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The Promise and Pitfalls of Index Insurance: Building Resilience Through Responsible Implementation

Chat Transcript

June 6, 2018

Presenters

Jennifer Cisse, USAID Bureau for Food Security

Michael Carter, Assets & Market Access Innovation Lab

Tara Chiu, Assets & Market Access Innovation Lab

Moderator

Julie MacCartee, USAID Bureau for Food Security

Senbeto Funte : Senbeto Funte

Lamine Mariem 2: hello, I'm a bioengineer joining from Tunisia North Africa. Also I work for the company "ENDA Tamweel" and the association "ENDA Inter Arab" our mission is to microfinance, provide trainings, promote the economic and social inclusion of vulnerable populations including farmers.

Adam Ahmed - Agrilinks: Welcome Senbeto and Lamine, glad that you could join us today!

Lamine Mariem 2: thank you for this intresting webinar.

April Thompson - Agrilinks: Welcome everyone to today's Agrilinks/Marketlinks webinar! Please take a moment to introduce yourselves here in the chat box and to answer our polls. We'll begin in about 30 minutes.

Michael Carter: HI Adam, MIchael is here--shall we check my audio?

Cheick Mamadou Diarra: Hello everyone. I'm Cheick Mamadou Diarra from Mali

Adam Ahmed - Agrilinks: I ni sogoma Cheick!

Julie MacCartee: Good morning, all! Please excuse our audio tests as we get set up with the webinar.

Michael Carter: I can hear you

Cheick Mamadou Diarra: Oumba Adam hèrè chirawa

Michael Carter: You cannot hear me?

Michael Carter: I am trying a head set--let me see if I can fix it

Charlin Caster - Marketlinks: Good morning, everyone! Charlin Caster joining as a Marketlinks rep

Jim Yazman: Jim Yazman, BFS

Giriraj Amarnath: Giriraj Amarnath from international water Management institute, Sri Lanka

Jean-Claude Bizimana: Jean-Claude from Texas A&M University

Julie MacCartee: Welcome, thanks for joining!

Raul Fernandez: Hi everyone and thanks or hosting. Raúl Fernández United Nations University in Bonn

Julie MacCartee: Thanks for introducing yourselves. We're glad to have you on the webinar

Elon Gilbert: joining from Arlee Montana - coffee almost ready

Julie MacCartee: Elon - can't join a webninar without coffee or tea

Ben Parkes: Hi All, Ben Parkes here. I'm a Research Scientist from The University of Manchester UK.

Noubia Gribi: Joining from USA, I am Noubia Gribi, We-Empower for Agriculture and Food Security

Sophie Javers: Good Morning Everyone! Sophi ehere supporting Michael and Tara at the Feed the Future Innovation Lab for Assets and Market Access

susan bornstein: Hello All. Susan Bornstein from The BOMA Project

Noubia Gribi: Good morning

Alfred Hamadziripi : Alfred Hamadziripi, with Catholic Relief Services in Nigeria

Charlin Caster - Marketlinks: Welcome, everyone

Amanda Saville: Hi everyone, Amanada Saville from Palladium joining from the US

lorna grace: Lorna Grace with Small Finance Big Change

Michael Abrahams: Michael Abrahams from Credimarks

Paul Siegel: Paul Siegel, Consultant, World Bank

Anna Heacock: Hi Everyone, Anna Heacoock from SNV joining from DC

Andre Mershon: Andre Mershon, Center for Resilience, USAID

Martin Buehler: Martin Buehler from International Finance Corporation

Andrew Bisson: Hi All, Andrew Bisson from BFS/USAID

Jack Devine: Nick Sprout from IBTCI

April Thompson - Agrilinks: Welcome, everyone! Great to see everyone here. Do continue to introduce yourselves as we switch out of the polls and into the presentation.

Sophie Jewsbury: Hi this is Marlene from TBI Togo

Diluksion Francis: Diluksion from Oxfam in Sri Lanka

David Kahler: I'm here with two of my research students from Duquesne University in Pittsburgh. We have a research site in Limpopo, South Africa.

Erin Collins : Erin Collins with TBI Togo

Chantale Audate: Hi everyone, Chantale from Food For Peace/USAID Haiti

Amy Rose Mc Govern: Hi all, Amy Mc Govern from Concern Worldwide here!

