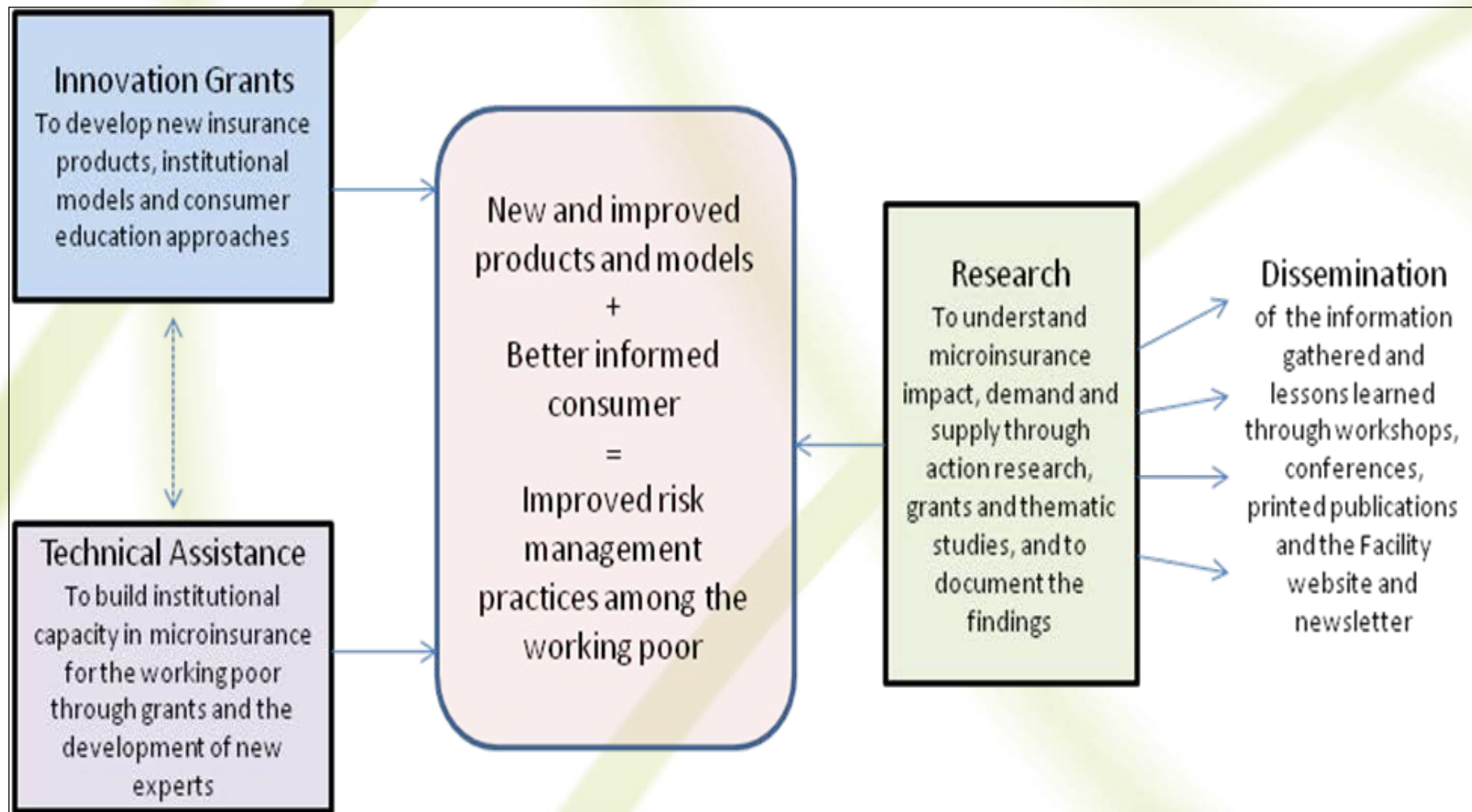


Lessons learnt from Agriculture Projects

***Microinsurance Innovation Facility
International Labour Organization
13 June 2012, Rome***



Microinsurance Innovation Facility in action



❑ Why index based MI products have not widely proven their viability yet:

- **Need is not demand**, and knowledge without skills does not lead to attitude and **behaviour change**;
- When higher premium meets low trust, the **default state is more compelling**;
- **Operational challenges** for providers are greater (adverse selection, claims adjudication, value chain partnership management, client servicing);
- **Building up large enough portfolio** to recoup initial investment and fixed recurring cost **takes too long**;
- **Not enough reward** to command real effort to achieve breakthrough (of cost efficiency, convenient product experience, marketing RoI etc.)

