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Public-private partnerships for agricultural insurance

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Focus

1

Public Private Partnerships (PPPs) in Agricultural Insurance

Rationale for PPPs

Role of government support to PPPs

Premium subsidies and costs

2

International Experience with PPPs in Agricultural Insurance

Spain (pool)

India (open-market competition)

3

Lessons and Conclusions

International experience shows that Public Private Partnership (PPP) models bring scalability and sustainability

LEVEL OF GOVERMENT INTERVENTTION

Fully intervened Public Sector Systems

- ✓ High Level of Penetration of Agriculture Insurance
- ✓ Well Diversified Portfolios
- ✓ Social Criteria prevails over the technical and commercial criteria
- ✓ Poor services to the farmers (usually monopoly).
- ✓ These systems are usually not reinsured. Governments assume full liability
- ✓ High Fiscal Cost for Governments

Examples: Very few remain in 2025. Philippines (PCIC); Indonesia; Canada (several provinces), Panama (ISA), Uzbekistan

Public-Private Partnerships

- ✓ High Level of Penetration of Agriculture Insurance
- ✓ Well Diversified Portfolios
- ✓ Technical Criteria prevails over the Social and Commercial criteria
- ✓ Pool sets terms and conditions, Insurance companies competes for service.
- ✓ Public sector provides the plans /guidelines and financial stability
- ✓ Private sector provides know how and operations.

Examples: Widely adopted in 2025. USA, China, India, Spain, Turkey, Italy, Mexico, Brazil, South Korea, Morocco, Georgia, Kazakhstan

Purely Market Based Systems

- ✓ No fiscal Cost for Governments
- ✓ Low to moderate levels of penetration.
- ✓ Low risk diversification.
- ✓ Usually these markets offer named-peril crop hail
- ✓ Commercial Criteria prevails over technical and social criteria (price war)

Examples: Widely adopted in 2025. Germany, Austria, Netherlands, Sweden, Argentina, Uruguay, Australia, New Zealand, South Africa, Algeria

NUMBER OF PLAYERS AND PRODUCT DIVERSIFICATION

Source: Iturrioz 2010; Mahul & Stutley 2010.

Why is government support to agricultural insurance needed?

Market failure: limited availability of private-sector agricultural crop & livestock insurance especially for small farmers.

Financial capacity constraints of private commercial insurers, particularly for systemic risk (drought, flood, epidemic diseases, etc).

High relative costs of insurance administration for small farmers.

Low technical capacity and experience of commercial insurers, government, and other institutions.

Low affordability, awareness, and literacy which limit take up of insurance

Challenges to availability of risk data

Immediate costs vs long term uncertain benefits can skew decision making away from optimal risk-based decision making

High start-up costs of agricultural insurance rural infrastructure is often poorly developed - costs of establishing insurance systems and procedures is costly

Why invest in agricultural insurance programs?

Farmers

Increase investment and production:

- Improves access to agricultural credit (replaces collateral)
- Improved ability to repay agricultural credit (remain creditworthy)
- Encourage effective and climate-smart farming practices

Stabilize consumption & incomes in event of crop failure

Government

Increased Investment, productivity, growth, and food security

Cost-effective, transparent, and objective protection for the most vulnerable

Stabilized agricultural incomes: reduced need for ad-hoc disaster relief

Social objectives: (e.g. reduces rates of rural-urban migration)

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The roles of government in agricultural insurance programs are much broader than just premium co-financing

1 Enabling environment
- Institutional framework
- Legal framework
- Consumer protection

2 Data
- Collect
- Audit
- Manage
- Finance

3 Support for product design and development
- Product development and pricing (short run)
- Technical support for insurers (long run)

Financial Support

4 Outreach
- Link to social safety nets
- Link to credit
- Co-finance premiums
- Build awareness

5 Risk financing
- Act as reinsurer/provide guarantees
- Promote coinsurance pool

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Examples of major national PPP programs

