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**GUY CARPENTER &
COMPANY, LLC**

Mozambique-Regional

**GLOBAL INDEX
INSURANCE FACILITY**

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Country	Mozambique
Market launch	2012
Clients	43,000 cotton farmers; a handful of maize farmers in year one
Partners	Insurers: Hollard Mozambique, EMOSE Reinsurers: Swiss Re Delivery Channels: Cotton buyers OLAM and Sanam
Products	Satellite-based weather index
Insured Crops	Cotton, Maize
Insured Perils	Drought (aggregate/periodic precipitation deficiency, consecutive dry days), low temperature and excess rainfall
Total Insurance Portfolio	\$680,000 (2012/13)
Insurance Payouts	~USD \$230,000 (2013 drought - The payouts exceeded the premiums paid which is expected for particularly bad years.)
Average Cost of Insurance	15% of sum insured
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.
Background	<p>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.</p> <p>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 GILF Local Capacity Building grant awarded to the firm in 2011, GC—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.</p>
Project Description	<p>Guy Carpenter's index insurance is distinguished by several unique features, including its use of a "portfolio pricing" model where the sum insured in a given region forms the basis for risk calculation. Compared to the alternative where each individual plot is priced separately, this method can result in lower premium costs by including more farmers and diverse areas in a group.</p> <p>Guy Carpenter also implemented its product at the portfolio or "meso-level", where an aggregator (e.g. a delivery channel, association or other farmer group) purchases one insurance policy to cover its group members. The experience of other GILF clients has shown that portfolio sales are less expensive than retail index insurance sold to individual clients.</p> <p>Guy Carpenter's index insurance model is supported by close public-private collaboration which is critical when setting up new markets. Two agribusiness firms, Olam and SANAM, covered their cotton farmers with index insurance designed by Guy Carpenter and provided by two insurance companies: Hollard and EMOSE. The premiums for the insurance were paid by OLAM and Sanam.</p>
Success Factors	The ability to educate farmers and delivery channels on the nuances of index-insurance and to continuously improve the quality of product design through the acquisition of more and better data and farmer/delivery channel input. Increasing the penetration of index insurance in Mozambique through a multi-stakeholder approach to value chain development where all actors – from the national government down to individual farmers – are invested in agricultural risk management.
Challenges	The lack of data regarding historical exposure and crop yield has been the project's biggest challenge to date since it increases uncertainty surrounding product design and associated basis risk. Disseminating pertinent and oftentimes highly technical information related to the product design down the value chain to individual smallholder farmers can also be quite challenging.
Opportunities	The Cotton Institute of Mozambique (IAM) plans eventually to expand index insurance coverage to all cotton farmers in Mozambique – approximately 200,000 farmers – and the project is intended to serve as a framework for expanding index insurance to other agricultural sectors in Mozambique.
Contact	<p>For more information, see http://guycarp.com/content/guycarp/en/home/the-company/gc-micro-risk-solutions.html</p> <p>Contact: Alex Bernhardt, Senior Vice President and Head of GC Micro Risk Solutions ©, alex.bernhardt@guycarp.com</p>