Chiara Ambrosino: Hi All, Chiara Ambrosino from iDE

April Thompson - Agrilinks: Welcome, all! Great to have such wide representation here.

Jan Duchoslav: HI all, Jan Duchoslav here from IFPRI Malawi

Gitau Mbure: Gitau Mbure, Catholic Relief Services, Baltimore. Hello everyone.

James Woolley: James Woolley from USAID Haiti

Akos Szebeni: Good afternoon, A'kos Szebeni from UN FAO Rural Finance connecting from Rome

Kenel Cadet: Hi all, Kenel Cadet, Haiti, FONHDAD

Amit Kohli: Amit Kohli, Senior Data Strategist @ ACDI/VOCA connecting from Rome.

Julia Kirya: Julia Kirya from the GIZ Agricultural Finance Project in Zambia

Margherita Bavagnoli: Hi there, this is Margherita Bavagnoli from FAO Rome, HQ

Michael Philips: Winrock International

Silantoi Kisoso: Hallo - I am Sila with Canadian Foodgrains Bank. in Winnipeg, Canada

April Thompson - Agrilinks: Great to have a number of you from the ag finance world - do feel free to share your own experiences and comments on our presentation through the chat box.

Caroline Aubry 3: Noah Stone - Tetra Tech

Mackenzie Martin: Hello everyone, two of us here, Mackenzie Martin and Kathleen Glancey (with David Kahler), we are research students at Duquesne University in Pittsburgh, PA

Julie MacCartee: Mackenzie - great that you are tuning in together! We love to have students on our webinars

Julie MacCartee (USAID/BFS): Resilience resource here: https: //www.usaid.gov/policy/resilience

Edward Walters: Hi. Ed Walters from CRS

April Thompson - Agrilinks: Welcome, Ed!

Matt Strickland: Markett Engagement Manager, GSMA mAgri Programme, London HQ

April Thompson - Agrilinks: A reminder to all that you can ask questions at any time throughout the presentation via the chat box; we will save all questions until after all the presentations.

April Thompson - Agrilinks: Thanks for joining, Matt!

Philip DeCosse 3: Philip DeCosse here from Agric & Food Security team at Chemonics.

Andre Mershon: there's an echo on my connection

Julie MacCartee (USAID/BFS): I like this way of framing the 4 ways to manage risk.

Adam Ahmed - Agrilinks: Greetings Philip!

Michael Carter: Hi Phil!

Julie MacCartee (USAID/BFS): Andre - is it possible you accidentally opened two windows?

Rupak Manvatkar: Rupak Manvatkar - WFP Ethiopia

April Thompson - Agrilinks: Andre, please hover your mouse over the AV tech's name in the host box above and chat with him if you still have issues,

Philip DeCosse 3: Glad to be able to follow this, Mike!

Jennifer Cisse: Building Resilience to Recurrent CrisisUSAID Policy and Program Guidance: https: //www.usaid.gov/policy/resilience

Jesus De Los Santos: Good morning Michael

Sophie Javers: Not to distract from the webinar, but our website is: https: //basis.ucdavis.edu - if everyone want sot take a looka nd follow up with much of the info discussed today.

Michael Carter: Good to 'see' you, Jesus!

Sophie Javers: It's early for us in CA, sorry for poor typing skills!

Sophie Javers: For more on our work in Mali and Burkina Faso: https: //basis.ucdavis.edu/news/index-insurance-has-big-returns-small-scale-cotton-farmers-and-local-economies-west-africa

Julie MacCartee (USAID/BFS): Haha, no problem, Sophie. Glad you can join so early!

Julie MacCartee (USAID/BFS): Thanks for sharing related resources

Richard Choularton: Good morning all!

AV Tech: To view slides full-screen, clock the four outward facing arrows in the presentation window

Sophie Javers: Brief on the Ghana project Tara just mentioned: https: //basis.ucdavis.edu/publication/policy-brief-insured-loans-increase-credit-access-and-farming-technology-adoption-ghana

Michael Carter: Hi Richard!

Chellappah Gnanaganeshan: farmers do not have enough awarness of agri insuarnce and mis trust among the farmers about the insurance providers

April Thompson - Agrilinks: Very true, Chellappah!

