	Compensation Mechanism	Government support
Low income	Catastrophic Funds CADENA	Direct support (Federal/State)
Medium/higher income	Commercial Insurance	Premium subsidies

- Since 2003, part of the strategy to deal with the increasing fiscal costs during catastrophic events, the government through CADENA is promoting the use of insurance mechanisms to compensate low income farmers in case of catastrophic events.



Advantages of CADENA

- Combines schemes of assistance to poor farmers with market risk transfer mechanisms, thus establishing a PPP approach.
- Pre-identifies clearly the beneficiaries based on transparent and objective criteria (based on hectares cultivated and number of animals) and also compensation payments are known ex-ante (\$ per hectare) and triggered by objective and measurable indexes.
- Government transfers its risk exposure in the financial, insurance markets thus managing its fiscal exposure to catastrophic risks.
- Local governments and the Federal government share the costs of insurance (majority paid by the Federal government).
- This strategy enables high coverage, with CADENA offering protection to over half of the planted areas in Mexico and for over 80% of low income farmers.



Growth Opportunities in LAC region

- Still opportunities for development of tailored made products and coverage for the commercial farming sector and on the other end more standardized/mass distribution products for smaller, family farmers (where index based insurance plays a key role).
- Develop approaches to the risk transfer needs of the agribusiness value chains. Current focus on micro/retail level focusing on individual farmers.
- Explore alternatives on catastrophe insurance / sovereign risk transfer.
- Banks still rely on traditional collateral (land) and need to explore other forms to protect credit, including insurance.



Challenges ahead in LAC region

- **Fiscal pressures** to expand coverage of agricultural and catastrophic insurance.
- **Need for continuous improvements** in infrastructure, information systems, human resources and technology employed by the industry to follow the market growth.
- **Approaches to reduce transaction costs** involved in the provision of agricultural insurance, particularly if insurance is to increase its penetration to smaller, family farmers.
- **Insurance needs to be part of a broader strategy** to manage agricultural risks and accompany policies that promote risk reduction and adaptation.



Key areas of potential government support

