Researchers
Xavier Giné
World Bank

How to Boost Demand for Rainfall Insurance

IPA Research Affiliate Xavier Gine has an article on the World Bank's finance blog discussing microinsurance for farmers.

> Ask small farmers in semiarid areas of Africa or India about the most important risk they face and they will tell you that it is drought. In 2003 an Indian insurance company and World Bank experts designed a potential hedging instrument for this type of risk—an insurance contract that pays off on the basis of the rainfall recorded at a local weather station.
>
> Despite the potentially large welfare benefits, take-up of the product has been disappointingly low. Explanations for this low demand abound.

Gine offers 3 main reasons for low demand:

1. Price

2. Liquidity constraints for farmers

3. Trust in the insurance company

> These results point to several possible improvements in contract design. For example, the trust issue might be overcome by designing a product that pays often initially, since it is easier to sell insurance where a past payout has occurred. Liquidity constraints might be eased by ensuring that payouts are disbursed quickly or by offering loans to pay the premium. Finally, agricultural loans could be bundled with insurance, creating what is in effect a contingent loan, with the amount to be repaid depending on the amount of rainfall.

IPA has implemented two rainfall insurance projects in Ghana (here and here). The most recent project insured both for drought (too little rain), and too much rain. As one of our pay-out officers discovered to his dismay.

January 19, 2011