Global Index Insurance Facility (GIIF)

An innovative IFC-led, funded by EC program that is expanding access to insurance for natural disasters and weather risks in developing countries

Launch Event in Nairobi on 2nd Dec 2009
# Traditional vs. Index-based Insurance

<table>
<thead>
<tr>
<th>Traditional Crop Insurance</th>
<th>Index-Based Insurance</th>
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<tbody>
<tr>
<td><strong>Farmer insures crop for loss</strong> (i.e. if 20% of crop yield is damaged, insurance company pays damages)</td>
<td><strong>Advantages</strong></td>
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<td><strong>Challenges</strong></td>
<td>• Reduced moral hazard, independent determination of loss</td>
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<tr>
<td>• Moral Hazard</td>
<td>• Lower administrative costs</td>
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<td>• Claims have to be individually checked for actual yield loss</td>
<td>• Ability to transfer CAT exposures efficiently into international markets</td>
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<td>• High transaction cost - premiums often subsidized</td>
<td>• Versatility: Potential to bundle with other financial services</td>
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<td>• Cause of yield loss is difficult to identify</td>
<td>• Flexibility to target diverse level of risk aggregation (dev. orgs, governments, institutions, end-users)</td>
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<td>• Difficult to expand in developing countries especially for small scale farmers.</td>
<td>• Simplified assessment of Risk and claims</td>
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Global Index Insurance Facility

Objectives

• To develop sustainable local markets for index-based insurance to mitigate against weather and natural catastrophe risks in developing countries.

• Improve lending in the Agriculture sector through mitigation of weather risk

• Mobilize local private sector / global players

• Establish knowledge management and distribution platform on Index Insurance
Facility Structure

Global Index Insurance Facility (GIIF)

Technical Partners
- Underwriting Capacity
- Knowledge transfer
- Equity investments to support capitalization of re/insurance companies

GIIF Trust Fund (GTF)
Funding for Development (First priority region Sub-Saharan Africa)

Partial Premium Support
Local Capacity Building
Regulatory and Policy reforms

Role of the GIIF Trust Fund (GTF)
- Seek expressions of Interest, support regional initiatives
- Knowledge Management and Distribution Center
- Funding available to support initiatives in ACP, Latin America, South and East Asia
Local Capacity Building

- Development of skills and knowledge transfer
- Development of underwriting capacity and delivery mechanisms for indexed/parametric products
- Support local risk transfer projects
- Scaling-up of existing projects to commercial viable scales
- Awareness raising / financial literacy
- Standardization of procedures
- Regional training seminar
- Weather data: hardware, acquisition, quality improvement, adaptation of alternative technologies
Regulatory Policy and Capacity Building Related Assistance

The GTF will allocate funds to support policy and regulatory reforms to be carried out with World Bank support.

Activities will include the following:

- Developing the regulatory environment for index and parametric insurance products
- Educating public officials
- Training financial sector supervisory staff
- Advising sovereign and sub-sovereign entities in the transfer of catastrophe and weather insurance risks through index and parametric instruments.
- Regulatory capacity building at national and regional level
Premium Support

- Premium support can be provided, subject to stringent conditions and for transitional periods.
- Premium support requires an effective market tender process.
- The insured will make a meaningful contribution to the cost of the premiums.
First round of projects in Africa

- **Capacity Building projects**
  - NAIC Nigeria
  - FANAF 14 Francophone countries
  - PlaNet Guarantee Senegal, Burkina Faso, Mali, Cote d'Ivoire, Niger, Benin, Togo

- **Regulatory and Policy Reform projects**
  - UAP/Syngenta Kenya
  - ILRI Kenya
  - MicroEnsure Rwanda

- **Pipeline projects**
  - UAP/Syngenta Kenya
  - ILRI Kenya
  - MicroEnsure Rwanda
  - Tanzania
  - Zambia

**14 Francophone countries**: Senegal, Burkina Faso, Mali, Cote d'Ivoire, Niger, Benin, Togo, Ethiopia, Zambia, Tanzania, Uganda, Mozambique

**Country Codes**:
- NAIC: Nigeria
- FANAF: 14 Francophone countries
- PlaNet Guarantee: Senegal, Burkina Faso, Mali, Cote d'Ivoire, Niger, Benin, Togo
- UAP/Syngenta Kenya
- ILRI Kenya
- MicroEnsure Rwanda
- Tanzania
- Zambia
- Uganda
- Mozambique
Expanding GIIF to other regions

- Latin America and Caribbean
- East Asia/Pacific
- South Asia
Key ingredients to develop index insurance

- Enabling legal and regulatory environment for insurance and consideration for index insurance products
- Good and sufficient weather data and adequate infrastructure (number and quality of weather stations)
- Coverage of the “right” risks: less frequent but higher impact events that cause existing coping mechanisms to fail
- Adequate capacity building for local institutions to develop the needed technical skills to analyze risks and develop, price and distribute appropriate and affordable insurance products
- Existence of local “champions”
- Support of reinsurers
- Awareness raising and training for beneficiaries as well as product marketing campaigns
- Best if insurance is offered as part of wider package of services
Challenges in moving forward

- Availability and quality of weather data and weather measuring infrastructure
- Technical capacity of local institutions to develop index insurance products
- Attracting the attention of large re-insurers
- Ability to raise awareness amongst beneficiaries (e.g. farmers, rural households, etc.)
- Distribution channels to reach beneficiaries in a cost efficient manner
- Cost of insurance and the ability and willingness to pay for insurance premiums
- Climate change and uncertainty about weather events
Working with GIIF

• GIIF would like to work with local financial institutions, insurance companies, agri-sector institutions and regulatory bodies to build capacity for index-based insurance products.

• GIIF will provide eligible projects with development grants, in accordance to its policies, to support the following key areas
  - Capacity building
  - Policy and regulatory reforms
  - Partial premium subsidy
  ❖ GIIF is particularly interested in Risk Transfer Projects that addresses the entire product development cycle leading to actualization of some tangible results

• GIIF is open to working with multiple partners to maximize contribution to it objectives.

• Program team open to receive enquiries, ideas and suggestions
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