

IN FOCUS: MARKET DEVELOPMENT



SUBJECT

The impact of climate change on farming has contributed to the evolution of many agricultural insurance initiatives.

In 2009, – on behalf of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) – the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), together with the National Insurance Commission (NIC), launched the Innovative Insurance Products for the Adaptation to Climate Change (IIPACC) project in Ghana.

The IIPACC aimed to capacitate the insurance sector to develop innovative, demand-oriented and economically sustainable insurance products against the financial risks of extreme weather events. This set the basis for the first Ghana Agricultural Insurance Pool (GAIP).

Currently, GAIP has three products in the market:

1. A drought Weather Index Insurance (WII) product for smallholder farmers
2. Multi-Peril Insurance for Poultry (MPIP) for commercial farmers
3. Multi-Peril Crop Insurance (MPCI) for commercial farmers.

CHALLENGES

There are two major challenges with respect to agricultural insurance in Ghana:

1. **Enrollment:** Scaling performance of the agricultural insurance market remains low (very few products). The growth rate of the sector is very slow (36% from 2011–2016). Very poor performances in 2012 and 2013 when overall enrolment dropped by 84% and 86% respectively. These challenges are attributable to the complexity of insurance products, financial illiteracy and aversion towards new risk management approaches.
2. **Claims:** The only prominent claim pay-outs were in 2015 where 1,701 farmers received a payment equivalent to a claim ratio of only 29%.



SOLUTION

Innovation in products portfolio and market development

1. It is important to diversify the products portfolio by focusing on products that specifically target small-scale farmer groups and commercial farmers. The commercial market has the potential to generate 80% of revenues, which will enable the development of a self-sustaining, client-oriented and viable market.
2. Leverage aggregators are needed to minimize cost and increase scale.
3. Establishing independent regional offices increases premium costs. Therefore, it is important to make use of the existing aggregators, such as input suppliers, cooperatives, microfinance companies and rural as well as community banks across Ghana.

Adopting an Integrated Disaster Risk Management Approach

1. The government should hedge the high impact but low frequency risks to sovereign pools, such as the African Risk Capacity.
2. The private sector should be able to provide insurance coverage for the medium-to-low impact agricultural risks.
3. Government subsidies negotiations, which are based on practical evidence focusing on how subsidies could increase production of high-value crops, should be intensified.

LESSONS LEARNED

1. Key challenges are: Over-optimistic demand assumptions for agriculture insurance, misunderstanding of insurance products as well as farmers choosing alternative coping measures for managing lighter weather risks.
2. Complexity of index products and financial illiteracy impede insurance uptake. Particularly, the WII structure and the various levels of triggers as well as pay-outs were perceived as complex by well-educated farmers.
3. Limits to the insurability of drought is determined by technical issues, such as the elaboration of an operational drought definition and the minimization of basis risk.
4. A majority of farmers are averse to new risk management approaches towards naturally induced disasters.
5. The agricultural sector faces several risks and focusing solely on insurable risks hinders the adoption of a value chain approach that is sustainable. Client-oriented products are essential to building confidence and trust which favors insurance uptake.
6. Subsidies may be required up-to a certain point as especially drought WII is very expensive for small-scale farmers.

Name of programme:

Innovative Insurance Products for the Adaptation to Climate Change

Duration:

December 2009 – June 2014

Programme area

Ghana

Name of component activity:

Assisting in the development and implementation of agricultural insurance products to protect farmers from financial risks resulting from the negative impacts of climate change

Cooperation:

National Insurance Commission

Local partner:

Ghana Agricultural Insurance Pool

Target group:

Small-scale farmer groups and commercial farmers

Contact person

Branko Wehnert

E branko.wehnert@giz.de

DISCLAIMER

This publication has been prepared by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Munich Climate Insurance Initiative (MCI) in the frame of the project "Promoting Integrated Mechanisms for Climate Risk Management and Transfer" funded by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). The information in this publication is solely based on the project documentation provided by the project implementer(s).