



## Summary 3: The role of insurance

John Farrington

### Introduction

Social protection has emerged rapidly as a key development and humanitarian policy issue in the last decade. At the same time, there have been major food price shocks in many countries in the last 5 years. As a result, interest in social protection and food systems is converging and many donor agencies and governments are looking at how different social protection instruments might better support or enable the different components of food systems and maintain their resilience in the face of major shocks and stresses. These summaries, based on a series of reports, explore the impacts of different social protection instruments on resilient food systems and provide a set of key messages for policy makers and programmers working on social protection and food security.

### Defining a food system

We conceptualise a food system by drawing on a shared and common definition of food security ('when all people at all times have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life' FAO 1996) and we focus on four specific dimensions of food security:

- The availability of food: the supply of food at the macro national (global) level
- People's entitlement to food (henceforth called 'access to food'): households' ability to produce and/or purchase food
- The utilisation of food: the intake of sufficient, safe and quality food
- Crisis prevention and management: maintaining availability, access and utilisation in contexts of emergencies, shocks and stresses

This paper assesses whether and how insurance can support resilient food systems. It first assesses the potential impacts of crop insurance, social health insurance (SHI) and community-based health insurance (CBHI) on food availability, access and utilisation. It then draws together evidence on how far this potential is being, or is likely to be achieved in reality.

## What do we know about the impact of insurance on food availability?

Potentially, crop insurance can improve food availability in three ways:

- i. By compensating farmers for any crop losses incurred, it can prevent money which would otherwise have been spent on farming from being diverted to meet immediate consumption needs. It can also prevent the sale of farm assets;
- ii. By reducing the perceived risk of new technologies, it can help farmers to move from current "low-risk, low return" to higher productivity options;
- iii. It can help to free farmers from possibly exploitative reliance on landlords to "help out in bad times".

Health insurance can potentially contribute to food availability by:

- Ensuring that the farming population remains physically fit, and
- Reducing the likelihood that funds will be diverted from farming in order to pay for medical treatment.

## What do we know about the impact of insurance on food access?

The potential of agricultural insurance to enhance food access is twofold:

- By enhancing availability, it is likely to stimulate better distribution of food and keep prices down, so making it more accessible;
- By encouraging a shift to more productive farming systems, it is likely to increase rural incomes, and so enhance the purchasing power of e.g. farm labourers.

The main way in which health insurance can enhance food access is by preventing the funds which would otherwise be used for consumption from being used for paying for medical treatment. There may also be less direct effects, as when, for instance, a healthier population is able to engage more fully in productive employment and so increase incomes which can be spent on food.

## What do we know about the impact of insurance on food utilisation?

Crop insurance is unlikely to impact one way or the other on the utilisation of food.

Health insurance has the potential to improve health standards, and, as part of this, to reduce levels of gastro-intestinal illness (such as diarrhoea or intestinal worms). This will improve the capacity to digest food, and so to enhance nutrition.

### Discussion: how far will the potential impact of insurance on food systems be realised?

We argued above that the potential of crop insurance lies mainly in its capacity to enhance food availability. The potential in relation to food access is slight, and in relation to food utilisation is practically zero. For health insurance, the potential benefits are more evenly spread across the three dimensions of food systems. How far are these potentials likely to be realised in practice?

The provision of crop insurance is in transition: conventional crop insurance has proven too difficult to administer, given the high costs of individual premium collection and of loss assessment, as well as the frequency of attempted fraud. It has been partly replaced by new models which rely on independent recording of weather patterns, and payment of compensation when they depart by agreed margins from “normal” patterns – i.e. usually by being either too wet or too dry. The advocates of weather index-based insurance have made recommendations to enhance its uptake, such as increasing the density of weather-recording stations, funding information and education campaigns, expanding the uptake of re-insurance, and promoting legal and regulatory frameworks which are “enabling”.

Whilst index-based models greatly simplify the administration of insurance, they are difficult to apply to more than one crop in a particular area (when most low-income farmers operate diverse farming systems to spread risk and diversify food supply). This makes them relevant to the more commercially-oriented farmers and less so to mixed farming contexts.

They are also more likely to be adopted where there are few other ways for farmers to protect themselves against risk of crop failure, or to compensate in the event of a loss – such ways could include borrowing money, labour or assets within or beyond the household; drawing down or borrowing from village grain banks; using warehouse receipts; relying on government-funded safety nets, either in cash or kind; and selling one or more assets in times of hardship.

An advantage of index-based models is that premiums can be paid by any individual or organisation having a financial interest in the crop, so that agencies providing credit, or agrochemical suppliers, for instance, can pay the premiums either wholly or partly and so ensure compensation for the inputs they have provided. This, and not the direct engagement of individual farmers, appears to offer most promise for crop insurance for the future. An example is provided in Box 1. Some of the strongest uptake has been by companies selling seed or agrochemicals, and by “contract farming” companies, as done by e.g. PepsiCo in India for its potato production.

