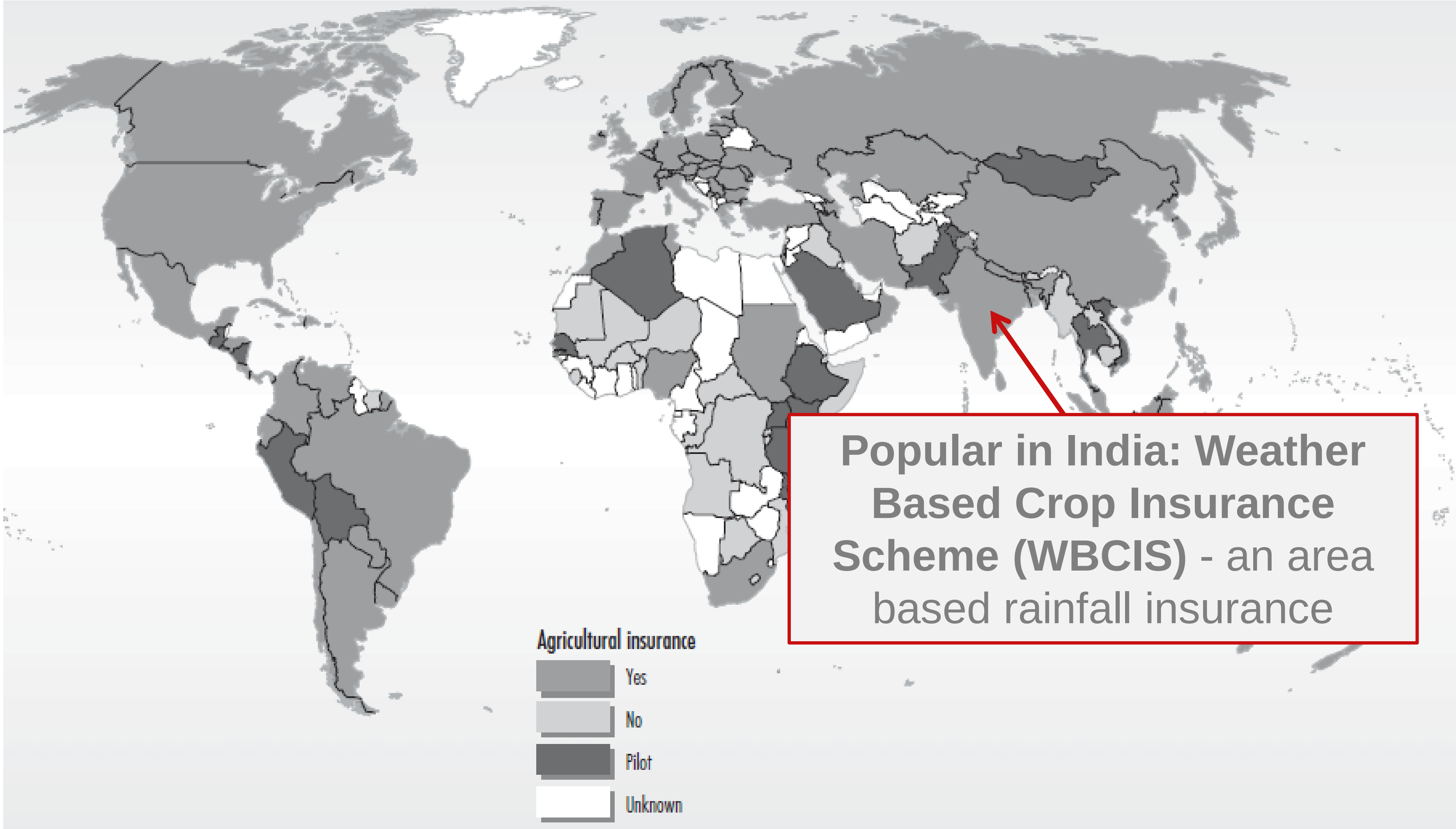
Agricultural Insurance

a responsive approach to built resilience

- Agricultural Insurance is a **risk relaxation mechanism**
- **Basic concept :** losses that occur to a few are shared by many / losses that occur in bad years are compensated by savings from good years (spread and share risks)
- **Tool to stabilize farm income by providing economic support**

Status quo (World Bank survey, 2008)



Popular in India: Weather Based Crop Insurance Scheme (WBCIS) - an area based rainfall insurance

Basic types of agricultural insurances (AI)

✓ **Yield-based Insurance:** indemnifies the cultivator against shortfalls in yield

+ *actual* losses are measured

- laborious, time-consuming sample cutting to obtain actual yield data

✓ **Weather Index-based Insurance**: compensation is paid for *estimated* losses, based on weather data

+ data are independently obtained → high transparency, faster claims settlement

- costs for weather stations' establishment and maintenance; low coverage leads to inaccuracy

Benefits

- **Enhances capacity** to respond to and rebuilt after unfavorable events
- **Reduces indebtedness**
- Facilitates access to credit markets
- Serves as **credit collateral**

→ **improves climate-resilience by mitigating risks**

Drawbacks

- **Financial viability** (administrative costs + claims exceed premiums)
- **Basic risk** (under/over-compensation)
- **Moral hazard** (indifferent behaviour)
- **Mal-adpative behaviour** (reduced set of adaption strategies)

Are there Agricultural Insurances available in your country?

How do they help to mitigate risks?