County	Agriculture Insurance Pool	Forms of Government Support for Agriculture Insurance				
		Public Sector Insurer	Premium Cofinancing	Financing for Administrative and Operational Cost	Support for Research and Development	Risk sharing for catastrophic losses
USA	No	No	Yes	Yes	Yes	Yes
Canada	No	Yes	Yes	Yes	Yes	Yes
Spain	Yes	No	Yes	No	Yes	Yes
Portugal	No	No	Yes	No	No	Yes
Italy	No	No	Yes	No	No	No
France	No	No	Yes	No	No	No
Turkey	Yes	No	Yes	No	Yes	No
India	No	Yes	Yes	Yes	Yes	Yes
South Korea	No	No	Yes	Yes	No	Yes
China	Yes	No	Yes	Yes	No	Yes
Brazil	No	No	Yes	No	No	Yes
México	No	No	Yes	No	Yes	Yes
Chile	No	No	Yes	No	Yes	No
Colombia	No	No	Yes	No	No	No
Philippines	No	Yes	Yes	No	No	No

Source: Adapted from Mahul & Stutley 2010 and updated to 2024

Premium co-financing: much needed, but must be sustainable

The costs can be extremely high:

- USA US$ 12.0 billion (62% of total cost)
- China US$ >8.0 -10.0 Billion (80% - 100% of premiums)
- India US$ >3.5 Billion (85% - 100% of premiums)

These can prove unsustainable

- Brazil 2016: Federal Government defaulted on its premium subsidy commitments
- Mexico 2018: Federal Government had to drastically cut the premium subsidy budget
- India 2023: Since the introduction of PMFBY in 2015/16, the scheme liability has doubled. Some states spend the majority of their annual agricultural budget on premium subsidies

Politically difficult to reduce or withdraw once introduced

Governments should develop SMART premium co-financing strategies considering:

- Policy objectives – social protection vs investment, production, and growth
- Affordability (to farmers vs government)
- Targeting – where can co-financing be most effective and where is it most needed
- Fiscal sustainability – how can the public burden be managed or reduced in the long term?
- Equity – how should co-financing be most fairly distributed?
- Incentives – what level of co-financing is needed to encourage take-up, whilst ensuring farmers still proactively manage risk?

Coinsurance pools can help new markets grow

A pool = a group of insurers that offer common insurance services and products while sharing operating costs and risks.

Several successful major international subsidized agricultural insurance schemes adopt a pool structure

Spain: AGROSEGURO Pool established in 1980 with 17 major private insurers plus 1 public reinsurer CNS

Turkey: TARSIM Pool established in 2006 with 26 private insurers with equal share in the Pool

Advantages of private sector participation

Crowding in the private sector is important to **mobilize their capital** – limiting the risk and burden to government – and bring **innovation and client networks.**

Advantages of pooling

Forming a **coinsurance pool** can help:

