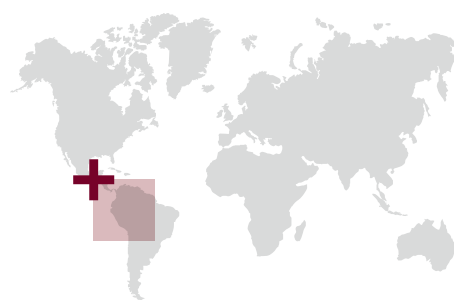


Insured Against Climate Risks



AT A GLANCE

Name

Insured against climate risks. Integrated financial management of climate risks in the agricultural sector (CAT)

Duration

February 2014 – February 2019

Focus area

Peru

Target group

Public and private sector institutions, actors involved in the agricultural value chain, such as smallholder farmers, commercial farmers, producers' associations, financial institutions and insurance companies.

Funds available

The project is funded with 5 million Euros by the International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

The BMU supports this initiative on the basis of a decision adopted by the German parliament.

The project is jointly implemented by ...

Ministry of Agriculture and Irrigation (Ministerio de Agricultura y Riego, MINAGRI); Superintendencia de Banca, Seguros y AFPs, SBS); Ministry of Economics and Finance (Ministerio de Economía y Finanzas, MEF); Peruvian Association of Insurance Companies (Asociación Peruana de Empresas de Seguros – APESEG); Financial institutions and insurance companies.

The project maintains a strategic alliance with ...

Munich Reinsurance Company (Munich RE). As a leading global reinsurer, Munich Re is offering highly valuable technical support to the project activities, based on its long-standing experience with the development and implementation of agricultural insurance schemes.

The core objective is...

that Peru has a risk transfer system for the agricultural sector financed by the state and the private sector, including insurances against climate risks.



BACKGROUND

Around three quarters of Peru's rural population works in the agricultural sector. The main crops under production are sugarcane, rice, corn, potatoes, bananas, cassava and grasses for livestock farming. In recent years, the agricultural sector has experienced dynamic growth, with its annual export volume increasing by 41 per cent between 2010 and 2017 to 4.8 billion US dollars. However, climate change is leading to an increase in droughts, floods, landslides and extreme temperature fluctuations. The El Niño climate phenomenon regularly causes billions of dollars' worth of economic damage.

These extreme weather events are making it difficult to fight poverty, which affects about 60 per cent of rural population. The Peruvian Government has set out to increase incomes and improve living conditions, especially for smallholder farmers. It aims to help them protect themselves against climate risks and crop associated losses more effectively and to encourage the farmers themselves to apply risk-reducing measures.

Agricultural insurances have the potential to transfer the risk of yield and income losses from farmers to specialized insurance companies. At the moment, two types of agricultural insurances that target distinct groups of farmers exist:

- the Catastrophic Agricultural Insurance, which was launched in 2009, and is entirely subsidized by the state and aimed at subsistence agriculture in the poorest and most affected areas of Peru
- Commercial Agricultural Insurances, which are on the market since 2013, aimed at large and medium producers and usually promoted alongside agricultural credits

APPROACH

- **Institutional structures.** The aim is to create the institutional and legal frameworks for the risk transfer system by 2019. Guidelines on agricultural insurance, which were previously laid down in various laws, decrees, resolutions, plans and political initiatives, are being compiled systematically. In addition, the tasks of the various institutions are being coordinated more effectively at all levels of government. The state and the agricultural, insurance and banking sectors are jointly developing a risk transfer strategy.
- **Information system.** A pilot run for zoning agricultural land (Mapeo de Áreas Agrícolas – MAA) using satellite and remote sensing data is being implemented in the Lambayeque, Apurimac and Ucayali (coast, mountains and jungle) regions, making agricultural statistics more reliable. All information relating to policies and damage is available in a single database.
- **Management of the risk transfer system.** Training programs are being developed for specialized staff in the public and private sectors to develop the necessary skills for the sustainable management of risk transfer systems.