Julie MacCartee (USAID/BFS): Chellappah, have you seen cases where there is better awareness and trust? What's different in those cases?

Paul Siegel: 15 + years ...

doris Owusu: The set back with index insrance in Ghana is the basis risk

April Thompson - Agrilinks: Say more, Doris!

Tara Chiu: Hi Chellappah - this may be a useful resource around consumer education for agricultural insurance. It was developed through a collaboration of our AMA Innovation Lab and the ILO's Impact Insurance Facility: http://www.impactinsurance.org/publications/mp45

Chellappah Gnanaganeshan: Thank you

Tara Chiu: It is an ongoing challenge though - we need to continue to share lessons learned (both positive and negative) as we all move forward in this area.

Chellappah Gnanaganeshan: Thank you Tara

Chellappah Gnanaganeshan: Ture : following different communication strtegy among them : Commerical farmers and vulnerable smallhold farmers

Julie MacCartee (USAID/BFS): If you need clarification on any aspects of index insurance, please feel free to ask. If you need more clarity, your colleagues probably do, too

Michael Philips: I hope someone will address insurance cost and how farmers afford it.

Tara Chiu: Michael will address it in part.

Tara Chiu: If you have any additional specific questions after his presentation ends, Michael, please do chime in.

Paul Siegel: What about an "average"year?

Jennifer Cisse: I think good = average in this example

Paul Siegel: Not in statistics. It's a distribution, Variance around expected value

Paul Siegel: Farming, there are average years, good years, and bad years

Jennifer Cisse: Agreed, but I believe in this simplification, there are only poor and average/good years.

Jennifer Cisse: [no insurance payout in average years]

Cheick Mamadou Diarra: Carter, It's the insurence the real solution of resilience ?

Julie MacCartee (USAID/BFS): Do these calculations resonate with those of you who have worked with sommunities using index insurance in the field?

Cathy Phiri: Are financial institutions covering the cost of the insurance as part of a bundled package in a loan package?

doris Owusu: even in bad years, sometimes using drought tolerant seeds is better option than insurance

Erin Collins : Chiming in from Togo, we have our goverment team all participating on this so if the pace could be slowed down just a bit, that would be much appreciated!

Michael Philips: Many many farmers simply can't afford the premiums, and there are a lot of governments that can't afford to subsidize it. So are there any farm supply companies that bundle the insurance cost with the costs of inputs (seeds, fertilizer, etc.)? Any examples of that?

David Kahler: What is the range and expected failure rates in indexed insurance?

April Thompson - Agrilinks: Thanks for the great questions, all, keep them coming!

Andrew Bisson 2: If 50% failure rate of insurance is not unusual then a strong communication strategy is also important as well as quality assurance of products. How can those failure rates be reduced and/or the negative impacts of insurance failure mitigated?

Jennifer Cisse: Hi Erin! That's great. I'd be happy to follow up with you and them after the webinar if useful.

Sophie Javers: Doris: We're in the middle of research project in Tanzania and Mozambique looking at how drought tolerant seeds and insurance can actually work together for more impact: https: //basis.ucdavis.edu/project/bundling-innovative-risk-management-technologies-improve-nutritional-outcomes-africa

Erin Collins : Ok great, we will follow up after!

Tara Chiu: And Erin, please don't hesitate to reach out to our Innovation Lab via basis@ucdavis.edu if you have any questions specific to what Michael and I presented.

doris Owusu: great Sophie

Cathy Phiri: Does the index insurance provider have a direct relationship with the government National Meteorological and Hydrological Services department to know the rainfall pattern, and/or a private sector provider of climate information services, that can (on occasion) show that rainfall can be affected by location.

Michael Abrahams: Does a lack of sufficient historic weather data impact efficient insurance pricing?

Sonak pastakia: for rural clients who are new to agriculture insurance, the constant concern is that they don't get the money back if they don't make insurance claims. That does not compute. One thougth to address this would be to give them a percentage back or somehow apply a small credit to subsequent years. As an implementer, I think that is an insurance that could sell really well.

Erin Collins : Great, thank you Tara. We will be sure to do so.

Alfred Hamadziripi : In some way Julie. The challenge is the quality of financial literacy and the quality of data

Chellappah Gnanaganeshan: Index insurance yeraly threshold is decided by insurance provider ? Or state actors OR framers with the participation of insurance providers ?

