

## Emerging Insight #:103

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### Using meso-level distribution to achieve scale and control cost



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Insurers are trying to control costs and reach scale in agriculture insurance by designing meso-level insurance policies that cover large numbers of farmers associated with an aggregator (e.g. agribusiness firm, financial institution, input providers). Products are priced using a portfolio pricing model, meaning that the price is calculated on the basis of the whole group. This avoids the cost of assessing individual plots.

A project in Mozambique supported by GIIF and implemented by reinsurance broker, Guy Carpenter, used a meso-level approach to cover cotton farmers through a public-private partnership. Two insurers, Hollard and EMOSE, covered 43,000 cotton farmers contracted with the agribusiness firms Olam and SANAM with weather-based index insurance solutions using satellite data. The premiums for the insurance were pre-financed by the Cotton Institute of Mozambique (IAM) and the agribusiness firms and recouped from the farmers at the end of the season. The effectiveness of the programme was tested in 2013, when drought triggered claims totalling over US\$ 230,000 in pay outs. Based on this experience, IAM plans to expand coverage to all the 200,000 cotton farmers in Mozambique. GIIF also promotes the enabling environment for agriculture insurance by supporting the Insurance Regulator.

Recent research studies point to the potential efficiencies of selling and transacting through groups. A study by economists at the University of California at Berkeley and the University of Auvergne argues that selling to groups rather than individuals can result in higher uptake as individuals tend to undervalue risks, while groups may not. In another study, Researchers at Oxford University found that when groups of Ethiopian farmers belonging to informal financial and social clubs were given information about the benefits of weather insurance, take-up increased from 2% to 36% ([see Economist article](#) <sup>[1]</sup>).

However, while offering lower transaction costs and higher scale, using a meso-level approach presents the challenge of ensuring that the farmers understand the insurance product as they do not make the purchase decision. Educating customers and having appropriate tools to explain the products is critical to provide better value and increase trust in the product.

For more information on meso-level distribution in agricultural insurance, see

[http://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/industries/financial+markets/retail+finance/insurance/guy+carpenter](http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/retail+finance/insurance/guy+carpenter) <sup>[2]</sup>

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**Source URL:** <http://www.impactinsurance.org/emerging-insights/ei103>

#### Links:

[1] <http://www.economist.com/news/finance-and-economics/21592653-new-research-suggests-insurance-can-be-made-more-attractive-poor-farmers-hard?frsc=dg%7Ca>

[2] [http://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/industries/financial+markets/retail+finance/insurance/guy+carpenter](http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/retail+finance/insurance/guy+carpenter)