Welcome to the LEGS Webinar: Livestock & Insurance

The webinar will begin shortly

Discussion Paper Author and Webinar Presenter:

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Webinar Facilitator:

- Suzan Bishop, LEGS Technical and Project Manager

Webinar Administrator:

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Introduction to the Webinar

- Format:
  - Presentation on Discussion Paper key findings
  - Response to participants' questions
- Please note:
  - Put questions in the Q and A box at any time during the webinar
  - At the end of the presentation, the presenter will respond to the questions
  - We'll aim to respond by email to any outstanding questions after the webinar
  - The webinar will be recorded, and sent out by email and uploaded to the LEGS website

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LIVESTOCK INSURANCE

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Types of livestock insurance systems

- Broadly consist of two groups and four insurance types
- Traditional livestock insurance systems
  - Social insurance schemes
  - Conventional insurance schemes
- Emerging livestock insurance systems
  - Loan-based insurance schemes
  - Index-based insurance schemes (IBLI)

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Social Insurance Scheme

- *An effective social insurance system where wealthy households provided livestock to needy families affected by drought, conflict, livestock diseases, etc*
- *The system excluded households falling into destitution due to mismanagement of livestock assets*
- *The system has been practiced largely in the East Africa region*

- This system is being overwhelmed by increasing levels of pastoral destitution and the changing way of life
- Households that don't benefit have become paid herders, daily labourers, firewood and charcoal producers, etc
- Unemployed youth have become cattle raiders in Darfur and S. Sudan
- Needy households wait up to five years to benefit from the system (Borana)

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Conventional insurance system

- Conventional insurance companies provide life and non-life coverage – such companies are internationally re-insured for catastrophic losses
- Coverage focuses on commercial livestock farms of scale
- This could be for individual (high value) animals, or for herd, or for herd + infrastructure (assets)
- Indemnity levels vary by company policy, premium level
- Cause of death/injury must be approved by a vet
- Proportion of losses to be covered by insurees (up to 20%)

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Conventional insurance cont'd

- Indemnity is paid on individual's loss assessment (i.e. on a case-by-case basis) – unlike IBLI
- Small livestock farmers uninsurable because of the costs associated with individual loss assessment and premium sales – small farmers are not profitable
- Conventional insurance companies do not cover losses caused by drought, conflict, disease outbreaks (such as foot and mouth disease)

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Loan-tied insurance schemes

- Usually initiated by governments, NGOs or bilateral projects to safeguard livestock loans given to small farmers as part of a development programme (for increased milk/meat production)
- Insurance coverage is tied to the specific project life and is usually for a short period (6 months to 2/3 years)
- Premium purchase is necessary to qualify for loans in such cases. Varying levels of subsidies are applied
- Similar to conventional insurance systems, losses are assessed on a case-by-case basis

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Loan-tied insurance, cont'd

- Insurance is administered by government insurance companies or NGO-managed micro-insurance agencies
- In countries like India and Bangladesh, this has led to the proliferation of NGO micro-insurance systems
- A new development: NGOs are also providing vet services and advice on feeding practices to their clients to minimize losses
- Positive: such schemes cover losses due to drought and other natural calamities.
- The concern is in the case of catastrophic losses as micro-insurance companies are not re-insured in most cases

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Index-based livestock insurance (IBLI)

- A variant to conventional insurance systems
- Losses are assessed either on livestock mortality levels (e.g.World Bank in Mongolia) or on specified geographic units based on Normalised Difference Vegetation Index (NDVI) readings before animals die (e.g.ILRI, WFP in Kenya and Ethiopia)
- The challenge is keeping insurance companies profitable while making the system attractive enough for herders

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IBLI Cont'd

- As a result, the system seems to be skewed to favour insurance companies
- In Mongolia insured farmers retain herd losses of up to 10%; get paid if mortality exceeds 10% but up to a maximum of 30% (i.e. for 20% of losses); government to cover losses in excess of 30%
- In Kenya + Ethiopia, indemnity is triggered when forage scarcity exceeds 80% of the NDVI
- No payment is made even if animals die before the 80% NDVI strike point
- The amount that herders get paid depends on the specific index readings of the last 20th percentile in the two payout months in a given year

