Webinar on Meso-level distribution: Opportunities and challenges
Unanswered questions from webinar

Is anyone offering a mixed product that pays off the loans and pays the farmer something against his/her loss from the crop failure? If one only pays off the loan to the FI the farmer still has nothing?

Israel: It would be ideal to have weather index that covers both the cost of an agricultural loan financing the activity as well as the additional costs of the farmer plus profit margins. The key challenge with the agricultural sector is that if you build up the sum insured to cover all the costs items, the resultant sum insured may also lead to a higher premium that might no longer be affordable. In the projects that we have done so far, the main concern was about covering the most basic cost items that would enable the suppliers of agricultural input or finance to continue to extend the service to the farmers even if there is no production as a result of insured perils from the previous season.

Marcel: To my knowledge, current products distributed via MFIs only pay off the loan, i.e. the farmer benefits in the form of loan forgiveness. This takes significant economic pressure from the farmer hence they do benefit from the loan forgiveness. It is, however, left to the MFI or other distributors to decide on whether they pass on the benefits to the farmer. There for example also exists schemes where the farmer receives a new bag of seeds from the input provider in case there was a drought spell at the very beginning of the growing period.

Vijay: Yes, all insurance products that are bundled with credit have the feature whereby any claims amount in excess of outstanding loan is credit to the farmers account. In addition, insurance are also offered through FIs wherein the FI primarily acts as an intermediary for insurance w/o linkage to outstanding credit. The farmer is fully responsible for servicing the outstanding loan IRRESPECTIVE of whether the loanee farmer has received/not received the insurance claims. FIs are primarily conduit for retailing of insurance.

Ulrich: Am not aware of an offering of this sort. The closest equivalent deal that I know of is a fertilizer bundled weather insurance deal in the Philippines, where the weather parameter triggered payout can occur either in the form of a discount on another fertilizer bag on in the form of cash.

Have they seen some FIs reducing their interest rates or lending requirement when introducing agri insurance covers and transferring part of the agri default risk?

Israel: In our maize index project, the MFI chose to sacrifice part of the interest on the loan for purchase of insurance cover.

Marcel: The main reason for bundling insurance with credit is indeed to take some risk from the MFI hence (i) giving them the comfort to start offering credit to smallholders and (ii) lower their interest rates as part of the default risk is covered by the insurance.

Vijay: Not that I have seen or come across so far. With insurance farmers do get repeat loans for the subsequent cropping season and in the absence of insurance protection (and with outstanding loan with the

FIs), farmers have to invariably resort to borrowing from alternative sources since the FIs are reluctant to increase their loan exposure any further.

Ulrich: Have heard of collateral requirements being lowered in various countries. Often banks require borrowers to deposit large cash collateral. Insurance coverage can lower this requirement.

Instead of speculation on value to farmers do we need to do more to monitor the value of the insurance to farmers?

Vijay: Yes

ILO's Impact Insurance Facility: While there is a need for constant evaluation of the "value" provided by insurance, various studies have been conducted which show both the protective and productive value that insurance provided. A study in Kenya showed insured pastoralists showing lower propensity to resort to high stress coping mechanisms like selling off their assets (livestock) or reducing consumption in case of drought or, as mentioned in response to another question, insured farmers in Ghana and India investing more on their farms in terms of seeds and fertilizers and adopting riskier but more productive farming practices.

Does insurance actually make farmers more productive, more profitable, or financially resilient?

Ulrich: Yes, we have some evidence for that. Best studies on this topic are Karlan's Ghana study and Gine, Cole and Vickery: How Does Risk Management Influence Production Decisions? Evidence from a Field Experiment, WB Research Paper 6546. Findings are consistent: Farmers with insurance tend to invest more inputs, and more in cash crops because they feel safer making these more riskier choices. Gine: "The analysis finds that the provision of insurance induces farmers to shift production toward higher-return but higher-risk cash crops, particularly among more-educated farmers."

What would be the typical loading for premiums on the MFI's loan repayments, and is it worthwhile for an MFI to distribute the product?

Marcel: As any (index-based) product, the premium is reflecting the risk that is being transferred. If the MFI only wants to cover the risk of default due to very extreme events (e.g. a 1 in 30 years drought) than the premium will be comparably small (range of 3-5%), if the MFI rather wants to cover more frequent events, the premium will accordingly be higher. I see the value for the MFI of such a product as (i) allowing them to broaden their client base (ii) differentiating themselves from their peers and last but not least (iii) smoothing their balance sheet volatility.

What kind of risk was covered in Mozambique, draught only? Is there any experience in the world with covering of spring/ autumn frost for perenial crops/ potatoes on index basis in the world?

Israel: In the cotton index in Mozambique, we were covering lack of rain (drought), excess rain and low temperatures. We do not have experience of weather index insurance for crops like potatoes.