

Ifc agriculture Insurance system and products: *lessons in the field*



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In partnership with:



EUROPE AND CENTRAL ASIA AGRI-FINANCE PROJECT

The Project is implemented by IFC, a member of the World Bank Group

Objective: to facilitate access to finance in the agriculture sector through the development and support of an Agri-Insurance Program by:

- Facilitating improvements to the legislative and regulatory insurance enabling environment
- Building capacity of insurance companies to provide quality agriculture insurance services to producers
- Increasing producers' awareness and involvement in crop insurance via pilot projects



**IFC is a Leader in Promoting Agri-Insurance as a risk mitigation tool
increasing access to finance**

WHY AGRI-INSURANCE IS IMPORTANT?

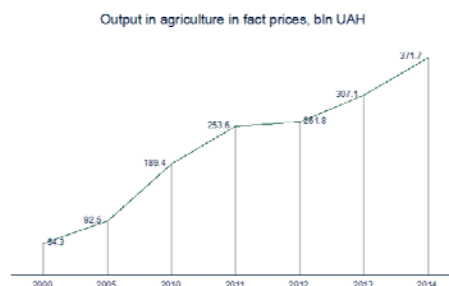
- farmer can increase his or her capacity to repay loans, by obtaining coverage on weather-related loss of yield
- improve producers' access to credit and reduce the probability of farm business failures (bankruptcy)
- viable agricultural insurance system can also help the government ensure stability for the agricultural sector and boost access to finance.



Crop insurance is a well-established way to mitigate weather risks associated with agricultural production

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AGRICULTURE IS THE KEY SECTOR FOR UKRAINE ECONOMY



MAJOR RISK:



WEATHER

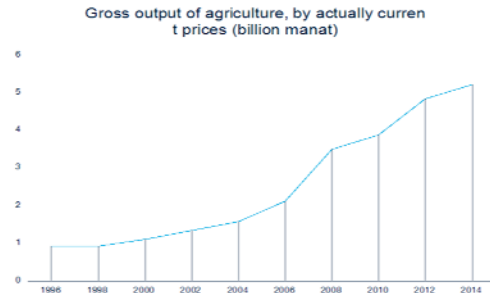
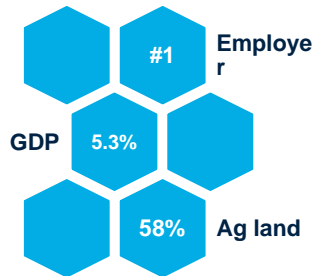
SOLUTION OPTION:



AGRI-INSURANCE
COVERAGE

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AGRICULTURE IS THE SECOND KEY SECTOR FOR AZERBAIJAN ECONOMY



MAJOR RISK:



WEATHER

SOLUTION OPTION:



AGRI-INSURANCE COVERAGE

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UKRAINE – WEATHER RISK IS A CONCERN

Winter 2002/2003 - as a result of low temperatures followed by frost, crops in most regions of the country were **destroyed** (more than **70% of winter crops**)

Summer 2007 - drought in ten regions of the South and East. Agricultural **losses** amounted to more than a **billion UAH**

Summer 2008 - flooding in some regions of Western caused **damage** to Ukraine agricultural enterprises of more than **half a billion USD**

Winter 2010/2011 - as a result of two cyclones and frost, enterprises suffered **losses** of more than **200 mln UAH**



Ukraine Needs Weather Risk Mitigation

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AZERBAIJAN – WEATHER RISK IS A CONCERN

Agriculture **plants suffer** from frequent **hail-hits**. Most recurrence of hail precipitations is observed in uplands and foothills of Great and Little Caucasus.

2003-2008 – **heavy floods and overflows** in the rivers overflowed from snowmelt on mountainous areas and showery rains because of a sharp rise in temperatures over mountainy areas of Great and Little Caucasus.

2010 – unusually large amounts of rain in Southern Azerbaijan caused the Kura River to rise to its highest level in over 100 years, overflowing onto nearby villages (more than 24,000 people were affected and **50,000 ha of farmland inundated**).