Michael Abrahams: Sonek, that is done in some property insurance in US when claims are not made by the insuree

Paul Siegel: Moving back towards traditional insurance.

Tara Chiu: Hello Sonak, and thanks for joining! We can discuss further, but we're always looking for innovative methods to reduce these challenges.

Tara Chiu: It's a great question

Paul Siegel: Moving back to insurance based on actual losses. That is what farmers want.

Sophie Javers: The brief Michael just mentioned: https: //basis.ucdavis.edu/publication/policy-brief-innovative-insurance-design-cotton-farmers

Paul Siegel: So, instead of designing inheretly flawed contracts, why not consider tech changes and how to better deliver insurance

xia zhang: this hybrid index insurance will simply more expensive

Mackenzie Martin: Thank you for that link Sophie

Sophie Javers: Spotlight on the audit rule Michael just mentioned: https: //basis.ucdavis.edu/publication/spotlight-audit-rule-protect-farmers-case-insurance-index-fails

Paul Siegel: Yes, more expensive cuz it does what it is supposedto do. Insure agianst losses

Paul Siegel: Same issues challenges for 15+ years

Chellappah Gnanaganeshan: Would like to know more about triggered value calculation

Margherita Bavagnoli: who is designing/implementing the fail-safe audit tresholds?

Elon Gilbert: I r3ecalll that there (or at least was) a firm in CO called aWhere that was providing micro data that might be the kind iof info that MIchael suggests is needed

Paul Siegel: #1 need an objective function. What is objective of insurance? Not to design an insurance that has low admin costs.

Sophie Javers: For more on the 3-D tool Tara is talking baout right now: https://basis.ucdavis.edu/news/new-tool-measures-value-agricultural-index-insurance-contract-offers-small-scale-farmers

xia zhang: index insurance is a derivative, as long as there is a market, it can be various.

Philip DeCosse: Elon, I see Stewart Collis from aWhere is on the webinar, so you might message him separately. Great group there at aWhere!

Thierry van Bastelaer: Surprised not to see among the design factors the visibility/verifiability of the index by farmers. Is this because the index is, so to speak, getting further away from the farmer (from the rain gauge down the road to satelite pictures in big office buildings)?

Edward Walters: How widespread is the availaiilty of index insurance (or crop insurance in general) available in the developing world?

Erin Collins : One question from our team here: what methodology is used to chose the appropriate index in different contexts?

Tara Chiu: This isue of visibility/verifiability is a big issue, and one that I think needs further investigation. However, the AMA Innovation Lab and partners at ILRI have designed tools to make abstract concepts like NDVI observations more tangible and easily understood for rural pastoralist populations in Northern Kenya. Thanks for that question, Thierry. If you'd like to follow-up on this, please do let me know.

Tara Chiu: I'd be happy to pull some resources to share, if it will be helpful Thierry.

Stewart Collis: Thanks Philip and Elon. We do have satellite observed rainfall across broad areas, but also model other weather variables such as temperatures, humidities etc. This information in combination with plant growth models can estimate and predict

yields. As Michael is describing high resolution imagery can also be used to observe biomass and estimate yields in a more localized way. I think the combination of yield models (driven by weather, soils, agronomic practices etc.) and high resolution imagery would be interesting to explore.

Michael Cote: Are there examples of private sector subsidies (as opposed to government subs)? For example, farm supply companies that bundle the insurance cost with the costs of inputs (seeds, fertilizer, etc.)?

James Woolley: I would like to know about the experience made with index insurance in countries affected by recurrent droughts and also frequent hurricane and floods. It seems already difficult to design this tool for a single risk. I am wondering how good it can be for a combination of complex ones.

Elon Gilbert: Interested in knowing more about the characteristics on farmers using index insurance - guessing that these might be the better off farmers - those already "stepping up in agriculture" and participants in VCs rather than women, poor and the diversifies to manage risk

Paul Siegel: Also. as suggested over the years to have the contracts at higher levels ... banks, local governments ...

Paul Siegel: 15+ years

Stewart Collis: Michael, can you speak to the level of interest from insurance companies and underwriters to work with the types of data being discussed here? What are the challenges to convincing them these are viable approaches?