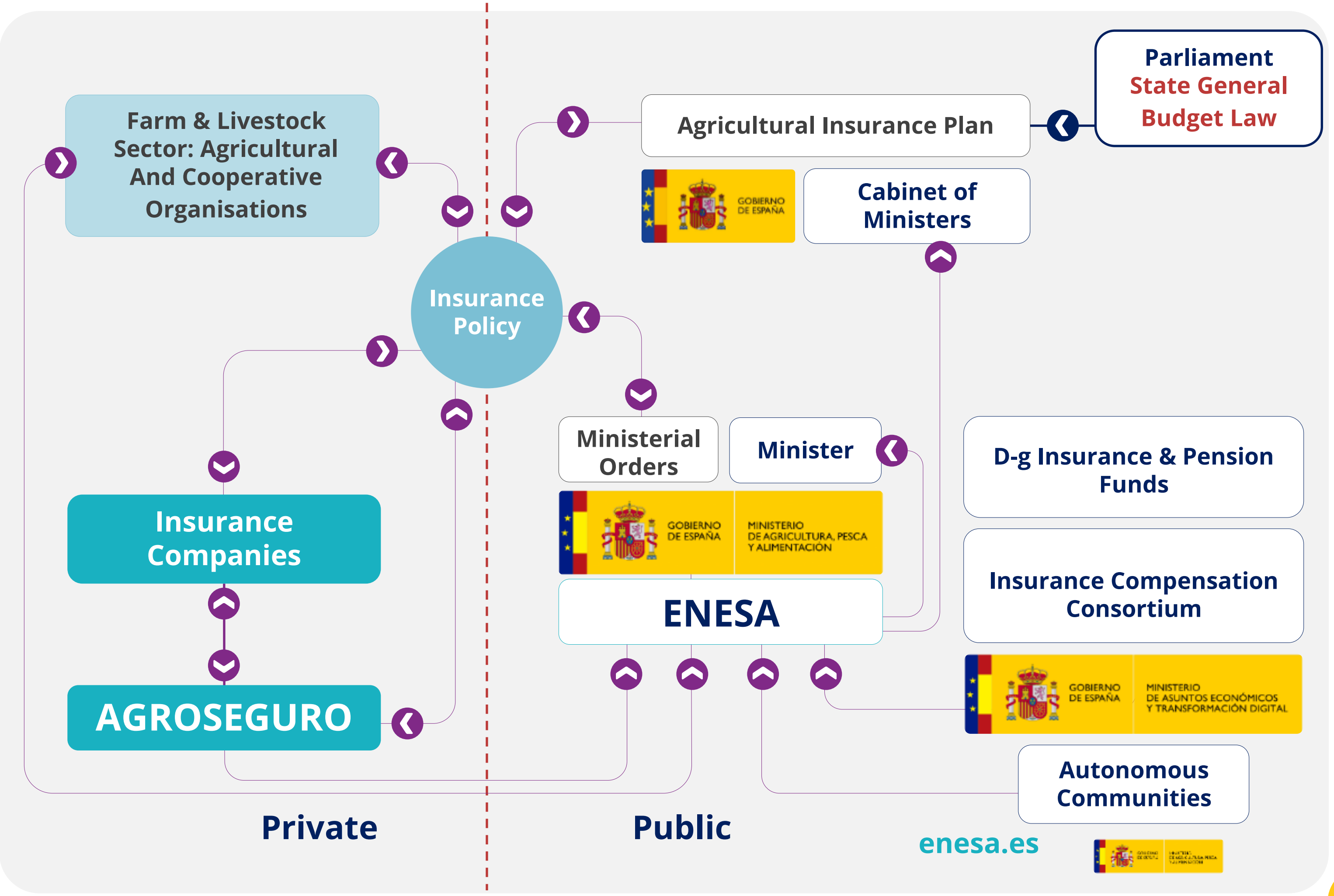
- **Facilitate private sector to enter the market** and cover catastrophe risks that they on their own cannot cover
- **Scale up insurance provision**
- **Share experience and data** to assess the risk and set premiums and design new products;
- Achieve **economies of scale** in the administration and operating expenses of a single insurance pool entity
- **Reduce the costs of reinsurance** through risk diversification and pooling, thereby leading to cheaper premiums.

Spanish Combined Agricultural Insurance Scheme (CAS): Organizational Structure of the Grouping of Pool Agricultural Insurers (AGROSEGURO)

National Agency for Agricultural Insurance (ENESA, Ministry of Agriculture, Fisheries and Food) coordinates government policy, planning and implementation of the CAS.

Pool coinsurers 2023:
17 private/mutual
1 public: Insurance Compensation Consortium (CCS)

AGROSEGURO: managing agent owned by the pool coinsurers



Key takeaways

Photo Credit: Scott Wallace / World Bank

Public Private Insurance Partnerships (PPIPs) can stimulate agricultural insurance market development

Private commercial insurers are typically best placed to underwrite and take risk

Government support goes well beyond premium co-financing

- Creation of enabling legal & regulatory framework
- Awareness, education and training
- Data & information enhancement and dissemination
- Product design & rating (technical support)
- Promote / capitalize PPP coinsurance pools

Governments should exercise fiscal prudence over premium co-financing to ensure sustainability/ scalability

In some circumstances, government support as a **reinsurer of last resort** may be justified

Coinsurance (pool) agreements are well worth considering in start-up years of a new program

However, the **best organizational framework for a PPIP** always depends on local market conditions.

