



BASIX

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Index insurance for agriculture in Ethiopia

Addis Ababa, Ethiopia, 9 December 2010

BASIX – An Introduction

Part -I



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BASIX was established in 1996 with a Mission

To promote a large number of **sustainable livelihoods**, including for the rural poor and women, through the provision of **financial services and technical assistance in an integrated manner**.

BASIX will strive to yield a competitive rate of return to its investors so as to be able to access **mainstream capital and human resources** on a continuous basis.



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**Vocational Training and
Employability 2009**

**Large Scale Financial Inclusion
Services 2008**

**Energy, Environment, Climate
Change & Carbon Credits, 2007**

**Institutional Development Services,
In India and Other Countries 2005**

**Agriculture, Livestock and non-farm Enterprise
Development (AGLED) Services 2004**

**Micro-insurance (life, health, crop, livestock, assets)
2002, for managing risks to lives and livelihoods**

**Micro-Credit with limited technical assistance and micro-enterprise
support services (TASS) 1996 onwards**



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The BASIX Group

Bhartiya Samruddhi Investments & Consulting Services Ltd.

Financial Services

**Bhartiya Samruddhi
Finance Limited Ltd**

**Krishna Bhima Samruddhi
Local Area Bank**

**BASIX Sub-K i-
Transaction Services Ltd**

Indian Grameen Services

Knowledge Services

**BASIX Consulting and
Training Services Ltd,
CTRAN Consulting Ltd**

**BASIX Krishi Samruddhi
Ltd**

**B-ABLE - BASIX Academy for
Building Lifelong Employability Ltd**

The Livelihood School



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Outreach

As on Sep 30, 2010

- 18 states, 180 districts, 25000 villages/towns, 10,100 staff in India. Also present in PNG, Bhutan, East Timor on long term TA projects
- Disbursed about US \$778million since mid-1996, with current outstanding of US \$ 400 million; On-time repayment rate 99%,
- Micro-credit 1.8 million borrowers, growing @ 75% pa
- Life, health, crop (weather index based), livestock and micro-assets insurance to 3.2 million customers
- Agricultural, livestock and non-farm enterprise development (AGLED) services to 800,000 fee paying customers.
- Institutional development to over 84,000 SHGs / producer groups – about a million members served
- Impact direct: livelihoods enhanced for over 1.8 million h/h
- Indirect Impact: microfinance reaches 75 million poor h/h



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BASIX – Micro Insurance

Part -II



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Importance of Micro Insurance for poor

- The poor face all kinds of risks to their lives and livelihoods, and the ability of the poor to withstand loss is lesser than others
- The death of a bread-winner can devastate a family. So life insurance is useful.
- Death of livestock can halve the income of a poor household. So livestock insurance.
- Crop failure can be cushioned by insurance.
- Yet, insurance products for poor are scarce. In India, life coverage is $< 6\%$



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Delivery Models for Micro Insurance

- ***Partner - Agent Model :***
- Insurers utilize MFIs' delivery mechanism to provide sales and basic services to clients.
- There is no risk and limited administrative burden for MFIs.
- ***Full Service Model :***
- The provider is responsible for all aspects of product design, sales, servicing, and claims assessment.
- The insurers are responsible for all insurance-related costs and losses and they retain all profits.



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Delivery Models ...

- ***Community Based Model :***
- The policy holders own and manage the insurance program, and negotiate with the insurer. Eg. Health care policies to a community
- ***Provider Model :***
- The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups.



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BASIX Strategy..

