

COUNTRY PROFILES



INDEX INSURANCE
MARKET PROFILE

Mozambique

GLOBAL INDEX
INSURANCE FACILITY

FUNDED BY



BACKGROUND

In Mozambique, agriculture accounts for approximately 32% of GDP and involves over 81% of the population (CIA, 2012). Yet, only a fraction of Mozambique's potentially arable land is currently under cultivation. This lack of arable land usage is in large part due to risk aversion on the part of farmers and financial institutions since natural hazards such as droughts and floods regularly affect agricultural production.

Up until recently, no market for agriculture insurance products existed in Mozambique leaving poor farmers in the country highly exposed to natural perils. This hinders their access to third-party capital, demotes the use of new farming techniques/technologies and overall hampers the ability of smallholders to exit poverty. As a direct result of an IFC GIIF Local Capacity Building grant awarded to the firm in 2011, Guy Carpenter—in conjunction with the Asia Risk Centre Inc.—designed, developed and deployed two agriculture weather index insurance pilots in Mozambique in late 2012. Index-based insurance products cover maize farmers in the district of Chimoio and cotton production in the districts of Lalaua and Monapo.

DEVELOPMENT IMPACT

Index insurance should increase the overall resilience of the cotton sector in MZ thereby giving smallholder farmers the ability to recover from droughts and other adverse weather phenomena more quickly and with fewer deleterious effects. In turn, this should make the cotton sector more attractive to investors and lenders creating more opportunities for farmers.

Products Available:	Satellite-based weather index for drought, low temperature and excess rainfall
Crops Insured:	Cotton, maize
Intermediary Brokers	Guy Carpenter (GC)
Launch Date	2012
Market Development	2012-2013: 43,500 policies sold
Local Insurers	Hollard Mozambique, EMOSE
International Reinsurers	Swiss Re Corporate Solutions
Calculation Agent	Asia Risk Centre
Regulatory Environment	The Instituto de Supervisão de Seguros de Moçambique (ISS) is the agency responsible for regulation of the insurance industry in Mozambique. The agency is currently developing regulations for micro-insurance products.
Product Design:	This project is one of the few that take portfolio diversification into account when determining the total portfolio expected value at risk and the underlying premiums. Since the regions are not perfectly correlated, the total expected value at risk is less than the sum of individual regions, which results in lower premiums. Reinsurers are approached with a portfolio and not with single contracts.
Data:	GeoWRSI (satellite)
Cost of Insurance:	5% of value of insured inputs
Value Chain:	Cotton; distribution by cotton companies Olam and Sanam IAM (Mozambique Cotton Institute – facilitator) see diagram below
Clients (Farmers):	43,000 cotton farmers, few maize farmers (GC)
Insurance Portfolio (sums insured)	\$680,000
Payouts:	\$230,000 (2012 drought – GC -payouts exceeded premiums paid but expected for particularly bad years.)
Potential Market for Index Insurance- Cotton:	200,000 (Mozambique Cotton Institute (IAM) wants to extend index insurance to all cotton farmers and eventually to other agri-sectors.