



workshop results

AGRICULTURAL INSURANCE FOR SMALLHOLDER FARMERS

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SPEAKERS



main issue

Climate change poses a major threat to agricultural production and the livelihood of 600 million smallholder farmers worldwide. However, **more than 80% of them are not covered by agricultural insurance to mitigate financial losses in the event of crop failures and livestock losses.**¹

SSNUP has co-funded several projects to develop agricultural insurance for smallholder farmers. At the meso level, these projects encourage microfinance institutions (MFIs) to insure their agricultural portfolios and restructure or waive affected farmers' loans. At the micro level, the projects give smallholders access to index-based crop insurance and indemnities based on drone images.

This workshop enabled SSNUP stakeholders to discuss products, challenges, and best practices for developing insurance solutions for smallholder farmers.



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key takeaways



New technologies speed up the insurance rollout

Over the past two decades, there has been an increasing trend towards index-based insurance for both crops and livestock. Payments are triggered by indirect indicators such as rainfall, humidity, yield or vegetation levels, thereby serving as loss and damage proxies. The increasing availability of satellite images, weather information, radio, mobile phone networks, etc., brings down the costs. New tools such as radio frequency identification devices have replaced ear tags for livestock. The resulting pay-outs are rapid and objective, making these new types of insurance increasingly popular with farmers.

For instance, an Oikocredit project enabled almost 62,000 Senegalese farmers to subscribe to index-based insurance products with Inclusive Guarantee within two years. The products were easily scalable also thanks to digital policy management platforms allowing the insurers to onboard new clients and process claims swiftly.

Infrastructure and available, accessible, affordable, and accurate ("4 A's") data will be key to maintaining this momentum and reducing the basic risk of undetected and uncompensated losses.

¹ ISF (2018). *Protecting Growing Prosperity. Agricultural insurance in the developing world.*



2 } Customer-centric business models increase profitability

Agricultural insurance product development should follow the typical insurance business process (see image). If the product is affordable, serves a real need, and the customers see value in it, they will renew and recommend it by word of mouth. Success depends on customer satisfaction, hence the importance of a customer-centric approach at every step of business development.

In addition, the premium must be competitive and should not represent a barrier to access. This can be achieved through cost-sharing mechanisms, smart layering with governmental guarantees and relying on public data. For example, an MFI in Bolivia supported by Incofin aims to insure their agriculture portfolio without transferring high costs to clients by factoring in insurance to reduce the required provisioning level and, thus, avoid increasing the interest rate.

3 } Bundling services make insurance tangible

Added-value services such as weather information, production advice (e.g., when to sow, apply fertilisers or harvest), and training on climate-resilient agricultural practices build trust and make insurance more tangible and clearer in people's minds while also helping to reduce the risk of losses. Insurance can also be bundled with loans, higher-yield inputs, and health insurance. In this manner, farmers reap regular, concrete benefits instead of once-off payments in the event of a loss.

4 } Selling insurance through aggregators to reach scale

Aggregators such as input suppliers, MFIs, cooperatives, farmer associations, and processors are extremely important in bringing insurance directly or indirectly to smallholder farmers in remote areas with a limited capacity to pay. They can get insured and transfer the benefits to farmers if they receive pay-outs according to predefined distribution protocols. Alternatively, the aggregators can act as delivery channels for insurance policies for individual farmers. The success of the above-mentioned Oikocredit project stems from 32 distribution

Insurance business process



Product development

- Market research/Risk and need identification
- Data collection and analyses
- Product design/index setup
- Backtesting
- Pricing with insurers and re-insurers



Product deployment

- Selection and training of distribution partners
- Promotional campaign
- Literacy training for policyholders
- Customer enrolment
- Premium collection



Claims management

- Monitoring satellite, weather and farm information
- Claim recording, calculation and settlement



Renewal

- Backtesting and product improvement
- Renewal policies
- Complaint management


5 } Awareness raising, financial education, and transparency are key


All actors in agricultural value chains must be aware of climate risk and the importance of insurance to increase the take-up of agricultural insurance. At the meso level, Incofin found that only some of its investee MFIs included climate risk in their credit assessment, while producers often sell their productive assets to pay the credits when a disaster hits. Incofin now encourages its MFIs to consider climate risk for their investment portfolio's long-term sustainability and to enhance the social outcomes in line with their missions. At the micro

channels, mostly MFIs and cooperatives. Claim processing is also more efficient if the indemnity protocol allows the aggregators to handle claims from farmers on behalf of the insurers. This is a lesson learnt by the Grameen Crédit Agricole Foundation (GCAF) from distributing insurance through MFIs in Mali. To ensure scale, it is advisable to choose aggregators that work with many farmers in well-organised value chains before branching out to less organised value chains.


level, Oikocredit and GCAF coach aggregators and train their staff to sell insurance to farmers and to overcome low financial literacy and cultural barriers (e.g., in some African countries, people do not want to think the worst). Financial training for farmers and clear communication throughout the client journey help them understand how insurance works and builds trust. At a higher level, Oikocredit also conducts awareness-raising workshops for regional administrations.

TO GO FURTHER

[ISF \(2022\)](#) 
[State of the sector: Agri-insurance for smallholder farmers. A global stocktake of an evolving industry](#)

[GSMA \(2020\)](#) 
[Agricultural insurance for smallholder farmers: Digital innovations for scale](#)

[MiN. The landscape of microinsurance](#) 

[GIZ \(2021\)](#) 
[Innovations and emerging trends in agricultural insurance for smallholder farmers – an update](#)

[ILO](#) 
[Seven guidelines for index insurance education](#)

[Agricultural insurance projects co-funded by SSNUP](#) 

SSNUP is a 10-year programme that aims to strengthen the safety nets of 10 million smallholder households in Africa, Latin America, and Asia through technical assistance projects supporting the development of and promoting investment in agricultural value chains. Regular workshops enable stakeholders to exchange project experiences, and lessons learnt.

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