□ Ways in which governments/PPPs are promising to overcome some obstacles:

- (force insurers into microinsurance);
- Government-owned insurance companies
- **Promote trust** by regulation, supervision and standards;
- Provide **helpful infrastructure** (e.g. poverty scoring system and interaction channel);
- Provide **funds** – e.g. in the form of premium subsidies – to justify large projects and upfront investment;
- Drive or support **financial education** agenda to include risk management and insurance

DHAN: density of rain gauges... improving client value and insurer bottom-line

Development of Humane Action (DHAN) Foundation

Professional development organization – build people and institutions for development innovations and scale-up to enable poor communities to reduce poverty and be self-reliant.

People Mutuels - insurance initiative of DHAN Foundation.

Collaboration between DHAN Foundation, Oxfam Novib, Rabobank Foundation and Eureko Re. Micro Insurance Association Netherlands provides technical support and undertakes technical missions.

Project Focus

Develop various rainfall index based crop insurance products on a mutual basis as adaptation measure to climate change related issues faced by the small farmers and counter basis risk through installation of multiple rain gauges

Project Innovation

- 159 rain gauges installed. 12 zones covered. Over 8000 farmers insured
- After retaining risk in the first round, risk now undertaken by Agriculture Insurance Company. Assisted in product design and risk rate estimation
- Community based product design... risk outsourced



Awareness and education at all levels is required constantly...not a one time activity

- ❑ **Product design and central level orientation**
 - Participants- federation leaders plus additional village representatives from villages
 - Feedback, what crops, what risks to cover, price expectation
- ❑ **Orientation of Field Staff and Federation leaders**
 - Done per location
 - Location Integration: product parameters explained
- ❑ **Training at village level group**
 - Field staff and federation leaders explain product to all members
- ❑ **Awareness creation and selling in villages**
 - Conducted by field staff and federation leaders



Discussions with community leaders

On Sales team training and customisation

Own Sales team needs to be convinced and their doubts have to be clarified first

- Layering an index insurance programme on other activities being carried out by the field staff is a challenge. Repeated clarifications backed by case studies of similar nature help in better understanding of concepts, which they can explain to beneficiaries
- Since field staff is the first point of access for the beneficiaries, the data updates, claims settlement process and timing have to be clear to them to face the beneficiary queries

Customer awareness programmes have to be modified according to the community / village

- Trust takes time to develop so the parameters used to explain to a “new” village differ from the one where work has been happening over the years



Sales Team feedback session

Customer discussions



On Relationship building and Trust

Existing relationships no guarantee for sales: "Trust" also needs "proof"

- DHAN could not simply rely on its existing social capital with the farmers
 - Farmers needed to see the rain gauges before paying the premium
- Rely on Mutual Insurance Committees for explanation and listening to "voices from the ground"
 - Variations in rain gauge data (microclimatic zones) can be well explained by the MICs and used as input for further product development

Rain Gauge inspection



MIC in session



On Alignment of processes with ground realities

Timing for premium collection is critical

- While seen as an input, if premium has to be paid at a time other than cash outflows for other agriculture inputs, it is a challenge.
 - Installments is a possible alternative

Continuing customer education after the risk period

- Educating the farmers on the representative nature of rainfall recorded in the village rain gauges to the field conditions
 - Helps in future premium collection

Aligning product and scheme with national schemes helps

- Align product and claims handling with neighbouring districts has led to better understanding of rates and product features



SANASA: New product introduction... adopting and adapting

SANASA Insurance Co Ltd supports a cooperative network of nearly 8400 savings and credit institutions located across Sri Lanka with insurance offerings **Collaboration with DID** – Round1 grant for feasibility study

Development of a successful replication strategy for indexed crop insurance in Sri Lanka , determine how the BASIX index insurance model could be adapted to create a microinsurance product in SICL's product offering

