

New publication shows index insurance has potential to help manage climate risks and reduce poverty (w/Video)

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Climate has always presented a challenge to farmers, herders, fishermen and others whose livelihoods are closely linked to their environment, particularly those in poor areas of the world. A type of insurance, called index insurance, now offers significant opportunities as a climate-risk management tool in developing countries, according to a new publication launched today during a workshop at the Global Humanitarian Forum (GHF) in Geneva.

The report, called Index Insurance and [Climate](#) Risk: Prospects for development and disaster management is part of the Climate and Society series produced by the International Research Institute for Climate and Society (IRI). The IRI published the report in partnership with the [United Nations](#) Development Programme, the International Fund for Agricultural Development, Oxfam America, Swiss Re, the US National Oceanic and Atmospheric Administration and the World Food Programme.

"As an innovation, index insurance may hold answers for some of the more obstinate problems faced by the poor and the vulnerable," writes GHF President Kofi Annan in the report's foreword. "I hope this publication will help us to appreciate how much has been learned over the last few years, and show us where we can usefully concentrate our collective efforts."

For poor people, a variable and unpredictable climate can critically restrict livelihood options and limit development. For example, banks are unlikely to lend to farmers if they think a drought will cause widespread defaults, even if the farmers could pay back loans in most years. The farmers' lack of access to credit limits their ability to buy improved seeds, [fertilizers](#) and other inputs.

Index insurance represents an attractive alternative for managing weather and climate risk because it uses a [weather](#) index, such as rainfall, to determine payouts. This resolves a number of problems that make traditional insurance unworkable in rural parts of developing countries. With index insurance contracts, an insurance company doesn't need to visit the policy holder to determine premiums or assess damages. Instead, if the rainfall recorded by gauges is below an earlier, agreed-upon threshold, the insurance pays out. Such a system significantly lowers transaction costs. Having insurance allows these policy holders to apply for bank loans and other types of credit previously unavailable to them.

However, if index insurance is to contribute to development at meaningful scales, a number of challenges must be overcome. For example, some efforts to implement index insurance failed due to lack of capacity, institutional, legal and/or regulatory issues, lack of data, and other constraints. The new publication looks at the technical and operational challenges that currently limit the growth and spread of index insurance. It highlights a number of case studies of the various applications of index insurance across the world thus far. Among them are:

- A public-private partnership program in Brazil to support farmers

- A multinational scheme in the Caribbean for earthquake and hurricane risk
- A national program in Ethiopia to complement a drought early warning system
- A program to enable access to credit for smallholder farming communities in Malawi
- Public and private programs in India that offer contracts across many states, for many crops, covering a range of risks, from excessive rainfall to extreme temperatures

"Only the richest three percent of people in the world are covered by insurance," said Olav Kjørven, UNDP Assistant Administrator and Director of the Bureau for Development Policy. "The world's poor have been completely left out, even though they are the most vulnerable people most in need of protection. Droughts, floods and hurricanes often strip whole communities of their resources and belongings. Index insurance, however, could finally enable millions of poor people to access financial tools for development and properly prepare for and recovery from climate disasters."

Up to this point, a number of projects have shown that index insurance can be feasible for people living on just two dollars a day. Since 2005, some farming communities in Malawi, for example, have been able to buy small insurance contracts to cover the purchase price of seeds in case of drought. Nearly two million Indian farmers have had access to index insurance programs since 2003. But in order to achieve their full potential, applications of index insurance will need to scale up to reach many more people.

"The excitement here is that we're applying new thinking to confront

long-standing problems," says Stephen E. Zebiak, the IRI's Director-General. "As the publication details, we do this by using innovative science and technology, by enhancing the role the private sector plays, by connecting to international risk pooling, and by working with countries to develop the capacity of their people and institutions. This publication highlights the critical importance of tackling this agenda, together."

Source: The Earth Institute at Columbia University ([news](#) : [web](#))

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