Underwriting the Poor

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BRUSSELS/NEW YORK – Over the last five years, a sharp rise in food prices has highlighted the global food system's vulnerability to supply shocks – and reminded the world how tenuous is the food security of millions of people. Unexpected events, such as flooding and drought, can have dire consequences: sharp drops in rural incomes, surging food bills, and severe food shortages.

The need to protect vital assets from the negative effects of unexpected events has driven the development of sophisticated insurance markets around the world. In the developed world, privately insured assets include footballers' legs and tennis players' arms. Where the potential pay-out is too big for a single private insurer to bear, reinsurers take over a portion of their risk for a given premium. Insurance has often also become a public responsibility in developed countries: the taxpayer cedes a portion of his income, in return for which the state may provide unemployment benefits, health care, and other essential services.

In contrast, nearly 80% of the world's poor do not have access to any social protection to shield them from the effects of unemployment, illness, or disability – not to mention crop failure or soaring food costs. If a crisis hits, they must resort to drastic measures, such as removing their children from school to save money, or selling the assets that they use to generate income, such as land or livestock, thus jeopardizing their ability to cope with future shocks. Often, their only "retirement plan" is to have more children.

In many developing countries – especially small countries in which a large portion of the population is susceptible to the same risks – governments may be understandably reluctant to insure their citizens. If a single event affects a significant portion of the population, not only will demand for social support grow too rapidly for the government to absorb, but the shock may decrease government revenues at the same time by, for example, lowering tax or export revenues.

The countries in which people are least able to sustain their livelihoods in the face of unexpected shocks, and in which food and farming systems are the least resilient, offer the least protection. For example, in West Africa's Sahel region – which is experiencing a combination of drought, failed harvests, high food prices, displacement, and endemic poverty – the lack of social protection leaves millions of people to rely on their own limited coping mechanisms and charity.

A global reinsurance mechanism is urgently needed to safeguard those in dire need of social protection. Mutualizing the risks of protecting the world's poor is not only financially feasible for wealthier countries; it is also incumbent upon them in

fulfilling their international obligations, including human-rights commitments. By providing such a “backstop,” rich countries can enable poor countries to introduce needed social-insurance mechanisms for their citizens.

According to the International Labor Organization (ILO), which will convene later this month to discuss social-protection floors, providing basic social-security benefits to the world’s poor would be very modest. The costs of such a package can be separated into two components: the response to “structural,” or endemic, poverty, and protection against unexpected shocks.

Focusing on the latter, we estimate the cost of the reinsurance premium needed to provide protection against shocks at 0.5% of the GDP of the poor countries concerned, or a vanishingly small fraction of global GDP, which can be shared between rich and poor countries. Providing better protection to the world’s most vulnerable persons against devastating hazards is not only conceivable – it is achievable.