Brian Banks 2: I'd also be really interested in getting traditional insurance companies involved

Elon Gilbert: rather than the diversifiers - sorry!

Cathy Phiri: There are examples of Ghanaian farmers (lead/nucleus farmers) paying for the drought weather index insurance for the smallholder farmers they work with directly.

Sophie Javers: Thierry: here is one resource tht may be helpful on the visability issue: https://basis.ucdavis.edu/publication/policy-brief-ibli-color-legend-translating-index-based-mortality-predictions-meaningful

Paul Siegel: Exactly ...

Paul Siegel: Also the farmers do not need to know about it

Paul Siegel: It is bundled in cost of loan

Sophie Javers: If you scroll up in the chat window you'll find the briefs discussing both the Ghana loan/credit research and the research Michael is mentioning in Mali

alpen sheth: My research in India indicated that farmers didnt like the fact that insurance premia were deducted without their knowledge.

Elon Gilbert: Very interesting if index insurance is actually expanding VC participation (eg cotton in Burkina) rather than mainly inducing existing VC participants to expand acreage.

Sophie Javers: More on the Drought Tolerant Maize seed project. Saty tuned for results and impacts soon: https: //basis.ucdavis.edu/project/bundling-innovative-risk-management-technologies-improve-nutritional-outcomes-africa

Brian Banks 2: is index insurance typically paid monthly?

Paul Siegel: Insured maize seeds does not compensate for income losses

Tara Chiu: Brian, insurance premiums are typically a one-time payment just prior to the start of the season

Tara Chiu: with annual renewal

Margherita Bavagnoli: yes but how to deal with the increase of cost for farmers for credit-linked ins?

Brian Banks 2: Thanks Tara!

alpen sheth: Michael great point about the sharing the cost of the insurance contract across the value chain

Cathy Phiri: Thanks so much Michael!

Michael Philips: Thanks, Michael, for the answer on bundling.

alpen sheth: Thanks, Tara for clarifying that!

Paul Siegel: Credit-linked insurance some of the cost can be absorbed by bank as a loan defaut cost part of loans. So there are cost trade-offs.

alpen sheth: Has there been any experience with index insurance based on price volatility? I am working on such a product design and am looking for examples in developing countries.

Peter Wrede: does anyone know of a case where cost has been absorbed by bank as a loan defaut cost part of loans?!

Theodore Nouhoheflin: Some microfinance institutions in Mali are already incorporating some sorte of insurance when granting loans to their clients. But this insurance are not product-specific in most case

Margherita Bavagnoli: exaclty same question of Peter

Margherita Bavagnoli: any case studies?

Chellappah Gnanaganeshan: Thank you

Paul Siegel: Look at actual crop losses.

Marius Meijerink: Is there any evidence available on the benefits of bundled index insurance-loans products for agricultural banks? How does it affect their ag loan portfolio (default rates, interest rates) and willingness to increase lending?

Cathy Phiri: When rainfall forecasts are provided as part of a bundled package to a farmer when they receive the index insurance, they can know when to (or not) plant, apply fertilizer, chemicals, etc.

Tara Chiu: great point - cathy

Richard Meyer 4: Some may want to access the IFC paper on Does credit-linked ag insurance work? by Meyer and Hazell, 2017.

Theodore Nouhoheflin: Normally Banks should avoid tie-selling, i.e. theyshould not force clients to take insurance

Tara Chiu: We recently supported some work realted tho this issue, Cathy - did you suggest it based on certain examples you have seen?

Theodore Nouhoheflin: however banks should educate clients on the risks associated with protecting their assets and families

Chellappah Gnanaganeshan: Protection farmers is importanat as Mechal mentiponed

Cathy Phiri: Tara, anecdotally yes, in Ghana I've seen some examples where better farmer management decisions are made as a result of receiving 3 day rainfall forecast. This impacts the crop growth.

Anna Brenes: Wondering if there have been any discussions with Planet Labs on piloting a high res remote sensing platform to use for index insurance? It would be very useful to bundle a weather service for farmers along with seeds etc.

Margherita Bavagnoli: Yes Richard the IFC's is very interesting but still there is not yet much on How it affects their ag loan portfolio and willing to lend..

