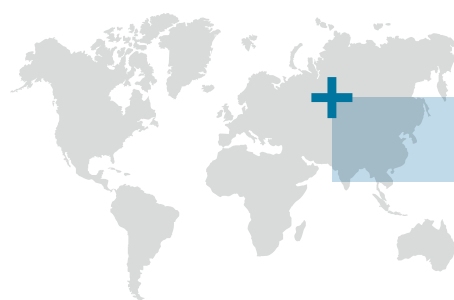


IN FOCUS:

# ENABLING POLICY ENVIRONMENT



## SUBJECT

There is a range of reasons for establishing agricultural and climate risk insurance, including adaptation to climate change, food security, disaster risk management or social protection. Regardless of the motives, however, creating an effective insurance system inevitably cuts across various political spheres. Thus, the first key element is to create a broad consensus amongst policymakers and their commitment to creating an enabling policy environment. This includes the integration of agricultural and climate risk insurance into respective national policies, strategies and action plans.

Coordination across government sectors is crucial to avoiding contradictory incentives amongst stakeholders: a government can, for example, crowd out insurance solutions through the provision of public social protection programs. Mobilizing public resources and creating a suitable regulatory framework are further imperative policy requirements for setting up effective agricultural and climate risk insurance systems.

## CHALLENGES IN CHINA

Since 2003 the Chinese government has supported agricultural insurance. The main focus was to promote individual farmer multiple peril crop insurance (MPCI) which requires physical loss verification. The China Insurance Regulatory Commission (CIRC) wanted to analyse how innovative insurance approaches could complement the existing products.

At project inception, the regulator only wanted to carry out product research but had no intention of actually licensing innovative products, such as index insurance, because they did not want to disrupt public trust in agricultural insurance. One major reason for CIRC's position was the lack of a regulatory framework for index-based insurance targeted at small-scale farmers. The main tool for the promotion of MPCI was through premium subsidies that were sourced from national and sub-national budgets. The subsidy level ranged from 50 to 80 percent. As provincial and local governments were not familiar with index-based insurance, these products were not eligible for subsidies and were, therefore, not able to compete on a level playing field with indemnity insurance. There was no active dialogue between the regulator and the provincial/local government on the need for innovative insurance and its welfare benefits.

On behalf of

## SOLUTIONS

### Support evidence-based policymaking

**Creating an enabling policy environment.** In a complex political environment, such as China, the partners and stakeholders need to be given the time to form their opinion based on sound research. Through this approach, the political partners should be comfortable with the strategic direction of the product development at all times. This ensures that the ground is prepared for both licensing of the product and provision of premium subsidy.

**Identifying the protection needs of farmers.** The project worked closely with the China Meteorological Administration (CMA) to analyse the risk exposure across sectors and regions in China. Through a consultative process, the geographical focus, as well as the target group for innovative insurance, were narrowed down.

**Engaging stakeholder.** Throughout the entire product development process in the pilot province Fujian, the political partners at the national, provincial, and local levels were continuously engaged. All research activities, household surveys, and stakeholder discussions were attended by representatives of CIRC and CMA from the national and provincial level as well as provincial and local governments.

**Creating a sound knowledge base.** On the national level, CIRC supported carrying out a diagnostic study on microinsurance. The objective was to provide a solid evidence base for the development of new regulations that would help grow the insurance market for poor farmers. This policy process was carried out in partnership with the International Association of Insurance Supervisors (IAIS).

## LESSONS LEARNED

The involvement of stakeholders from lower government levels is particularly important for projects in larger countries or countries with a high level of fiscal decentralization. The success of agricultural insurance projects often depends on the provision of financial and technical support from partners at the local level. This support can come in the form of premium subsidies, access to production and income data, use of weather station infrastructure, or use of extension services. In China, the continuous involvement of government partners at the local level led to the provision of subsidies for the new insurance scheme.

The success of insurance projects always depends on the support of two different sets of political actors: institutions that are in charge of licensing and supervising insurers and institutions that provide budgets to support farmers. The involvement of both sets of actors from the beginning is key in securing both licensing approval and subsidy support.

A critical issue for agricultural insurance is the timing of political decisions: by the time the pilot product was designed in 2011, the deadline for securing fiscal support at the local government







level had already passed. Introducing the product had to thus be delayed by one year as agricultural insurance products are tied to the cropping cycle. A good understanding of policy processes is important to avoid such setbacks.

Insurance is only one instrument within the development agenda of the agricultural sector. In times of tight budgets, policymakers require good reasons to allocate funds for premium subsidies. Sound analysis of the welfare effects of agricultural insurance helps convince decision makers of the benefits of agricultural insurance.

The involvement of the IAIS is an efficient way of improving the standing of the project. Apart from the access to its knowledge pool, the involvement of the IAIS helps engage high-level decision-makers from the national regulatory authority and show staff that the innovations generated by the project are in line with international best practices.

## OUTCOME

In 2012, CIRC introduced the Agriculture Insurance Ordinance. Neither the Ordinance nor the Insurance Law specifically mention index insurance. However, both documents are written in the spirit that all products that are beneficial to farmers can be approved by CIRC on a case-by-case decision. So far, CIRC has given its approval for two index-based insurance schemes.

Agricultural insurance has witnessed a tremendous growth in China. During the last year of project implementation in 2013, the gross written premiums reached USD 5.1 billion, making China the second largest agricultural insurance market in the world. Index insurance products, however, still do not play a significant role in the market.

However, as a direct outcome of the project CIRC licensed two frost and flood index insurance products in Fujian. In 2012, China Life P&C Insurance Company sold the product to 1,066 cash crop farmers with 1,400 hectares of land. By the end of the project, the premium volume had increased by 210%.

**Name of programme:**

Insurance Instruments for Adaptation to Climate Change (IIACC)

**Duration:**

October 2008 – February 2014

**Programme area:**

China

**Pilot region:**

Fujian

**Cooperation partner:**

China Insurance Regulatory Commission (CIRC)

**Local partner:**

China Meteorological Administration (CMA) and China Life P&C Insurance Company

**Target group:**

Small-scale farmers and rural households

**Contact person:**

Advancing Climate Risk Insurance plus  
E acri@giz.de

**Photo credit:**

single credits to be checked with acri@giz.de

April 2019

**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 and Nuclear Safety (BMU). The information in this publication is solely based on the project documentation provided by the project implementer(s).