

# From Innovation to Learning

Creating a CDRFI Roadmap



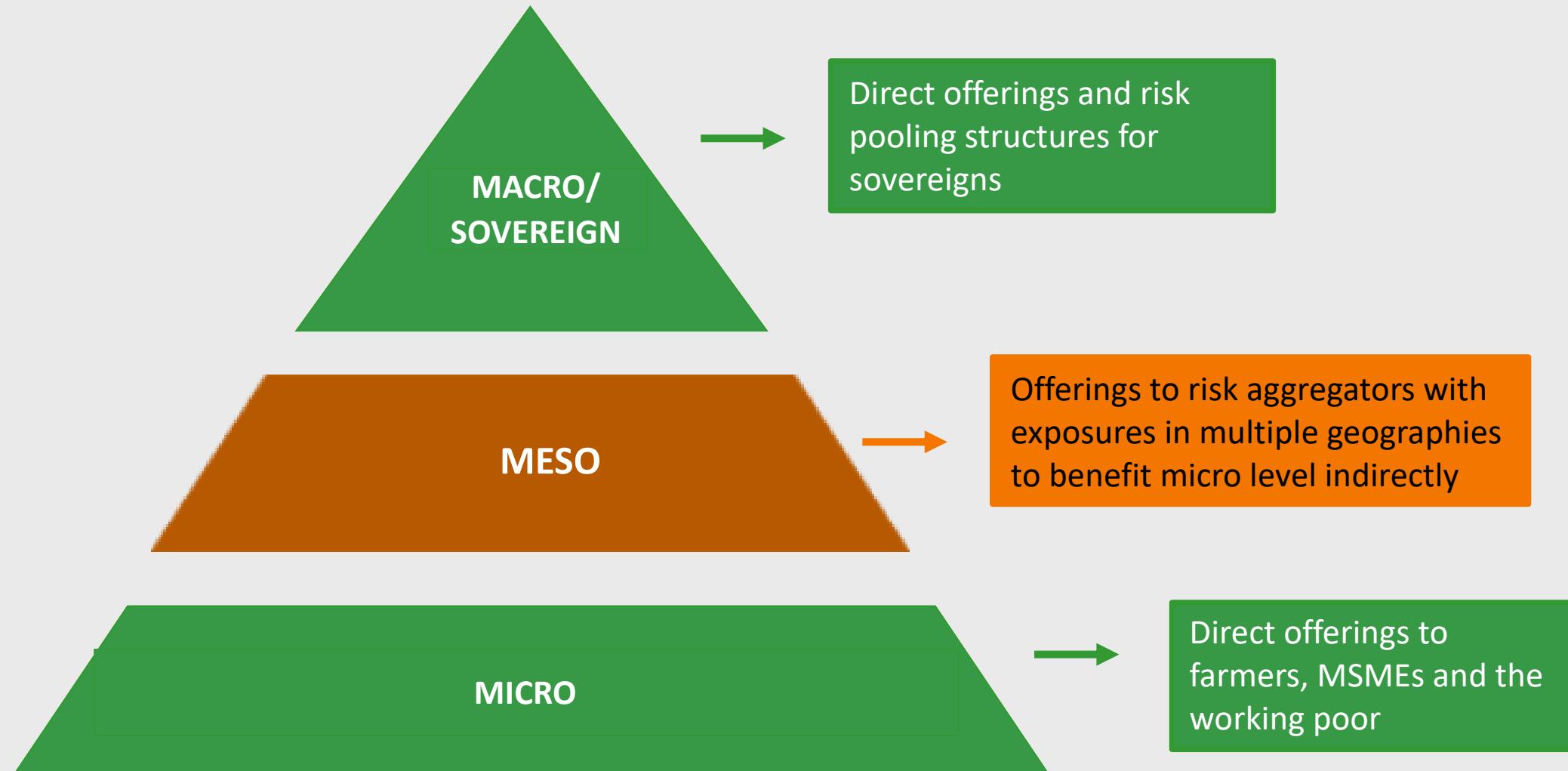
InsuResilience  
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# Agenda

- Introductions
- Meso-Level Insurance/Risk Transfer Context
- Research Landscape Overview
- Research Gaps
- *Discussion*

# Context



## Firm level

- Products created specifically for firms, including microfinance institutes and other firms exposed to weather or natural hazard risk, especially firms that can be considered “risk aggregators” or financial intermediaries

## Aggregation of Individual level

- Products that aggregate retail level demand, usually for the purposes of increasing access and decreasing transaction costs.