Thank you / Merci / Спасибо

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Case Study :

India’s Pradhan Mantri Fasal Bima Yojana (PMFBY)

Photo credit : Graham Crouch / World Bank

Outline

Photo credit : Graham Crouch / World Bank

India crop insurance: PMFBY overview

PMFBY: key challenges & solutions

India's Area Yield Index Insurance Program: Pradhan Mantri Fasal Bima Yojana (PMFBY)

Context

- 1.4 billion population: 70% in rural areas
- 146 million farms - average farm size 1.08 Ha.
- 85% farmers small & marginal
- Most growing cereals, pulses, oilseeds, but depends on location.
- 7th largest country: heterogeneous geography & climate, 36 States/Union Territories
- 2 seasons: Kharif and Rabi
- Key risks: drought, floods, heatwaves, coldwaves, cyclones

Objectives of national crop insurance scheme

- Provide smallholder farmers access to seasonal crop loans Reduce levels of indebtedness/default
- Smooth consumption, increased crop productivity and incomes

India's Solution since 1980

- **Area Yield Index Insurance (AYII)** to overcome issues of offering individual MPCI policies to smallholder farmers
- + Weather Index Insurance (WII) since 2003 for crops unsuitable for AYII, but far less widespread
- **New government scheme PMFBY launched in 2016 & revamped 2020**

PMFBY AYII Scheme: Key Features and Achievements

Highly subsidized

Affordability/accessibility:
farmers only pay very low % of premium share: 2.0% (Kharif) & 1.5% (Rabi)

Premium subsidies:
GoI and the state governments fund balance of premium subsidies

2023 Central government US$1.6 billion allocation to PMFBY
mostly for premium subsidies

State governments pay remaining 50% share
(10% for some states)

States can opt in or out

Achievements By 2023-24

Largest subsidized crop insurance scheme in the world: c. 35 million insured farmers

3rd largest scheme by volume of Gross Written Premiums - nearly US$4 billion

The total insured area: 59 million ha = c. 30% gross sown area (but below 50% target)

c.60% farmers now have access to formal crop credit

Farmer value for money: for every US$ 1.2 premium paid by the farmer, received US$ 6 in claims

PMFBY AYII Scheme: Challenges and Solutions

Crowding in the private sector

From public insurer monopoly to PPP

- Public sector monopoly insurer 1980 to 2005: state-owned specialized agricultural insurer AIC
- 2011+: market reforms → actuarial premium rates
- 2015/16+: GoI encouraged Private Sector competition
- Now: government-approved public & private insurers can bid to insure the scheme at a state-level
- 2020+: tenders issued for 3-years instead of 1-year = increased commitment to investing in infrastructure and manpower

Today's PPP structural overview

- c.18 General Insurance companies, including 5 Government Sector Companies are empanelled to underwrite PMFBY
- Agriculture Insurance Company of India Ltd. (AIC) is the largest PMFBY insurer (33% market share)
- The Department of Agriculture and Farmers Welfare manages the scheme at central level through a 70-person strong National Technical Support Unit (NTSU)
- In collaboration with the NTSU, the state-level Departments of Agriculture are responsible for managing and overseeing scheme implementation.

PMFBY AYII Scheme: Challenges and Solutions

Improving farmer perception

1985 – Kharif 2020: compulsory insurance for loanees, but very unpopular with farmers and state governments

For governments
increasing premium rates & premium volumes

For farmers
lack of awareness, transparency, & timeliness

Kharif 2020+ made voluntary for all farmers

2023-24: insured farmers increased by 36% Vs 2021-22.

Many changes to improve service, e.g.:

- **Penalties for delay in claim settlement for** states, insurers & banks going beyond 10-days of prescribed cut-off date for payment of claims.
- **States banned from implementing scheme in subsequent seasons if premium subsidy release delay** to insurance companies
- **GoI back-end technology investment for easier farmer enrolment & automation of all processes.**
- Government-funded **insurance awareness** drives
- **Add-on covers option for states** to provide more comprehensive risk protection throughout season
- Insurance company longer tenure & CCE improvements

Summary on India Crop Insurance Overview

India has had great success, but government financial commitment is significant and has been key

Challenges encountered and solutions offer important lessons for other countries, e.g.

- Benefits and challenges of AYII for smallholders
- Public-private partnership model and how to crowd in private sector insurers
- Continued monitoring and improvements to achieve and maintain scale, and improve offering for all stakeholders

Sheer land and population size of India and its objectives to cover majority of smallholders should be taken into account

Crop insurance is still continually evolving after 40+ years and new challenges emerge

Some lessons from other countries will equally be important for India now scheme is voluntary, i.e. alternative distribution channels

Role of technology is key – for all back-end and front-end processes. India is at the forefront of this technological revolution and remote sensing for AYII could be a game-changer on a global scale.