

SFSA

Challenges in the Implementation of Climate Index Insurance for Enhancing Community Capacity in Managing Climate Risk

LoCARNet, Bandung, 26 Oct-16



About SFSA & the Need of Agriculture Insurance

Who we are

We are a non-profit organization established by Syngenta under Swiss law.

Mission & Goal

- Develop and promote relevant and affordable agricultural insurance solutions for smallholder farmers in Asia (Indonesia - Myanmar - Bangladesh - India).
- For agricultural index insurance to be widely available for smallholder farmers across Asia.

Need for Agriculture Insurance

- Agricultural production and food security have made impressive progress in South and South East Asia over the past decades and plays a key role for fueling economic growth.
- Increased inputs use and access to agricultural credit could be threatened by farmers facing erratic weather, pest and disease pressures.
- Agriculture insurance can be used by smallholders as a vital input encouraging them to invest, with the purpose to maintain and increase production.

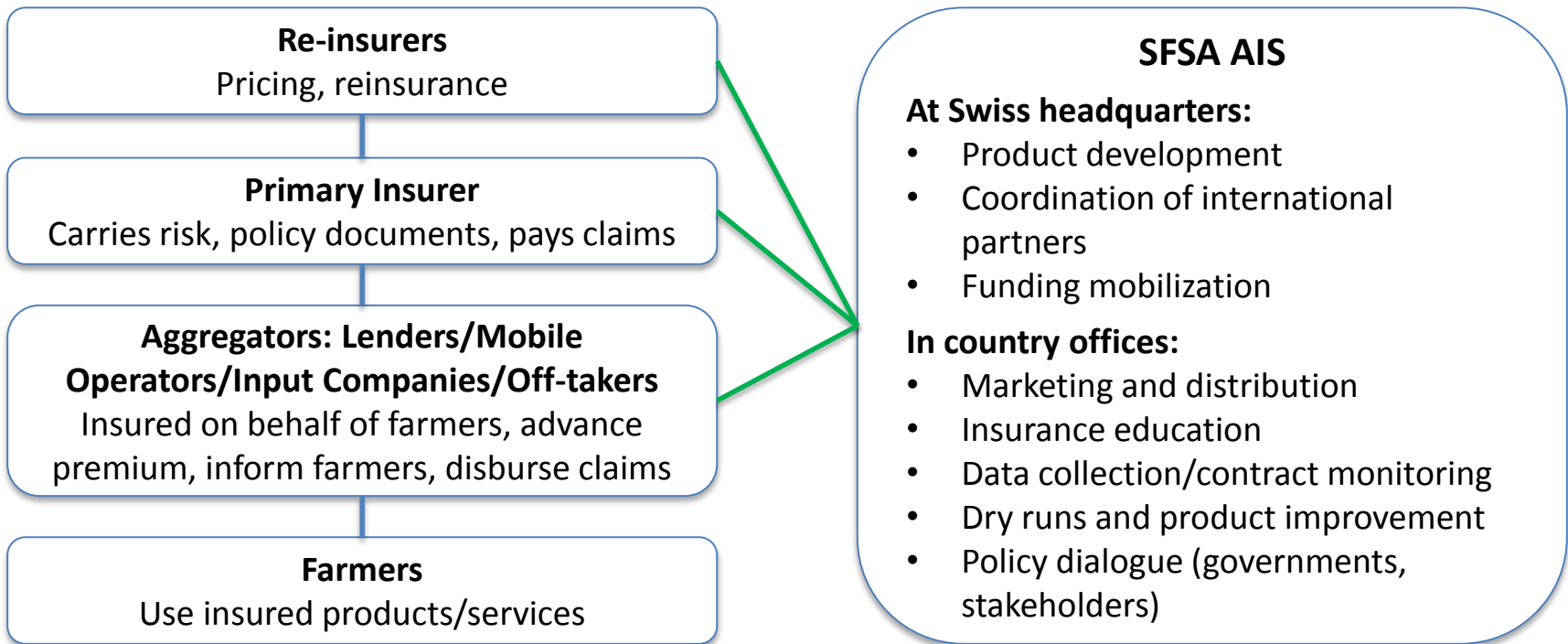


Services, Stakeholder Roles

- **SFSA AIS Services**

- Technical product design
- Partner line-up and coordination
- Business development
- Funding mobilization
- Policy inputs to governments
- Advocacy

Partner and stakeholder roles



Traditional vs Climate (Weather) Index Insurance



Traditional Agri-Insurance Products

- Involves assessing losses that occur due to specific peril(s) → on farm assessment by a loss adjuster.
- Issues: adverse selection, moral hazard and high cost of loss assessment.

Weather Index Insurance

- Use of specific weather parameter measured over a pre-specified period of time at a particular weather station.
- I.e. drought risk → rainfall measurement to determine if a payout is triggered.
- No need for on farm assessment by a loss adjuster → lower premium cost.
- Issues: basis risk → the potential mismatch between contract payouts and the actual loss experienced.

Benefits of Weather Index Insurance in Regards to CCA

1. Protect farmer's investment cost and/or production during the 'bad' years.
2. Encourage farmers to invest on their farm (i.e. using better agri-inputs and/or agriculture technologies) to increase their production.
3. Securing local-regional-national food production.



Solution for the Farmers for CCA and Increase Resilience



A bundled solution consisting of :

1. Loan in the form of:
 - a. High quality agriculture inputs.
 - b. Cash.
2. Agriculture extension service to guide farmers to maximize yield.
3. Weather index insurance.

Distribution through MFI :

- As the most suitable interface for linkage to the farmers.

Indonesia: Challenges and Next Steps

- **Challenges**

- Offering standalone insurance product will not work.
- While developing a drought index is more simple, developing and implementing flood risk index is more complicated.
- Buy in from aggregators (i.e. Micro Finance Institution - MFI) for adoption and implement, due to limited successful case studies.
- Scaling up → more socialization activities needed.

- **Next Steps**

- Identified: a bundled solution approach for the smallholder farmers through MFIs.
- Socialization and replication of the identified business model throughout Indonesia.





THANK YOU