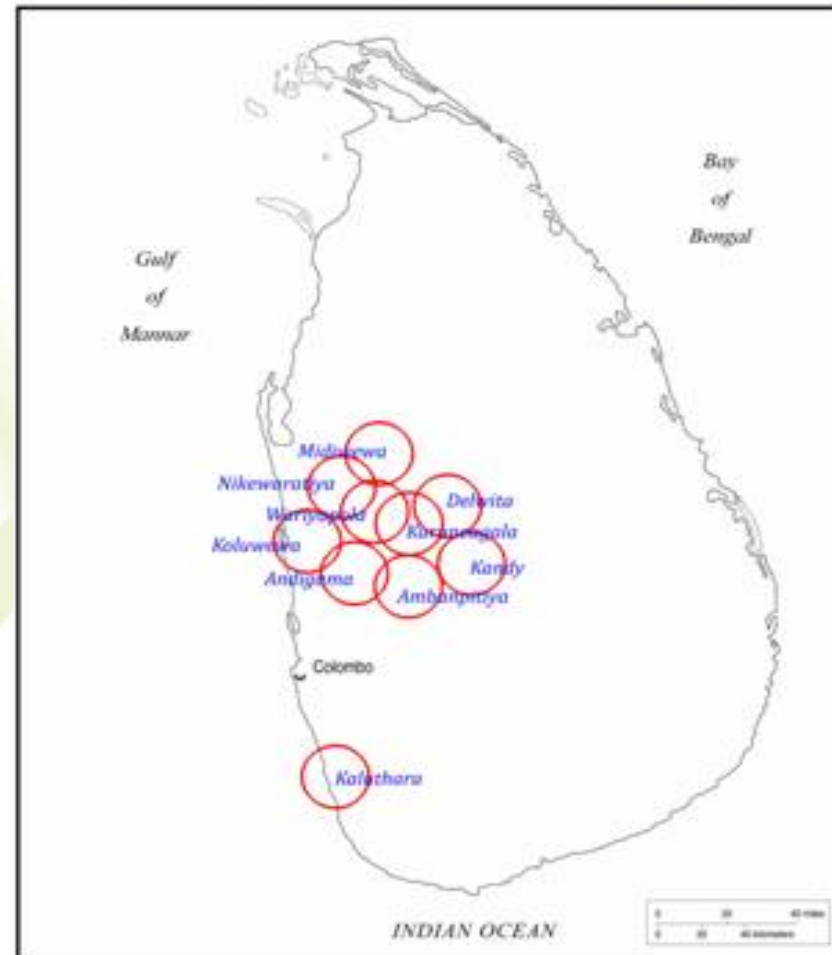
Project Focus: SANASA- implementation; DID- project coordination + service support; BASIX- training manuals + consumer awareness plans

Centered on the adaptation of a weather-based crop insurance model used in India, to the Sri Lankan environment using the distribution strength of the SANASA cooperatives to raise the awareness of insurance among rural Sri Lankans. Focus on reducing risk of income loss due to unfavorable weather

Project activities

- 4 rounds of sales activity conducted (one for each season)
 - Pilot in 2 sites followed by “scaling up” to 10 sites, now up to 25 sites
 - About 1000 farmers covered
- Weather station data of Government weather stations being used
- Marketing activity in 10 km radius of Weather station

Expansion for phase II,
Weather-Index Based Crop Insurance Scheme



Bundling insurance with credit products can negatively impact perception

- Cost of borrowings become prohibitive
- Impacts loan portfolio

Insurance “Plus” assists

- Availability of programs for assisting farmers to improve their productivity and enable them to get away from a negative mentality when no claims are made by the insured.



Bundled offering?