Azerbaijan Needs Weather Risk Mitigation

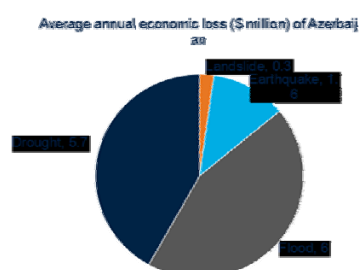
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AZERBAIJAN – DROUGHT RISK IS A CONCERN

The springs of **2000, 2001, 2006** and autumns of **2002–2005** were dry.

2000 – a severe **drought** caused an **economic loss of \$100 million**.

2014 – drought has **destroyed crops fields** in Shaki, Shamakhi and Gobustan regions



According to the United Nations Framework Convention on Climate Change (UNFCCC), droughts are likely to reduce water supply by 23% during the 2021 to 2050 period in the country.

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CREATION OF AN ENABLING ENVIRONMENT

The Project supports the creation of an enabling environment by working with Government stakeholders to:

- Ensure a robust legislative framework
- Ensure a strong market regulation framework
- Develop a strategy for agriculture insurance
- Improve/build Government agri-insurance oversight capacity

Creation of an enabling environment is critical for sustainable agricultural insurance system development and operation



BUILDING IN-HOUSE CAPACITY

The Project **builds in-house capacity** by providing technical support and training for key stakeholders (Government, Regulator, Insurance Market, and Farmers) in :

- Designing new insurance products
- Organizing information to obtain better priced and good quality reinsurance
- Developing loss-adjustment standards and methodologies
- Delivering high quality advisory services
- Organizing the appropriate level of risk liability

In-house capacity development enables the stakeholders to respond to market needs



ESTABLISH THE AGRICULTURE INSURANCE SYSTEM

Establish the data system which is the foundation to develop the agricultural insurance products and pricing to cover the real weather risks:

Data is the critical element for product design:

- Historical yield data
- Weather data
- Alternative sources (satellite, gridded data, field data)

Informational System – consolidates contract flow, surveying and loss adjustment registry and creates a transparent platform for well priced re-insurance

Good data and systems enables proper pricing of risk and reinsurance.



INCREASING PUBLIC AWARENESS AND THE PARTICIPATION OF FARMERS

The Project conducts a **massive awareness campaign** to farmers and other interested parties (banks, MFIs, input suppliers) in the form of:

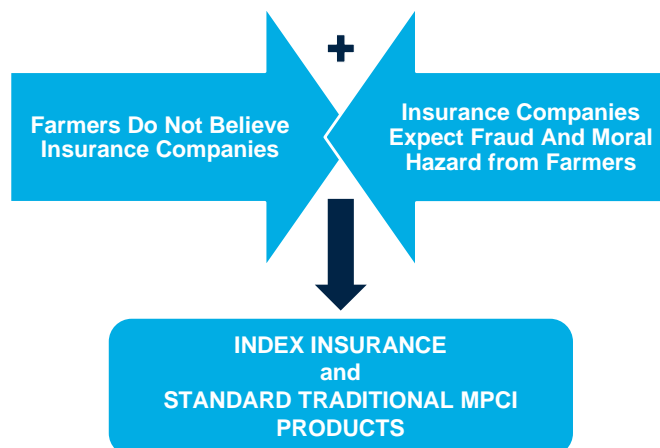
- Regional training and workshops
- Communications through media (articles, radio, TV)
- Training for trainers (use the existing extension services capacity)

With increased awareness, we have increased participation in the insurance market



ISSUE OF TRUST

Non-transparent loss adjustment procedures → increased costs, indemnity payment takes a lot of time, unfair premium pricing, lack of good quality reinsurance and



STANDARD INSURANCE PRODUCT

Crops	Risks	Insurance period		
		Whole cycle	Winter	Spring – summer / autumn
Winter grain crops (wheat, barley, rye, triticale)	Multi-risk	✓ .	✓ .	✓ .
Winter rape	Multi-risk	✓ .	✓ .	✓ .
Spring grain crops (wheat, barley, rye)	Multi-risk			✓ .
Technical crops (corn, sunflower, sugar beets)	Multi-risk			✓ .
Soybeans	Multi-risk			✓ .