Tara Chiu: Ah - Cathy, I think we may be thinking of the same example! Results, I believe, are still being written up on this, but I think it's very promising and should be further explored

Margherita Bavagnoli: ps thanks Richard

Richard Meyer 4: Very true, so we neeed to be a bit sceptical until we have more analysis. .

Cathy Phiri: Thanks Tara, I look forward to learning more from what's being written up.

Paul Siegel: Richard Meyer: are you referring to Meyer, Richard L.; Hazell, Peter B.; Varangis, Panos. 2017. Unlocking smallholder credit : does credit-linked agricultural insurance work?

Richard Meyer 4: Yes.

Sophie Javers: Before we wrap up, do please take a moment to answer the polling questions for us. Your feedback is so appreciated!

Paul Siegel: So, check this out ... http: //documents.worldbank.org/curated/en/537681468758742316/pdf/multi0page.pdf

April Thompson - Agrilinks: By the way, we have another special event tomorrow as part of food security policy month - a Q&A on Africa's Green Revolution: https: //www.agrilinks.org/event/ask-expert-africas-green-revolution-and-policy-levers

Adam Ahmed - Agrilinks: Thanks again for joining us today everyone. We will share out all of the post event resources next week. We had some wonderful questions, and we hope to see you all at future Agrilinks events!

April Thompson - Agrilinks: June 20th will be the next Agrilinks webinar - registration is now open...

Chellappah Gnanaganeshan: Thank you so much

April Thompson - Agrilinks: https: //www.agrilinks.org/event/sanitary-and-phytosanitary-sps-issues-achieving-global-food-security-strategy-cases-fall

Michael Abrahams: Thank you all

Cathy Phiri: Thank you too, this is really informative.

April Thompson - Agrilinks: Great engagement today, thanks all!

Erin Collins : Thank you!

Margherita Bavagnoli: Thanks !!

Ben Kohl: Thank you!

Noubia Gribi: thanks

James Woolley: Thanks a lot!

Paul Siegel: Michael Carter Good to hear you

Noubia Gribi: great presentations

Julie MacCartee (USAID/BFS): Thank you all for joining@!

Sophie Javers: If you are interested in more information about the projects we are working on, do consider signing up for our monthly newsletter: https: //basis.ucdavis.edu/sign-ama-innovation-lab-updates

Richard Meyer 4: Great job.

Michael Carter: Thanks for all the great questions--we will respond to them over the next few days

Paul Siegel: Let's be in touch. Same debate for 15+ years

Michael Carter: Hello Paul S and Dick M!

Paul Siegel: I'm doing SRM 2.0 with Steen Jorgensen ... hahaha

Richard Meyer 4: Hello back to you,Michael. Interesting as usual..

Paul Siegel: I would like to get back with you on this. Check out the Skees, Varangis, Larson, Siegel 2002

Paul Siegel: Richard Meyer: how to contct you?

Paul Siegel: I'll ask Panos

Richard Meyer 4: meyer.19@osu.edu

Paul Siegel: Wow. I was with Mario Miranda and J. Morduch on the 1st weather insurance mission to Nicaragua

Dick Tinsley: Dick tinsley from colorado. I am confused is this webinar begining or ending?

Paul Siegel: I immediately said "no way" for farmers. To try at hiugher levels. And for farmer-based mutuals to monitor REAL farm losses

AV Tech: I'm going to close the meeting room now. Thanks to all for checking out the event and feel free to join us tomorrow for Ask the Expert!

AV Tech: https: //www.agrilinks.org/event/ask-expert-africas-green-revolution-and-policy-levers

Julie MacCartee (USAID/BFS): Hi Dick! The webinar is ovwer

Dick Tinsley: apparently i got some poor information one note saying the meeting was 11: 30 to 1: 00 EDT and other indiction 9: 30 to 11

Julie MacCartee (USAID/BFS): Was in our usual 9: 30-11 time slot

Julie MacCartee (USAID/BFS): Hmm - if you figure out what happened, let me know!

AV Tech: We're talking Dick ... did you register while you were still in DC?

AV Tech: FYI, our Agrilinks events are almost always 9: 30am Eastern

Dick Tinsley: it is on, byt the way i did downloaded the handbook. '

AV Tech: Like, 99% of the time

Dick Tinsley: i think i registered while still in VA

AV Tech: Ah. Interesting. Ok, good to know.

AV Tech: See you online soon!