# Firm Level Research Themes

- Demand
  - Utilities use of weather derivatives has led to improved financial performance/market valuations (Perez-Gonzalez and Yun 2010)
  - Older firms are more likely to protect against infrequent events (Collier et al. 2017).
- Access to credit
  - Detrimental Impact of disasters on local credit supply (Collier and Babich 2019; Collier, Katchova, and Skees 2011).
  - Increased cost of capital in countries more vulnerable to natural disaster shocks (Buhr et al. 2018)
  - Theoretical benefits of parametric protection for managing credit supply shocks (Collier 2020; 2015; Collier and Skees 2012; Skees and Barnett 2006).
  - Lenders are much more likely to approve agricultural loans when the loans are insured and any payments protect the lenders (Mishra et al. 2019)
- Meso vs Micro
  - Parametric, extreme weather protection may be more feasible to implement through risk aggregators than direct microinsurance products, especially given concerns over the impact of basis risk on microinsurance clients (GlobalAgRisk 2011; Miranda and Gonzalez-Vega 2011).
  - Notable potential benefits from meso level approach including basis risk management, greater efficiency for delivery, client education and regulatory management. Yet, more evidence on the positive impacts of meso-insurance for the low-income indirect beneficiaries is needed to demonstrate the value to donors and governments. (Miranda and Farrin 2012)

# Aggregation Research Themes

- Demand
  - The studies highlight that farmers often prefer group over individual insurance contracts and a majority of the participants who are offered group insurance purchase insurance within their groups (Vasilaky et al. 2020).
  - The ability to discuss and understand index insurance with peers and/or to negotiate with peers can also contribute to farmers' preference for group contracts (Vasilaky et al. 2020).
- Group Dynamics
  - Groups of farmers who perceive each other to be more similar in farm size are more likely to purchase in a group, but purchase less insurance on average. Also, individuals randomly assigned to less similar groups with regards to farm size purchase more insurance on average (Vasilaky et al. 2020; Ghatak 2000).
  - It was found that in the context of perfect information about investment decisions of other group members, farmers covered by group insurance pursue less risky investments—with lower expected returns—than when covered by individual insurance (Munro 2017; Duflo et al 2008).
- Informal Insurance
  - Informal insurance is found to be more of a reality at the group level, where different sub-groups insure one another, and act as a complete network, even though any two individuals from those sub-groups may not be connected. The more information participants have about one another's assets, the less insurance they contribute to the collective insurance (Takahashi, Barrett, and Ikegami 2018).
  - Informal risk sharing does complement index-insurance due to the presence of basis risk, and groups leaders trained on the benefits of informally insuring idiosyncratic risk within the group had higher levels of uptake (Dercon et al. 2014).
  - Several studies have highlighted the efficiency gains of self-selection in risk sharing arrangements (Chandrasekhar, Kinnan, and Larreguy 2013; Breza, Chandrasekhar, and Larreguy 2013; Gine, Jakielo, et al. 2010).

# Gaps

## Firm level

- More empirical evidence on benefits to both risk aggregators and their clients.
- What are the costs associated with a lack of extreme weather protection (i.e. cost of capital, slower economic growth, poverty traps)? Who bears these costs (risk aggregators, their clients, donors)?
- Who generally pays for protection (risk aggregators, their clients, donors)? Are there better ways of distributing the cost of protection?

## Aggregation of Individual level

- More studies and evidence are needed on how group dynamic factors – ‘group selection, the information environment, risk preferences of group members and the regulation of payout distribution’ influence insurance uptake and how it impacts the contract.
- More evidence to prove the risk layering concept of ‘informal risk sharing and retention for small frequent loss and formal risk transfer for larger infrequent loss’.
- Evidence on how customizing solutions for end clients like bundling life/ health insurance or additional services can increase the demand and its impact on end clients.
- Do we have any evidence or sustainable results from case studies – ACRE Africa, Fresh Co Kenya, NWK Agriservices and National Farms union Zambia (GIZ, 2017)

# Discussion

- Existing Research
  - What's missing from the brief?
  - Meso
  - Aggregation
- Gaps
  - Meso
  - Aggregation
- Moving towards evidence roadmap