PERU: AGRICULTURAL INSURANCE
Agriculture and Climate Risk in Peru

- Croplands: 4.5 MM
- GDP: 7.3%
- PEA Agriculture: 25%
- 2.2 million farmers
- 82% of farmers work less than 5 hectares

Losses in agriculture caused by rain and floods

- 1982-1983: US$ 1.1 billion
- 2017: US$ 380 million

(Source: Gaining Momentum in Peruvian Agriculture. World Bank, 2017)
Insurance against climate risks for crops

- **Commercial Agriculture Insurance**
  - No subsidies
  - Sales channel: Banks, Micro-financing agencies, Farmer associations

- **Catastrophic Crop Insurance**
  - Subsidized 100% by the State
  - Sales Channel: Ministry of Agriculture

- **Insurance against plant death for orchards**
  - No subsidies
  - Sales channel: Direct

- **Subsistence Agriculture**
Penetration of Agricultural Insurance by Total Croplands

- No insurance: 86%
- Catastrophic Crop Insurance: 13%
- Commercial Agricultural Insurance: 1%
Facts & Figures

Catastrophic Crop Insurance: 2009-2019

- 243,000 insured through campaigns
- 281,000 smallholder farmers as beneficiaries
- 82,000 savings accounts opened
- S/68 million paid out as indemnity

* La Positiva Portfolio Data

Commercial Agricultural Insurance: 2013-2019

- 77,000 smallholder farmers insured
- 3,500 smallholder farmer beneficiaries
- S/19 million paid out as indemnity

* La Positiva Portfolio Data
Stakeholders – Catastrophic Crop Insurance

**MINAGRI-COFIDE**
- Ministry of Agriculture-
  - Approves the Directive
  - Manages the Trust of the Rural Guarantee and Farming-Livestock Insurance Fund

**FOGASA**
- Insurance Companies
  - Reports on claim notifications
  - Prepares beneficiary standards

**Regional Governments**
- Approves the Directive establishing the conditions to be complied with by catastrophic crop insurance and insurance companies.
- Prepares beneficiary standards.

**Beneficiaries** of the crop insurance – they are subsistence farmers.
What risks are covered by insurance?

**Weather:**
1. Drought
2. Extremely heavy or unseasonal rain
3. Mudslides, avalanches or landslides
4. Flooding
5. Lack of land to harvest
6. Excessive humidity
7. Frost and low temperatures
8. Hail and snow
9. High temperatures
10. Gales

**Biological:**
11. Pests and predators
12. Diseases

**Natural:**
13. Volcanic eruption
14. Earthquake
15. Fire
Amount Insured, Premium and Rates (Country Data – All Insurer Portfolios)

Catastrophic Crop Insurance

USD million

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<tr>
<th>Year</th>
<th>Amount Insured</th>
<th>Commercial Premium</th>
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<td>2018-2019</td>
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Rate

- 10.9%
- 11.1%
- 11.1%
- 8.7%
- 7.5%

La Positiva Seguros
Return Generators

Catastrophic Crop Insurance

Agricultural Campaigns

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<th>Year</th>
<th>Percentage</th>
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<td>2017-2018</td>
<td>47%</td>
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<tr>
<td>2018-2019</td>
<td>51%</td>
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The mean Claims Rate for the Program is 50%
Commercial Agricultural Insurance
Characteristics

Commercial Agricultural Insurance

**For whom?**
Farmers who are clients of micro-financing agencies

**What crops and zones?**
All crops and zones agreed by La Positiva and the micro-financing agencies

**How is it taken out?**
When applying for a farm loan

**Who is the Beneficiary?**
The first beneficiary is the Micro-financing agency. The indemnity is intended to repay the loan granted to the Farmer. Any amount left over, if any, is handed out to the farmer.

**Amount Insured**
The production cost or the amount of the loan

**Insured Income**
50% of the expected income
1. Rains (Extreme or unseasonal)
2. Droughts
3. Floods (caused by rain)
4. Gales
5. Low Temperatures
6. Fire
7. Hail
8. Snow
9. Mudslide or Landslip
Program figures

Commercial Agricultural Insurance

---|---|---|---|---|---|---
Signed up | 7,782 | 9,316 | 11,179 | 18,535 | 14,793 | 14,204 | 1,982
Net Premium ($) | $1.1 MM | $1.2 MM | $1.5 MM | $2.0 MM | $1.7 MM | $0.8 MM | $0.2 MM
Claims Rate | 35.75% | 60.62% | 78.21% | 143.99% | 68.62% | 19.49% | 6.96%

Program Claims Rate = 77.14%

Net Rate
2.5% - 2.8% of insured amount

Commissions
Broker: 0% - 4%
Sales Agent: 0% - 7%
Review of land parcel location before granting loans

Commercial Agricultural Insurance

MAIN INDEMNITIES

Client: Rojas (Lambayeque Department)

Land parcel located between two river tributaries, showing the area affected in 2017.

Signing up for agricultural insurance: N/A
Clients: López and Zeta (Piura Department)

Client: López Rojas: The coordinates are located in a high flood-risk area; signing up for insurance: N/A

Client: Zeta Ortiz: Land parcel is located in a low flood-risk area, thus signing up for insurance is applicable in this case.
Suggested information to be obtained in the field

a) The manager must obtain the following information on the area:

EXPOSURE:
- Close to a River
- Flood Zone
- Landslip / Mudslide Zone
- Crop Burn Off Zone

b) The manager must ask the farmer about:

RISK-LOWERING ACTIONS UNDERTAKEN: *indicated by Agri-Bank

YEAR LAST AFFECTED BY CLIMATE-RELATED EVENT OR OTHERS: *indicate year

INDICATE THE EVENT:
- Hail
- Drought
- Floods
- Rain
- Gale
- Mudslide
- Frost
- Pests/Diseases:
1. Obtain **income information** on each farmer.
2. Work with **geo-referencing** for all land parcels to be insured.
3. **Ensure the understanding** of the financial and micro-financing sectors that agricultural insurance does not blunt their competitive edge by increasing final credit costs through purchasing agricultural insurance. Instead, it underpins the economic sustainability of farmers and pays their debts.
4. Work with *ad hoc rules and regulations* for agricultural insurance.
In a 2017 study of agriculture in Peru, the World Bank stated: “Prospects for achieving sustained productivity growth and competitiveness in Peruvian agriculture are threatened by the risk of extreme weather events. Surveys consistently show that farmers and livestock keepers perceive climate events as the single most important risk determining their incomes.” (Gaining Momentum in Peruvian Agriculture. World Bank. 2017)