

Scaling up agricultural index insurance: Contributions from sovereign risk pools

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Political Support - National and International Level

- Awareness of increasing climate risk, and need for practical tools to manage consequences to the most exposed productive sector, agriculture
 - SDGs recognise risk and the need for resilience at a macro level
 - The Paris Agreement identifies insurance as the key element of managing loss and damage
 - InsuResilience is the G7 initiative aimed at increasing climate risk insurance coverage by 400 million people by 2020
- Nationally, many developing world governments are either participating in or have knowledge of sovereign risk pools in Africa (ARC), the Caribbean & Central America (CCRIF SPC) and the Pacific (PCRAFI Facility)
 - This brings exposure of relevant Ministers to index insurance tools

Political Support - Regional and Local Level

- Assessment of risk in the agriculture sector (through engagement with a sovereign risk pool) allows a discussion on ownership of risk
- Once risk ownership is established, appropriate risk management tools can be identified:
 - Incentivise risk reduction by the risk owner (because they will directly reap the benefits)
 - Implement the most cost effective risk financing solution for that particular risk owner
- The sharing of risk between individuals, communities and cooperatives, local and regional government and the national government is critical to reach a sustainable risk management strategy

Practical Support – Technical Data and Experience

- Risk models developed and used by the three current multi-national risk pools cover risks important to agriculture across a large number of countries:
 - Caribbean / Central America: 26 countries
 - Africa: 55 countries
 - Pacific: 15 countries
- These risk models do not necessarily reflect agricultural risk directly, nor are they optimised for micro-level products
- However, they do provide a good starting point for development of higher resolution and agriculture-specific models
- Critically, the existing models allow cost-effective access to the global risk markets

Practical Support – Regulations and Incentives

- Sovereign risk pools can provide broader benefits through raising awareness across government around structured and effective risk management for agriculture
- Adapting regulation to incentivise risk sharing at the micro level is facilitated by knowledge and experience in sovereign insurance transactions:
 - Key principles of parametric insurance
 - Concepts of risk ownership and risk sharing, and holding risk owners to account
 - Importance of regulation to protect micro-insurance clients while recognising the need to minimise administration and distribution costs
- Governments need to understand and use carrots and sticks:
 - e.g. requiring protection of agricultural loans against climate risk by the lending entity while offering premium support in recognition of the fact that the sovereign is the ultimate holder of much of the risk