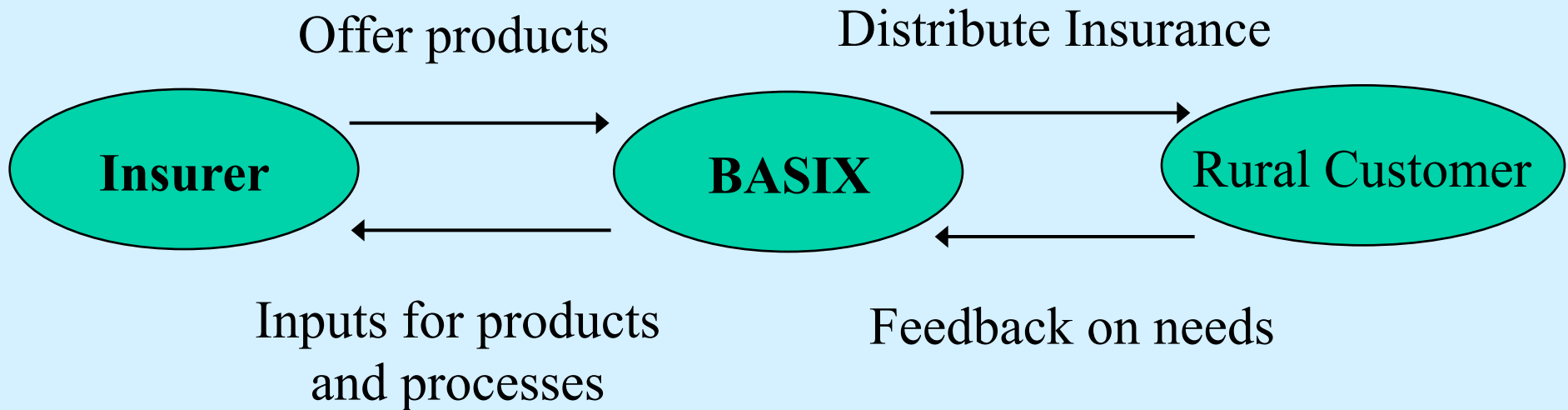
- BASIX approaches to address the risks of the poor through the twin strategies of:
 - Non Financial interventions:
 - Risk Minimization - Preventive Vet Care, Disease prevention in crops
 - Financial interventions:
 - Savings(self insurance)
 - Insurance for lives and livelihoods
- The former intervention is also aimed at making insurance more affordable for the poor by reducing the underlying risk in the insurance contract



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Business Model





Business Model- The value chain

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Product Development	Marketing	Sales	Underwriting	Policy issuance and administration	Claims facilitation and claim remittance	Investment and Asset Management
BASIX and Insurer						Insurer



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Risks covered by BASIX

- Risks to Life

- Death
- Disease
- Disability

- Risks to Livestock



- Risks to Crops



- Risks to Enterprises





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Products

Life Insurance Product	Scope of Cover
Credit Plus Life	Credit Linked Life Insurance Policy Life Cover of spouse and borrower(1.5 times loan amount)
Sangh Samruddhi	Group Life Insurance Policy for Institutional clients Cover options between Rs.10K and Rs.50K
Grameen Suraksha	Limited Payment Pure Term Insurance Product Retail- Cover between Rs.20k-Rs.50K
Amar Suraksha	Term insurance product with refund of premium Cover between Rs.20K – Rs.100K
Anmol Suraksha	Endowment product with guaranteed return Cover Between Rs.10K- Rs.500K

[Go to Conten](#)



Products

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General Insurance Product	Scope of Cover
Grameen Arogya Raksha	Credit Linked Health Insurance Policy Hospital Cash Benefit Rs.2.5K p. a Accidental disability(Rs 50K p. a) Accidental related hospital reimbursement up to Rs.25,000
Livestock Insurance	Death- Cover 5K – 20K
Janata Personal accident	Accidental Death Cover for 100k PTD cover up to 100k
Rural Personal Accident	Accidental Death Cover for 100k PTD cover up to 100k Hospital expenses reimbursement (accidents) up to 20K
Rural Hospital Cash	Hospital Cash facility pf Rs. 1K per day To a maximum of 90 days during a policy year Limited to 14 days cover per event
Enterprise Insurance	Cover against fire and other natural calamities Rs5K-Rs400K
Weather Index Based Crop Insurance	Deficit or excess rainfall and temperature Enrolment Process.doc



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Agriculture Insurance Products in India

Part -III



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Individual Crop Insurance Scheme

- First formal initiative to provide crop insurance;
- Introduced in 1972 by GIC, continued till 1978;
- On Voluntary basis, Individual approach and implemented only in 6 states;
- Covered H4 Cotton initially and extended to wheat, potato and ground nut;
- Covered only 3110 farmers for a premium of US \$ 10,048 against claims of \$ 84, 178



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Pilot Crop Insurance Scheme (PCIS)