## Box 1: Selling insurance with fertiliser in India

IFFCO Tokio General Insurance Company (ITGI) is a joint venture of the Indian Farmers Fertiliser Cooperative (IFFCO) and its associate Tokio Marine and Nichido Fire Group, the largest listed insurance group in Japan. ITGI has been offering index insurance since 2004. The company incorporated the product into IFFCO's fertilizer programme and has used the programme's rural network of fertilizer cooperatives for distribution. ITGI provides technical advice, product education, training and marketing skills to secretaries and staff of member cooperatives to enable them to sell insurance products. In each state, 1,000-1,500 farmer cooperatives became agents of ITGI and have sold 163,945 policies since the programme's inception. Premium rates have been 3-8 per cent of the sum insured.

## Box 2: PACC in Mexico – an example of quasi-insurance

An example of quasi-insurance is provided by the PACC (Programa de Atencion a Contingencias Climatologicas – Climate Contingencies Programme) in Mexico. First piloted in 2002, this focuses on small-scale farmers, currently covering some 800,000 households over 1.9 million hectares, with a total sum insured of US\$132 million. The scheme is based on weather indices, compensating for both drought and excess rain, and covers the main food crops of maize, beans, sorghum and barley. The Federal Government under PACC purchases the insurance (and re-insurance) and sells it on to state governments, with a subsidy of 70% - 90%, the remainder being paid by state governments. Farmers do not pay premiums, and are reported (Hazell and Hess, 2010) to be unaware that any compensation they receive comes from an insurance scheme and not from general tax revenue. They are said to re-invest around 70% of compensation back into agricultural production. Schemes operated in Ethiopia and Malawi, with financial support from the World Bank and a number of donors, have many characteristics similar to the PACC scheme.

Where farmers are to be required to pay premiums, there remains the question of whether they will regard these as affordable. Some evidence indicates “fatigue” among farmers in paying premiums year-in, year-out and perceiving that they are getting nothing in return. A different model which entirely removes from farmers the burden of paying premiums can be termed “quasi-insurance”.<sup>1</sup> This has been funded by donors and governments in Mexico and Ethiopia, and may also have potential for future upscaling (see Box 2).

Social Health Insurance offers good prospects of achieving its potential, but requires high levels of (public) administrative efficiency and long-term political commitment, and typically only spreads to the rural poor towards the end of a long-term implementation period (i.e. several decades – see Box 3). NGOs reach the rural poor by taking on the administrative costs of Community-Based Health Insurance. But CBHI is small-scale, vulnerable to bankruptcy through one or two large claims, and so in need of re-insurance if it is to be reliable.

## Box 3: Progress with SHI in lower middle-income countries

A commitment to SHI over the long term has seen success in expanding membership rather than see it simply stalling or levelling off. Thus in the Philippines, the formalization of SHI in 1995 resulted in a steady climb in the proportion of the population covered by insurance from about 50 percent to 78 percent by 2004; in Colombia, coverage grew from less than 30 percent in 1992 to more than 60 percent by 2003; and in Thailand, where 68 percent of the population had been covered under various risk-pooling schemes, the expansion and consolidation of SHI is what set the stage for almost complete universal coverage by 2004.

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<sup>1</sup> The interpretation of insurance in this paper is that it is paid for by those having a direct financial interest in the asset to be insured. Hence, “quasi” insurance is that which is paid for by those (such as donors, governments, NGOs etc) having only a distant interest in the asset. The author's view is that any scheme in which farmers do not understand the basic concepts of insurance, do not pay a premium and so cannot relate any compensation to payment of premium, is not fully eligible to be called insurance, and so is termed here “quasi-insurance”.

## Key messages for policy makers and programmers

There is a very wide gap between the potentials of crop insurance and health insurance to contribute to the three dimensions of resilient food systems outlined here.

Community-based Health Insurance achieves its potential but only in the very small areas where it operates, and its scope for expansion is limited by the small number of NGOs able to absorb the otherwise high administrative costs. Its small scale means that it will also be vulnerable to bankruptcy where a small number of large claims are made. Social Health Insurance is also moving towards fulfilling its potential, but only so far in lower middle-income countries, and the rural poor are the most difficult to incorporate and so in practice are not incorporated until several decades after countries initiate SHI. Crop insurance has some potential, but mainly via the agency of credit and input suppliers. This, plus the fact that each scheme has to be worked out on a crop-by-crop basis, makes it potentially less relevant to poorer and more relevant to somewhat better-off farmers who specialise in one or a few crops.

The bottom line is that the costs and benefits of both crop and health insurance have to be assessed against traditional risk-reduction and coping mechanisms, and against the protection offered by formal safety nets, public works, and other social protection instruments. In many settings, the allocation of public funds to these may protect low income households more fully against risk than insurance will, so that crop and health insurance are at best complementary to this wider array of instruments.

## Useful documents/sources for further reading

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