

Innovations in Index Insurance
from the Feed the Future Innovation Lab for Assets & Market Access

Village Insurance-Savings Accounts (VISAs)

The Feed the Future Innovation Lab for Assets & Market Access has developed an innovative approach to risk management and resilience for vulnerable smallholder agriculturalists: Village Insurance Savings Accounts (VISAs). There are many challenges to the creation of an agricultural insurance market in developing countries. The AMA Innovation Lab proposes an adaptation of the already proven microfinance model to reach smallholder farmers with agricultural insurance.



Integrating the VISA Model Into Existing Systems

In many developing countries, microfinance institutions (MFIs) are well established in throughout the rural areas, with high functioning savings groups already in existence. These groups of about 15-30 members usually meet monthly and give small savings contributions that are required at each meeting. Most savings groups have compulsory savings contributions that are required at each meeting, and many also have dedicated individual savings accounts, pension savings accounts, and other specific financial services. In many of these areas, MFI staff regularly comes to the groups and transfers the savings into the appropriate accounts at the MFI's formal bank. In Nepal, for example, one such MFI - Nirdhan Utthan Bank, Ltd. - has a series of dedicated savings accounts for each group member. Monthly, MFI staff collects the money from the group and deposits the funds in the relevant savings account for each individual. Working with such a group with a strong existing network can leverage the infrastructure already in place to increase access in remote areas that might otherwise be inaccessible.

AMA Innovation Lab researchers believe that the VISA Model can be incorporated into typical MFI operations to create a market for agricultural insurance for insurance companies, and increase access to and uptake of agricultural insurance by smallholder farmers. By creating a dedicated savings account, or a "village insurance-savings account", for interested savings group members, insurance becomes accessible, and it becomes easier to accumulate the funds for the premium payment. MFI branch staff will work through the groups to educate members about the benefits and limitations of agricultural insurance, as well as about the specific products offered by the insurance company, how to purchase it, and how to save for the premium. Before the start of the planting season for the insured crop, the MFI will aggregate sales across groups and submit to the MFI. In the event of an insurable shock, payouts will be distributed in reverse: the insurance company will transfer funds to the MFI, which will then deposit the appropriate amount in each individual's savings account for quick and easy payouts.

The VISA Model

Farmers attend regular savings group meetings where they learn about insurance and can enroll to make small savings contributions toward the purchase of the insurance.



Per standard savings group procedures, they store their savings in a lock box.



MFI staff attend monthly meetings, share insurance information, and collect savings for transfer at the bank.



Purchases are aggregated at the branch level, transferred to the national office, and submitted to the insurance company in aggregate.

MFI staff deposit funds into the appropriate dedicated individual savings accounts in the branch office.

Innovations in Index Insurance

from the Feed the Future Innovation Lab for Assets & Market Access

The Challenges to Agricultural Insurance

Many challenges face the development of a sustainable agricultural insurance market, both on the supply side (insurance companies) and the demand side (smallholder farmers).

First, insurance companies are not typically not interested in small purchases of insurance (say, half a hectare), because costs to the company are high to sell and distribute the insurance in typically remote rural areas, and the market is small with low sales.

Second, agricultural insurance faces many demand-side challenges, as well. Farmers lack of knowledge of insurance, especially agricultural insurance. They are not familiar with insurance, how it works, or how to buy it. In addition, farmers don't know – and as a result, may not trust – insurance companies. As a result, they may not buy insurance. Finally, even if farmers are interested in buying agricultural insurance, they may not have the premium readily available when the insurance is offered to them.

How the VISA Model Can Overcome These Challenges

The VISA Model was developed to overcome the challenges specific to bringing agricultural insurance to remote, rural communities. Because the VISA Model uses savings groups to aggregate small purchases into one larger purchase, and to pass on to the insurance company, the operating costs of the company are reduced and the sales increased. This can make agricultural insurance a feasible opportunity for insurance companies. Similarly, the insurance company, in the event payout is triggered, will distribute to the partner MFI (or other financial institution) to deposit in the accounts of the individual contract holders. This increases the market and reduces the cost for the insurance companies.

Second, because insurance companies are using (or creating, where needed) savings groups, the partner financial institution can work with the group to educate them about insurance in general (include its potential benefits and limitations), the specific insurance contract, how to save for it, and exactly how to purchase it. They can also then facilitate the purchase of the insurance through the MFI. Because farmers are already highly engaged with the MFI, there is preexisting familiarity and trust. By adding this insurance-savings account to their financial portfolio, farmers are expanding their existing relationship with the MFI. Finally, by creating a savings account for insurance, and through early education and savings plan development with the MFI staff, farmers can save for months in advance. The MFI can use mobile technology to remind farmers about savings goals and deadlines. When the farmer has saved enough, the purchase is transferred to the insurance company.

Next Steps

The Assets & Market Access Innovation Lab is working closely with Feed the Future and USAID in Nepal, the Government of Nepal, and private sector partners in Nepal to launch a pilot program using the VISA Model beginning in 2017. By rigorously evaluating the impacts of not only an innovative agricultural insurance product, but the VISA Model, the AMA Innovation Lab will be able to inform development partners about the potential impacts of these innovations.

Beyond that, this model would need to be tested in additional contexts with other products to see how broadly it can be applied to overcome the challenges to agricultural insurance.

Costs to insurance companies are high, and sales are low. Farmers lack knowledge and trust of insurance, and may not have liquidity on hand for the premium even when insurance is offered.



The VISA Model aggregates purchases and cuts transaction costs for insurers. Working with a trusted financial partner and established groups will facilitate knowledge and trust of insurance.



Working with relevant stakeholders, the AMA Innovation Lab will pilot the VISA Model in 2017, and to work to disseminate what they learn to development partners worldwide.



For more information on this project, visit basis.ucdavis.edu

www.feedthefuture.gov