МетеоЗахист - WeatherProtection



Insurance coverage for flowering and heading



Lack of precipitation or/and extreme high temperatures – farmer receive compensation of Syngenta's products value



No field visits – only public available weather data

In partnership:



WORLD BANK GROUP

IFC International Finance Corporation

syngenta

MeteoGroup



WORLD BANK GROUP

IFC International Finance Corporation

PROGRAM DESIGN

Kharkiv
Dnipropetrovsk
Kirovogradsk

Regions

100 Ha

Minimal area insured



Insurance coverage (42 day):

20/06 - 31/07

25/06 - 05/08

30/06 - 10/08

05/07 - 15/08

10/07 - 20/08



Insurance coverage (32 day):

20/05 - 20/06

25/05 - 25/06

30/05 - 30/06

WINTER WHEAT



WORLD BANK GROUP

IFC International Finance Corporation

PROGRAM DESIGN

Seeds and crop protection costs

Insurance coverage



Pay out structure

Lack of Precipitation

Insurance payout - by which extend actual level below the trigger level

No precipitation = 100% payout



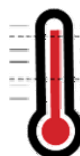
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%

High Temperature

25% payout per each temperature degree (Celsius) higher then trigger level



TRADITIONAL MPCl: IFC, Syngenta and Credit Agricole



Insurance coverage from germination to harvest (corn/winter wheat)



Multi risk



Field visits by certified loss adjusters
Standard procedures

In partnership:



syngenta



Munich RE



PROGRAM DESIGN

Poltava
Cherkassy
Vinnitsa

Regions



WINTER WHEAT



CORN

Crops

Up to 75% of production
costs

Insurance
coverage

Pay Out

By each centner below trigger
yield (75% of 3yr average)

STRENGTHENING THE SYSTEM: Certified Loss Adjustment

Loss adjuster (LA) - a person involved in determining the cause of the insured event and damage amount.

Current legislation defines LA qualification requirements:

- Higher education
- Pass through a full-time training course and exam
- Re-training requirement – not less than once in 3 years

Training course

- Developed by the experts of World Bank Group, approved by Educational institution, accepted by the State Regulator
- Number of course hours – 196
(152 theory/practice) (44 home education)
- Fields trainings - different crops at different growth stages



REFLECTIONS REGARDING FUTURE DEVELOPMENT

Successes and Future Work

Successes	Needs more work
Increased capability of the system to operate on sustainable and efficient way by systemic work with all stakeholders and implementation of informational system and standard products	Agricultural Insurance Products development process is expensive and require specific expertise so better cooperation on private and public level is necessary
Developed knowledge base and in-house capacity of major market players - numerous training sessions for insurance companies, banks, input suppliers	Develop cost effective insurance products (adaptation) which can be used by larger number of farmers
Improved insurance sector capacity by developing and implementing institutional training programs (Certification of Loss Adjusters, Study tours, International Experts) and research	Change insurance culture and build trust to insurance in rural areas by implementing insurance programs with trustable partners
Increased public awareness by conducting informational campaigns in the regions and talking with farmers to explain agri-insurance options	Support in further system development by trainings and strategic consulting
Increased knowledge base and in-house capacity of government and regulatory	Support regulator on implementation world best practices for better market supervision

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HOW CAN THIS KNOWLEDGE BE APPLIED TO AZERBAIJAN?

- Agriculture is important:
 - ☑ Largest agri-basin in region the biggest employer in the country (37%)
 - ☑ huge potential for the sector to grow and contribute to much-needed economic diversification
 - ☑ 1 614 000 ha of agricultural lands
- Large and various weather risks
- Increase agri-financial lending with a way to mitigate these risks: good for farmers to balance their income, good back up for creditors, and can share the risk on extreme catastrophe between farmers, private insurers, and government support, helping to manage government cash flow



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IDEAS AND NEXT STEPS

- Gather stakeholders to discuss the value of agriculture insurance
- Build capacity of partners: farmers, bankers, government, regulator, insurance companies, input suppliers, and other value chain players
- Take a multi-pronged approach
 - Improve the enabling environment - review legislation and regulations to ensure good agriculture insurance systems can operate
 - Build capacity amongst stakeholders
 - Create governance structures to provide oversight to ag insurance development
 - Develop the most needed agricultural products
 - Learn and adapt over time

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THANK YOU!

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