On Sales team training and customisation

Equip sales agents and marketing executives with knowledge of agricultural practices in order to convince clients

- Impact and assistance on current cropping practices
- Explain linkages between product covers and crop requirements
- Graduates with agri background being hired for sales assignments
- Focus on relevance of the risk and how the product mitigates it instead of focus on price

Product modifications to reflect farmer's feedback

- "phase wise" sale of the product linked to the cropping cycle and the different risks faced in each phase introduced
- Choice of different starting dates
- Beware against "over-customisation"
 - Becomes complex, audience shrinks



Training and Feedback

Define clear roles and activities

- Defined set of roles and activities helps in time and project tracking
 - SANASA- implementation;
 - DID- Product pricing and configuration, project coordination + service support;
 - BASIX- training manuals + consumer awareness plans

Planning session



Involve groups and “influencers”

- Since peer group can impact decisions, involve the whole group rather than pitching to individuals
- Allocate time for consumer awareness and education
 - Requires multiple trips to convince

Educate “continuously”

- Continue engagement beyond the sales and risk period to demonstrate representative nature of triggers and ground conditions

Group session



On ground level feedback for Site selection

Buy-in of branches critical

- Own team needs to be convinced and their doubts have to be clarified first
- Incentivize branch participation
- Involve for data collection
- Use inputs for collateral design and promotion

Ensure availability of relevant historical data for co-relationship demonstration

Sanasa Society office and site
allocation



BUSINESS DAILY

CLIMATE CHANGE

Satellites to help Kenyan livestock farmers insure against effects of drought

BY ALISTER DOYLE
REUTERS

Satellites measuring the greenness of Kenya from space are set to help insure livestock herders against droughts and mitigate the effects of climate change, experts said.

"This is a new approach to tackle an old problem," Carlos Sere, director general of the International Livestock Research Institute (ILRI), said of the satellite-based insurance for cattle, goats and other animals.

"In the volatile climate change world this type of project will be more important," he said during a visit to Oslo. The Kenyan pilot scheme, due to start in early 2010, would be the first such satellite insurance for a develop-

ing nation. Satellite images will measure the greenness of vegetation in the Marsabit area of northern Kenya.

A shift to brown will trigger payouts to pastoralists because of expected livestock deaths from drought.

Weakest animals

"Traditionally we have helped pastoralists by sending them hay if there is a drought, or treating the weakest animals with vaccines to keep off diseases," Sere said. "That's very inefficient and expensive."

"With traditional insurance you can insure your cow. But then the vet has to come and certify that it's dead. The transaction costs are huge," he said. The satellite system bypasses the need for such verification. Andrew Mude,



Livestock generates 18 per cent of world greenhouse gases, more than the total from transport. **FILE**

an ILRI expert, said talks were being held with Kenyan insurer UAP, reinsurance from Swiss Re and Kenya's Equity Bank on details.

Annual premiums were likely to be \$50-100 a year for households with 6-8 cattle, the ILRI said. Aid agencies

might prefer to pay premiums rather than help after a drought.

Sere said satellite insurance hoped to avoid flaws in other "index based" insurance schemes which give payouts to all farmers if more than a certain number die in benchmark flocks.

He said that a UN deal to fight climate change due to be agreed in Copenhagen in December should keep the poor in mind when trying to limit greenhouse gases from agriculture.

Livestock generates 18 per cent of world greenhouse gases, more than the total from transport, according to the UN's Food and Agriculture Organisation.

Animals produce large amounts of heat-trapping methane from their digestive systems.

Intricate systems

"Our overall pitch is: yes, the world may be producing too many animal products," Sere said.

"But in Africa and Asia you have large numbers of people producing small amounts each in intricate systems that are key to feeding billions of people," he said.

That meant that greenhouse gas curbs should focus mostly on agriculture in developed nations, he said.

Cows in developing nations, for instance, produce milk, work as plough animals and are a source of other products such as meat, hides or manure.

International Livestock Research Institute

- Brings high-quality science and capacity-building to bear on poverty reduction and sustainable development for poor livestock keepers and their communities
- All tropical developing regions with special emphasis on Africa and South and Southeast Asia
- portfolio of three issue-oriented themes:
 - Improving market opportunities
 - Using biotechnology to secure livestock assets
 - study evolution in livestock systems and the impacts of livestock innovation on poverty, vulnerability and gender equity

Equity Bank

- Focus on the unbanked and underbanked
- Specialised insurance distribution arm: Equity Insurance Agency

UAP Insurance Co.

- Leading financial services groups in East Africa. Transacting business in all classes of general insurance

Who are the “real” players?



What is it about?

