



INTERNATIONAL FOOD POLICY
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sustainable solutions for ending hunger and poverty

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Innovations in insuring poor people

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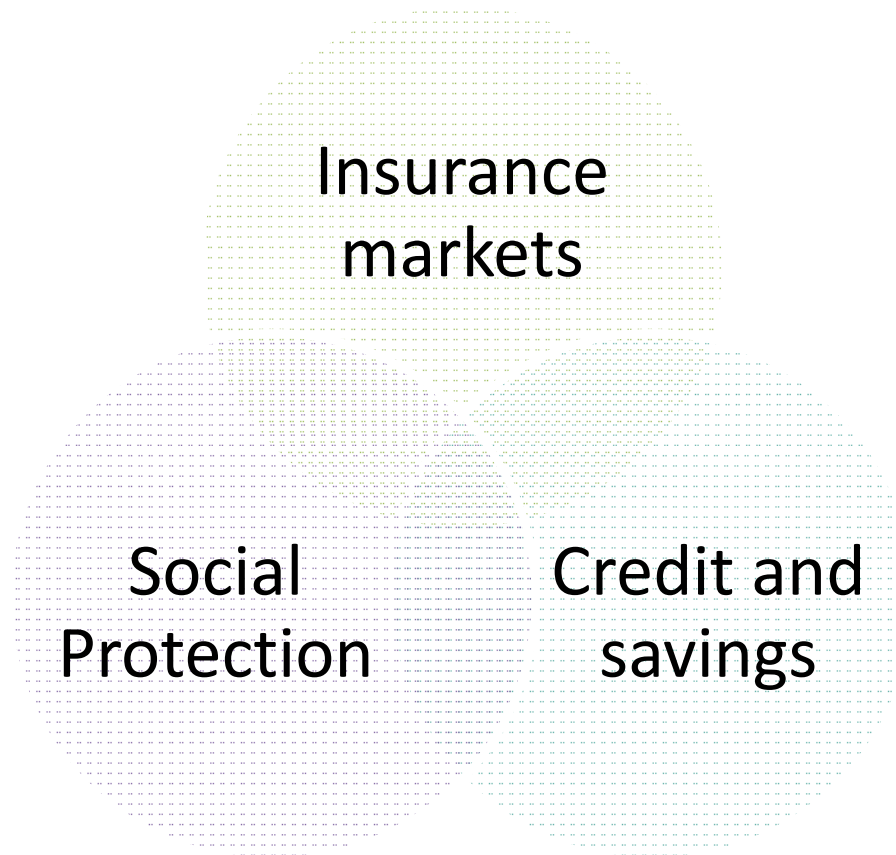
The cost of uninsured risk

- Uninsured shocks results in income loss, consumption cut-backs, sales of productive assets
 - Immediate and long lasting effects
- Even the potential of an uninsured shock has welfare costs:
 - Households take action to limit exposure to risk, reduces growth in the long run
 - Poor households incur substantial costs to manage risk
- Reduce risk: low-cost irrigation, drought-resistant seeds, improved sanitation etc
- How to manage risk that remains?

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Three tools to manage risk





Social
Protection

- Social protection:
 - Increase assets
 - Provide transfers when shocks occur
- When well targeted and reliably distributed can help insure very poor households for whom insurance is likely to be out of reach (John Hoddinott)
- Can insure risks difficult for private insurance companies to manage



Credit and savings

- Savings and borrowing is widely used to protect consumption from shocks
- Very flexible, can be used when needed – many different types of savings and credit tools that are useful in different settings (Richard Hornbeck)



Insurance
markets

1. Strengthening social protection, savings and credit

- Linking insurance and social protection
 - Can help ensure social protection does its job (Mexico, Amado Villarreal)
 - Can help extend insurance to more households by layering risks and making insurance cheaper (Mongolia, Olivier Mahul et al)
- Linking insurance, savings and credit
 - Ensures financial markets still work when widespread shocks strike (India, Ruchismita and Varma)
 - Optimal use of savings



Insurance
markets

2. Products for poor households

Health insurance

- Technological innovations for cashless care (Microensure, Leftley)
- Institutional innovations with community based health insurance helps provide cost effective care that combats problems of adverse selection (Senegal, Jutting and Cambodia, Levine)

2. Products for poor households

Index-based agricultural insurance (Hess and Hazel, Carter, Giné, Meherette, Leftley)

- Cheap to provide and solves problems of adverse selection and moral hazard
- Makes previously uninsurable losses insurable
- But low demand when sold alone suggests it doesn't yet fit the needs of poor households:
 - High basis risk, still quite expensive, difficult to understand, not flexible

Still need to innovate

- Further work to develop insurance products that fit the needs of poor people. [Weather securities?](#)
- How can public investment help?
 - Investments to reduce basis risk: weather stations, soil moisture assessments, institutions and research that assess the cost of basis risk
 - Public insurance of basis risk
 - Investments in financial literacy
- How can linking help?
 - Link index products to group insurance schemes: to counter basis risk (Dercon)
 - Link insurance purchases to savings schemes: to help farmers pay insurance premium
 - Link insurance and public works: to help farmers pay premium (Oxfam in northern Ethiopia)

Linking insurance and social protection

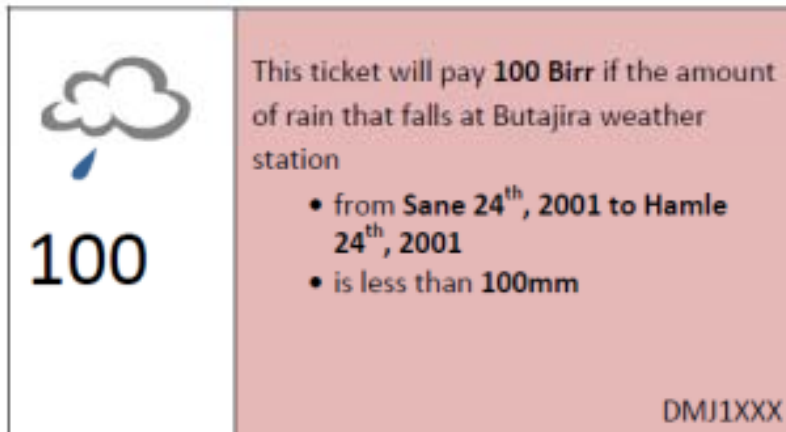
- Still unexplored potential for insurance to support functioning of social protection
 - How can index-based products be used more to insure government payouts in times of crisis
 - How can government payouts be provided in a timely manner with certainty
- What role is there for subsidizing insurance :
 - Ethical and moral imperative to protect poor households – the poorest seem least likely to buy
 - Efficiency argument
 - Voluntary payment of full-cost insurance will likely result in much less than full insurance coverage
 - How to subsidize in a smart way?

Concept

- Instead of offering a single contract, offer a series of simple “building block” contracts
- Each contract is the simplest state-contingent contract one can think of: it pays a fixed amount if the state written on the contract comes true
 - Arrow-Debreu securities or put and call options for weather
 - When combined they approximate payouts of more complex contracts

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