- From 1979 to 1985; Run by GIC, on area approach;
- Covered cereals, millets, oilseeds, cotton, potato and chickpea, was confined to **loanee farmers** of institutional sources, but **on a voluntary basis**;
- Sum insured 100% of loan, later increased to 150%, premium ranged from 5% to 10% of sum insured, with 50% concession for small farmers shared by Centre and States; Risk shared by GIC and States in 2:1;
- Covered 622,622 farmers in all, premium of 433,356 against claims of 345,956



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Comprehensive Crop Insurance Scheme (CCIS)

- One of the popular schemes by outreach, introduced in 1985 , continued till 1999;
- A multi agency effort involving GOI, State Governments, Banks and GIC
- **Compulsory for all loanee farmers in the participating states**, but for states it is voluntary;
- Covered food crops, pulses and oil seeds;
- Sum insured 100% of the loan amount, subject to maximum of about US 222/- per farmer;



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Comprehensive Crop Insurance Scheme (CCIS) ...

- Premium 2% for food crops and 1% for pulses and oilseeds, with 50% concession for small farmers;
- Risk shared by Centre and States in 2:1 ratio;
- Covered 76.3 million farmers for a **premium of about \$89.7 million against claims of \$511.8 million;**
- **Benefits skewed towards one state and one crop due to recurrent droughts in the state and repeated crop failure.**



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Comprehensive Crop Insurance Scheme (CCIS)...

- More than half (58%) of the total indemnities under CCIS were paid to groundnut farmers in this state alone, where as the premium contribution was only 16%;
- The claim-premium ratio was nearly 20.74 for Gujarat, while all- India average was about 5.72;
- The major short comings of the scheme were area approach, coverage confined to loanee farmers, uniform premium rate for all the farmers and regions, coverage of few crops and time lag for indemnity payment.



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Experimental Crop Insurance Scheme (ECIS)

- Operated only during 1997-98, to cover both loanee and non-loanee small farmers;
- Implemented as a pilot in 14 districts of 5 states;
- Provided 100% subsidy on premium;
- Covered cereals, pulses and oilseeds;
- Covered 0.478 million farmers for a sum insured of \$38.222 million, **premium received \$0.635 million and the claims paid were \$8.84 million. Risk sharing @4:1 between centre and states.**



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National Agriculture Insurance Scheme (NAIS)

- Introduced in 1999, currently run by Agriculture Insurance Company (AIC) of India Limited;
- Available to both loanees and non-loanees;
- Covers all food grains, oilseeds and annual horticultural / commercial crops- sugarcane, potato, cotton, ginger, onion, turmeric, chillies, coriander, cumin, jute, tapioca, banana and pineapple;
- Operates both on “*area approach*”, for widespread calamities, and on “*individual approach for localised calamities* such as hail, landslides, cyclones etc



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National Agriculture Insurance Scheme (NAIS)

- **Premium rates range from 1.5% to 3.5%** depending on crop type; for commercial and horticulture crops, based on actuarial rate;
- **50% subsidy in premium** for small farmers, to be phased out, currently **10%**, **shared by Union and States.**
- **Risk is shared by AIC and Union.**
- Started off slowly in 9 states with 0.58 million farmers;
- Out of the 115.5 million farmer families, about 57.7 million are eligible for insurance. The NAIS covered about 24 million families in 2009-10, about 70% being loanee farmers.



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National Agriculture Insurance Scheme (NAIS)

Issues affecting the scheme:

- Scheme is in losses since the beginning. The claims have always exceeded the premium income, in some years even to the extent of 5.5 times. If the admin cost is considered, losses would be much higher;
- There is a considerable delay in settlement of claims;
- The area considered for threshold yield is too large, and the farmers want it a village level, which will be administratively difficult;
- Awareness of farmers is very low.



