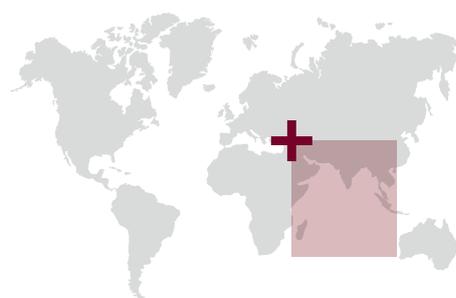


# Index-based Crop Insurance Project



## AT A GLANCE

### Name

Index-based crop insurance project

### Duration

September 2009 – March 2013

### Focus area

Sri Lanka

### Target group

400,000 members of the SANASA group who were directly dependent on agriculture activities

### Funds available

Confidential

### The project is jointly implemented by ...

Développement International Desjardins (DID), Sanasa Insurance Company Ltd (SICL) and BASIX with a grant received from the Microinsurance Innovation Facility

### The core objective is ...

to minimize Sri Lankan farmers' risk of an income loss due to unfavourable weather conditions



## BACKGROUND

SANASA is a network of savings and credit societies, which are committed to uplifting the standard of living for low-income Sri Lankan families, particularly in rural areas. The Sanasa Insurance Company Ltd (SICL) is an insurance company of SANASA that supports a cooperative network of nearly 8,400 savings and credit institutions located across Sri Lanka with insurance offerings.

The SANASA network has about 400,000 of its members engaged in agricultural activities and about 47 per cent of the members live on less than Rs. 5,000 (about 50\$ US) a month. The main risks affecting crops are linked to drought, flooding and insects.

The index-based crop insurance project was centered on the adaptation of a weather-based crop insurance model used in India, to the Sri Lankan environment, including the development and testing of new methodologies to streamline the overall process, improve delivery mechanisms, and raise the awareness of insurance among rural Sri Lankans.

Farmers tend either not to own their own land or are small scale farmers (less than five acres). Paddy is cultivated in two seasons, namely Yala and Maha. The Yala season commences during April/May to August/September and the Maha season commences



during September/October of the same year to March/April in the following year.

The Sanasa Insurance Company has over 250,000 micro-insurance clients. Index insurance is a new sector for the insurance company and an area of potential growth.

## APPROACH

Training manuals on the weather index insurance product (WII) were developed and a project team was put in place to coordinate with the various farmers' societies. Arrangements with the reinsurance with Swiss Re were put in place. Implementation sites were selected and the product was introduced and historical data was obtained from the field workers for product specifications for all the locations. Fifteen weather stations installed by the Sri Lankan government provided regular data, which were used for developing the product and monitoring the policy.



### Challenges

**Consumer education:** Sales of the WII were slow initially low because society leaders and members were not convinced that weather index insurance solution could manage the major risks they face.

**Restricted reinsurance availability:** SANASA had seen high payouts in the past and was keen to have reinsurance support to prevent any erosion to its balance sheet in case of widespread losses.

**Sales agents and insurance sales** - society employees have found it difficult to sell insurance along with their other tasks and this affected sale.

**Frequent product modifications** and „over-customization“ is time consuming and can limit the potential client base.

**Farmers take time** to “try” by not buying large quantities of an unknown product and waiting to see results of an insurance product with a trial purchase before investin



## OUTCOME

The project covered over 12,500 farmers and provided insurance education to over 25,000 farmer households. It also helped introduce and establish a new product concept in the country and attract more players and investment into the weather index insurance market. Based on the experience, the Global Index Insurance Facility (GIIF) of the International Finance Cooperation (IFC) has provided funds for expansion to new crops and areas. Four new crops are being included

(rubber, maize, coconut and banana), in addition to tea which has already been introduced.

SICL also received the Agribusiness award from the National Agribusiness Council. The company will keep collecting feedback from the field and modifying processes to ensure greater product outreach and understanding.

## LESSONS LEARNED

**Investment in training and awareness sessions** aimed at sales force so that the relevant message such as bundled service offered could be effectively communicated.

**Cost considerations may restrict bundling possibilities.** SANASA does not bundle insurance product with the loan products due to cost considerations. It was worth exploring options to bundle WII with existing financial services (loans) and to leverage the existing distribution system.

**For training and communication:** there is a need to equip sales agents and marketing executives with knowledge of agricultural practices in order to convince customers and they see value in the relationship with the insurer.

**Product configuration needs to be finalized in advance of crop cultivation** to allow for sufficient time for farmers take time to understand and then invest in a new concept like index insurance.

**Videos have not proved as effective,** both in terms of reach and in terms of cost, as radio programmes, posters and leaflets.

**Proper understanding of the coverage by farmers** can persuade them to pay a higher premium. If the farmers are convinced that the product covers what they see as major risks, they are willing to pay a relevant premium. However, if the feeling is that the product is being forced on them, without providing sufficient protection, then they will not even be prepared to pay low premiums.

**The frequency and timings of premium payments are very important.** Timing premium collection to coincide with harvest time also helps. Farmers have money at this time to invest in insurance.

**Triggers and premiums** that reflect land size rather than units can be more attractive to farmers. This helps farmers to determine the amount of insurance required.

**Farmers perceive greater value from claims payments after each phase of the product coverage rather than after the entire risk period or season.**





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### Websites

For more information on the project visit:

[www.sicl.lk/](http://www.sicl.lk/)

For more information on the project visit::

[www.impactinsurance.org/projects/lessons/evolving-climatic-adaptation-through-crop-insurance](http://www.impactinsurance.org/projects/lessons/evolving-climatic-adaptation-through-crop-insurance)

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