- Response to pastoralists' need for strategies and tools for managing the climate related risks that they face
 - Test model for estimating livestock mortality based on index for grassland depletion to enable quick relief to the pastoralists
- Test models for enhancing consumer understanding of insurance principles and education - improve outreach
 - Effectiveness of various financial marketing and extension services and tools to a relatively illiterate population that is ethnically diverse and inhabits a remote and infrastructure deficient region

On using Games and “Village Elders” for “consumer education”

Insurance simulation games effective for insurance understanding

- Used some of the pastoral systems to explain the difficult concepts
- More sales were recorded in these areas as opposed to areas where there were no games
- Resource intensive and time consuming
 - Not feasible to play the games with the all the households in the area : choose carefully

Village elders... more effective Master Trainers

- Convincing the other village elders of the validity of the insurance product
- Reducing the skepticism of the local population
- Sub division of roles between Master Trainers and Village Insurance Personnel (VIPs) worked well
 - The older men, who were trusted by the pastoralists, relayed information while the younger men finished the transaction



Pastoralists understanding insurance through games

Women are great “influencers” and “silent” market

- Women bought more cover than men and yet they rarely attend public meetings (barazas) or even the elders meetings which is where most of the information was disseminated
- There is need to target the women better through women groups and associations.



Camel “watering hole”



Creating sales infrastructure is a “must” for marketing tools to be effective

- The concepts for the radio campaign as well as the scripts for the advertisements were finalized in time but these were never aired ... ditto posters
- PoS was not set up in time
 - counter productive to air spots that do not tell people where to buy cover

Pushes up cost of sales

- Manual closures is expensive

Separate: “education” & “sales”

- Commissions: double edged sword?:
 - With the sales incentive in place, VIPs did not pay as much attention to the product awareness aspect and, in certain instances, attributed a wide variety of product features to the product just to encourage sales



Drought stricken cow

On stake holder engagement

Educate and engage “continuously” beyond sales

- Need for constant engagement with the targeted and insured community
- Flow of information for the intermediaries and community leaders, since they are the link with the insured
 - Builds trust : engage even if sales period has been missed... positive response
 - Demonstrates representative nature of triggers and ground conditions

Radio programmes work well

- Radio programs effective for awareness as well as index information, specially when “no claims”
- Awareness creation around programme effective