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Weather Based Crop Insurance Scheme (WBCIS)

- Insurance protection against losses in crop yield resulting from adverse weather incidences;
- Payout against adverse rainfall incidence (both deficit and excess) during *kharif* and adverse incidence in weather parameters like frost, heat, relative humidity, un-seasonal rainfall etc., during *rabi*;
- Reference unit area shall be linked to a reference weather station on the basis of which weather data and claims would be processed;
- Compulsory for loanees and voluntary for non-loan²⁶ees ;



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Weather Based Crop Insurance Scheme (WBCIS)

- Sum insured is broadly the expected cost of inputs pre-declared per unit area (Hectare) by AIC at the beginning of every crop season, in consultation with experts in State Government; and it may be different for different crops in different reference unit areas;
- Premium based on actuarial rate, could vary with each RUA and with each Crop, but to make the scheme attractive, capped for the cultivator as per NAIS;
- Premiums beyond the cap are shared by the Central and concerned State government on 50:50 basis



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Weather Based Crop Insurance Scheme (WBCIS)

- Started as a pilot in one state in Kharif 2007, progressively extended to 11 states till *rabi* 2009-10; proposed to cover 20 states in Kh. 2010;
- Being implemented by AIC, but participation of private players permitted to provide service
- About 2.2 million farmers were covered and 1.6 million farmers are benefitted in 2009-10 (both seasons), mainly through AIC.
- An amount of Rs2.49 billion is estimated to be spent by the government on subsidy till 2009-10.



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BASIX – Weather Insurance

Part -IV



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Weather Index Insurance

- The evolution
- Partnerships
- Financial performance
- Challenges ahead



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Evolution of Weather Insurance at BASIX

- Risk management particularly for rainfed-agriculture was identified as an important credit plus service to be offered to its customers
- Between 1999-2001, BASIX carried out research and undertook small pilots in testing an in house crop insurance scheme
- Which culminated in the first weather insurance pilot in 2003, in collaboration with ICICI Lombard and World Bank where 230 farmers were covered. Swiss Re was the re-insurer.



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Program Evolution

- **First pilot of rainfall insurance carried out in 2003**
 - 1 district
 - 2 products, 1 rainfall station (only district rainfall station)
 - 230 policies sold
 - Single phase product
 - Only Groundnut and Castor covered
- **Second year – 2004**
 - 3 districts
 - 10 product variations, 5 rainfall stations (block level stations included)
 - 402 policies sold
 - Coverage given for 3 phases of crop, but still for two crops only.



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Program Evolution

- **Third year- 2005**
 - Moved to a generic weather insurance product
 - Introduced more enhanced product features e.g dynamic cover start date
 - Sold weather insurance products with reference weather stations in 36 locations
 - Scaled the service to 6 states in India.
 - Sold to 6,689 customers
 - All insurance companies put together reached more than 100,000 farmers
 - Simplified data entry and processing
- **Fourth year- 2006**
 - Introduced excess rainfall cover to all locations
 - Products designed for 50 weather station locations
 - Selling took place in 7 states
 - Sold to 11,716 customers
 - Outsourced data entry and some of sales support services



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Program Evolution

- **Fifth year- 2007**
 - Continued the same generic weather insurance product
 - Sold weather insurance products with reference weather stations in 45 locations
 - Provided the service in 7 states in India.
 - Enhanced the Sum Insured levels to provide higher risk cover per farmer which meant higher premium amount per policy
 - Resulting in a lower uptake, with only 4,545 customers enrolling
 - Simplified product administration process
 - Introduced Mobile Sales Unit Concept



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Program Evolution

- **Sixth year-2008**
 - Continued the generic product and also introduced crop-specific products in a few locations in M.P,C.G and Rajasthan
 - Provided the service in 8 states in India.
 - Sold to 10,604 customers with enhanced coverage limits
 - The State Governments (MP & CG) offered subsidy to a few crops-Paddy, Gram and Wheat (CG) and Soya bean (MP)-upto 80%
 - Recorded the highest business volumes in this FY (2008-09)



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Overall Assessment

Till 2009,

Total number of clients covered 34,186;

No. of claims settled – 5,046 (15%);