CHALLENGES

- Limited awareness of the benefits of financial and insurance products.
- Lack of good quality data on agricultural production and yield.
- Limited offer of agricultural insurance products.
- Availability and the drive of public sector staff depends on the political will, which may be volatile.

OUTCOMES

The success of the project depends on the close collaboration between the local counterparts on the ground: private insurance companies, banks and actors in the agricultural sector. The state supports the agricultural insurance by promoting it, subsidizing the premium and providing legal back-up. Capacity building of public and private personnel decreases their response time to claims, improves the quality of technical decisions, premium calculation and policy-making. The banks conveniently promote agricultural insurances alongside credits in order to guarantee that harvest losses do not interfere with loan repayment.

Until its completion in 2019, the project will continue to support the development of insurance solutions as risk transfer mechanisms. Given that so far only about 14% of the cultivated agricultural land in use are covered by either of the two types of insurances, and yet no insurances for livestock, agroforestry systems or aquaculture exist, there's still work to be done.

The market for agricultural insurance in Peru has grown by almost 97 per cent since the project began. In 2017, some 690,000 hectares were covered by the agricultural disaster insurance and commercial agricultural insurance systems, whereas only 350,000

OPPORTUNITIES

- Better competences and knowledge of risk management and agricultural insurance concepts have led to better terms and conditions for the catastrophic insurance contract, as the public sector staff was better trained to negotiate them.
- A subsidy program for the Commercial Agricultural Insurance is necessary in order to reach: higher market penetration, better insurance coverage (65%–75%), more affordable premium rates for small and medium-size farmers, an increase in the offer of agricultural credits (financial inclusion) and a reduction in the fiscal burden of government expenditures due to natural disasters.

hectares were covered at the start of the project in 2014. Agricultural insurance companies currently provide protection against financial risks caused by climate events for a total of 310,000 agricultural producers in 8 regions. Recommendations for calculating premium instalments have led to a reduction in insurance premiums and increased payout rates.

The SBS continues organizing a bi-monthly Public - Private Dialogue Forum (DPP). The forum acts as a platform for facilitating discussions and reaching agreements for the implementation of the risk transfer system in the agricultural sector. In June 2018, the public and private sector agreed amongst SBS, MINAGRI and APESEG to alternately moderate and organize the DPP. One example of successful public-private cooperation is the installation of a digital information platform for agricultural insurance. The APESEG website contains a section where all the information (documents and multimedia) generated along the years related to the development of agricultural insurance can be accessed. The platform is publicly accessible at: <https://www.apeseg.org.pe/orientacion/agro-y-riesgo/>





LESSONS LEARNED

1. There is not an ideal moment to begin developing an agricultural insurance market. The process of improving instruments and overall framework has kicked off which is expected to pave the way for market development in the long run. The market penetration and improvements are being made gradually.
2. It is challenging to penetrate the agricultural insurance market without partial subsidy of the premium payment by the State. This is especially true for the small and medium sized agricultural producers whose financial capacity to pay premiums can be limited.
3. There are mismatches between what policyholders expect insurance policies to cover and what the insurance contracts actually provide as loss indemnification. Basis risk has to be reduced through better information.
4. It is important that financial instruments, such as weather insurance, are integrated within a comprehensive risk management and transfer strategy.

CASE STUDY

„Everybody here grows rice. That's how we survive. Agriculture is very important for us, because basically we are all farmers here. That's how we make our living. We don't produce anything else, this is what we live on.“

„When I started with the loan for rice, everything was normal. While water was available, I paid off my loan, step by step. But then problems of water shortage occurred, the climate changed, it was very dry and a lot died off“, says farmer Pedro Huertas. The insurance helped him keep paying off his debt and allowed him to change to bananas better adapted to water shortage: “We grew tired of the water scarcity and the losses in rice harvest.“ He strongly recommends the agricultural insurance, particularly when taking a loan. “If you take a loan and you don't have an insurance, you are bound to lose.“ (Pedro Huertas, rice and banana farmer from Piura, Peru)

Pedro Huertas, rice and banana farmer from Piura, Peru; photo: ©GIZ/Susana Pastor



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