Camels' thirst being quenched

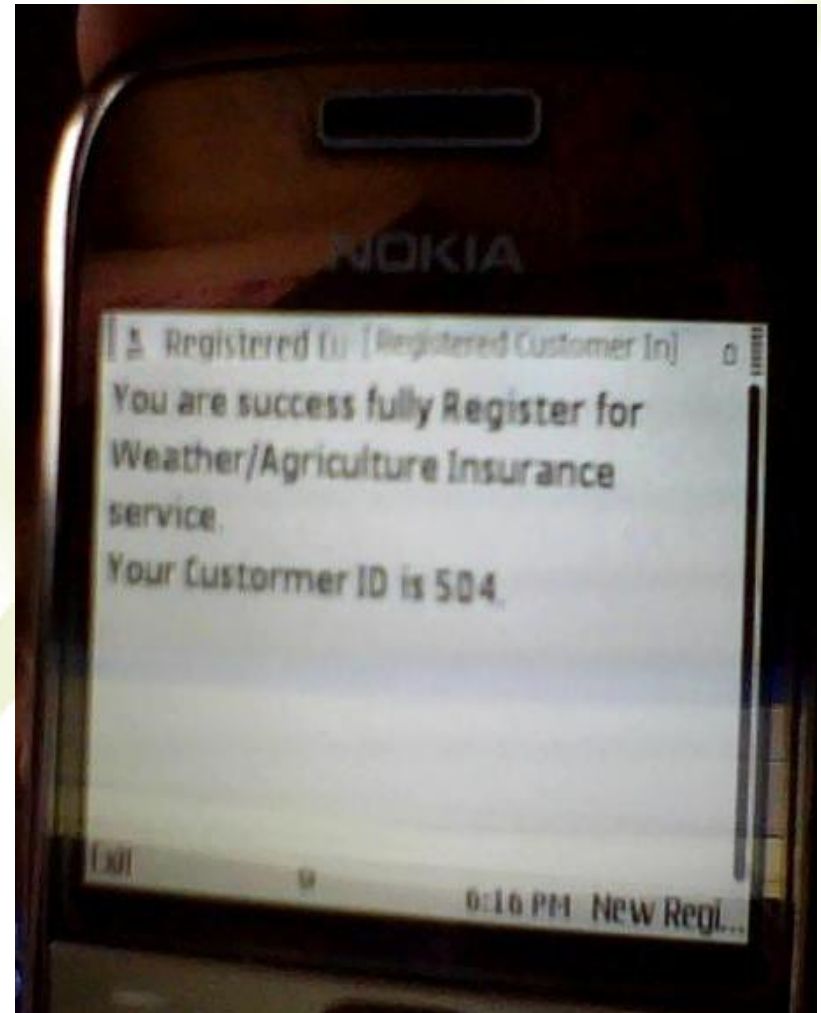
WRMS: Comprehensive Risk Management

Weather Risk Management Services Ltd. (WRMS), a specialist in risk management for weather sensitive industries, is testing Comprehensive Agriculture Risk Management (CARM) package in two remote districts in India

- Index based insurance through setting up of weather stations
- Information cards: sms subscription
- Automated Irrigation switch
- Soil profilers
- 14000 farmers enrolled

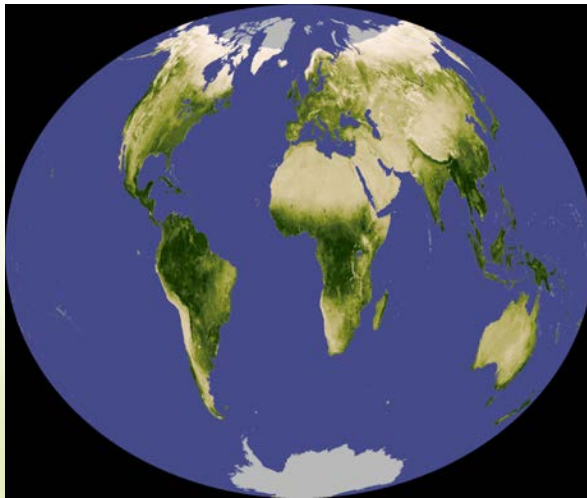
On product development and understanding

- Short, modular and comprehensible contracts
- Initial incentivising and claims lead to faster adoption through demonstration effect
- Frequent product changes detrimental... settling and understanding time required
- Multiple weather stations help in dispersing risks and 'optimising' claims
- Technology combined with process improvements can help build trust... even amongst the channel
- Multiple products aid in channel retention



IRI... NDVI in HARITA

- How can satellite imagery of vegetation be used to validate current index insurance products?
- When is satellite imagery of vegetation replicable and scalable?
- Under which circumstances, for which crops and areas are they accurate? What are efficiency gains for insurers?



Potential impact on client value

- What is an added value for clients of using satellite imagery of vegetation?
- To what extent does it reduce basis risk by appropriately identifying locations with payouts in loss years?
- What is its potential to make the products more affordable, and enable faster payouts in case of 'loss'?



Fonkoze: Index based catastrophe insurance

- “Kore W” is catastrophic insurance coverage for Fonkoze's approximately 50,000 microcredit clients
- MiCRO, consortium reinsured by Swiss Re provides parametric coverage
- Fonkoze's on ground network supports claims settlement
- Claims triggered during last year... paid under the project
- Will test effectiveness of parametric insurance for faster 'first level' settlement of claims in case of natural catastrophes



Livestock Insurance: Technology intervention for fraud reduction and process control

- ❑ Plagued by fraud (150-300% claims ratio)
 - Ear tags & vets, distribution partners
- ❑ Solution: Radio Frequency Identification Devices and re-engineering processes Implemented by IFFCO Tokio General Insurance Co.
- ❑ Process change: Co. executives now oversee tagging of each new animal



Identifying insured cattle... fraud reduction & faster approvals



- ❑ the lower claims ratio (about 40%)
- ❑ 90% of RFID product clients were very satisfied with the product, since no impact on cattle productivity
- ❑ Premium rationalisation for RFID linked product to 3% of the sum assured ... lower than earlier for the traditional ear tag product

Closing thoughts

- Awareness creation
- Distribution partner training and effectiveness
- Diversification of distribution
- Product relevance and simplification
- Risk diversification
- Technology intervention.... For all the above?
- Challenge of dissemination... Knowledge portal?

Thank You
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