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IBLI cont'd

- A total of $615,700 were made through two payouts in Mongolia between 2005 and 2015. Insurance companies made a profit of $100 million in the same period
- Such figures are not available for IBLI Kenya and Ethiopia, but premiums have been rising
- In 2010 premium rates in Kenya varied between 5.5 and 9.2% for different geographic units; and between 7.27 and 11.11% in Ethiopia since 2012. This was subsequently raised to 16.15% for a new IBLI initiative. Yet, indemnity levels haven't changed
- Indemnities are not paid outside of the payout months even if index readings exceed the 80% strike point

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Example of NDVI payment

- Payout is made either in August or February for long and short dry seasons
- The payout for the long dry season consists of 58% of the Total Sum Insured (TSI) and 42% for the short dry season in any given year
- The indemnity amount per head of cattle in Ethiopia, is $100 for a premium rate of $16.15
- A NDVI reading of 85% for the long dry season implies a 14.5% payout of the TSI ($14.50) and for the short dry season 10.5% of the TSI ($10.50)
- This payout is intended for purchase of feed, drugs and water to save animals

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Sustaining IBLI through subsidies

- Data on subsidy levels is not available for Mongolia; but banks provide discounts on loan interest for IBLI insured herders
- In Kenya, premium subsidies ranged between 2 and 3.7%, but the subsidy level must have been higher than that because of undisclosed NGO subsidy contribution
- In Ethiopia, premium subsidies range from 30 to 100% depending on the IBLI project and insurance company promotions
- What is the fate of IBLI when subsidies are phased out?

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IBLI and loan + insurance scheme in LEGS?



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Summary

- IBLI is an experimental intervention outside the realm of LEGS; only two projects have lasted more than 10 years with fluctuating numbers of policy holders
- Some heavily subsidized IBLI projects are designed to last for three or for five years, the continuation of which remains uncertain
- Insurance companies are disproportionately benefitting compared to indemnities they pay
- Loan + insurance schemes are tied to specific projects of short duration. Subsidy, premium and interest levels vary by country
- Is there scope for NGOs or pastoral civic organisations to run IBLI type insurance schemes where profits could be repatriated to communities? Just an idea!

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Implications for LEGS

- IBLI's practice is limited to three countries where only a small herding population is insured with IBLI
- IBLI's sustainability and adaptation for inclusion in LEGS can only be assessed when:
  - ✓ IBLI's practice is expanded to more countries representing a wider geographic region
  - ✓ When a good proportion of livestock keepers become policy holders in these countries
- Loan + insurance schemes necessitate specific projects for which the loans are intended. Insurance schemes, in such cases, are for protecting the loan
- Available evidence suggests that it is too early to include IBLI or Loan + Insurance schemes in LEGS

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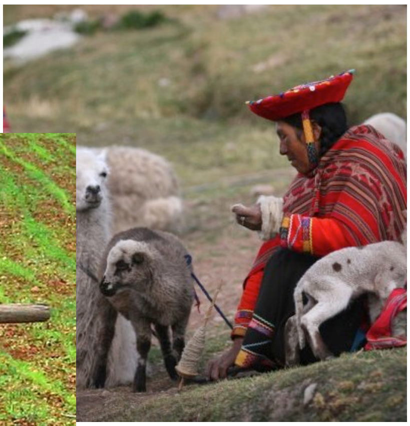
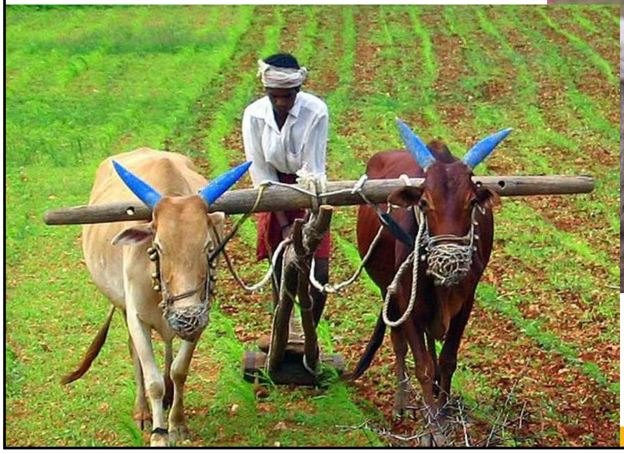
Thank you





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