Premium collected - US\$136,555

Claims paid – US\$88,826

Revenue to BASIX – US\$1,445

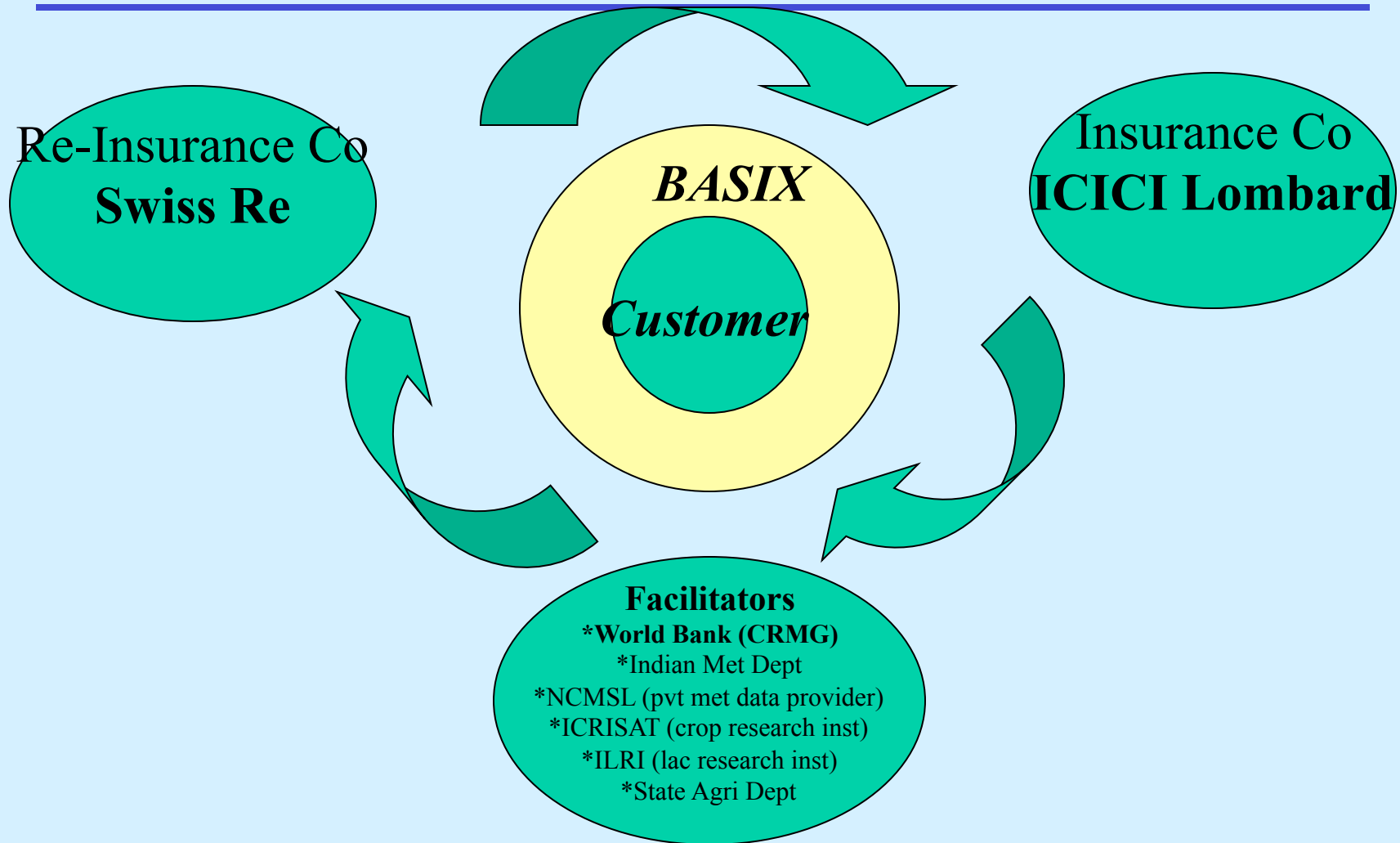
Revenue to Insurer - US\$46,284



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The ecosystem that delivered the weather insurance product





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Challenges Faced

- It is a voluntary insurance product with no subsidy, compared to the crop insurance programmes of Government with heavy subsidies;
- Availability of weather stations, data, and the cost implications thereof;
- High cost of marketing of a number of very small products;
- Lack of customer awareness;
- High dropouts during the periods of non-payout



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Strengths of BASIX

- Strong Mission Commitment to provide various financial services in an integrated manner,
- Availability of a large client base with high trust on BASIX due to the door step service delivery model with regularity of contact,
- Operating in diverse geographical/ climatic areas,
- Ability to link micro insurance with micro credit,
- Strong work force who are periodically trained,
- Strong operational model, excellent MIS support and ability to build good internal data base,
- Commitment to build a feed back mechanism, which enabled periodic customisation of product



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Thank You

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