



Importance of National Crop Insurance Program in the context of farmers and local insurers

August 2017 | Kigali, Rwanda

About KMD

KMD **was founded in 1973** by Late Mr. K. M. Dastur, erstwhile Country Head of Norwich Union Insurance Company, operations in India

KMD, London **is a Registered Lloyd's Broker**. International offices in United Kingdom, Russia, Turkey, Morocco, South Africa, UAE, Indonesia, China, Malaysia, Bangladesh, Sri Lanka and Myanmar.

KMD has **four decades of experience in all classes of Insurance and Reinsurance brokerage** around the world with highly experienced and skilled team of professionals.

As an independent brokerage operation KMD **offers a range of Risk Management services** and design Insurance & Reinsurance solutions/products using standard and customised techniques

One of **the lead Reinsurance Broker** for the National Crop Insurance Program in India. The Indian Crop Insurance Program is now one of the largest crop insurance program in the world

KMD was the **first to introduce Weather based Index Insurance Program** in **Bangladesh** and **Nepal**. Designed and provided reinsurance support on yield based crop insurance programs in **Sri Lanka**.

KMD has been appointed by Access to Finance Rwanda in collaboration with the Ministry of Finance and the Ministry of Agriculture to design and implement universal crop and livestock insurance program in **Rwanda**

The Ministry of Agriculture, Livestock and Fisheries, Kenya and KMD has drawn a MOU to guide the collaboration of the parties in the implementation of the National Agriculture Insurance Program in **Kenya**

Challenges – Institutional perspective

Lack of agriculture data in terms of yield data (cultivated area vis-à-vis production)

Lack of capacity especially local insurers do not have the capacity to cover catastrophe risk associated with drought, flood and other typical agricultural risks.

High distribution costs. Given that farms tend to be small and spread over wide areas, agricultural insurance typically carries very high distribution costs

High loss assessment costs - costs of assessing losses are high, particularly in relation to small insured farm units, where the premium volume generated is usually very low

Affordability of premiums - small farmers are unwilling, and may be unable, to pay for commercially priced agricultural crop and livestock insurance

Lack of an enabling legal and regulatory framework - regulatory framework for microinsurance is still being developed in most of the target countries

International experience suggests - sustainable insurance programs are based on **strong partnership between the public and private sectors**, with engagement, innovation, and action from both sectors

What farmer wants...?*

*The most prevalent (common) risks experienced by farmers include **adverse prolonged droughts, pests and diseases, unseasonal rains***

***Link insurance to agro-inputs access and service delivery** - Farmers have strong linkage with agro dealers and they trust someone internally more than outsiders*

***Program should be managed by the government working with local authorities** - This will give legitimacy and credibility to the scheme from the onset*

***Scheme should be simple to understand and transparent** - In past due to basis risk the claim benefit has not been compensated to the extent of the loss; farmers never understood the payout mechanism*

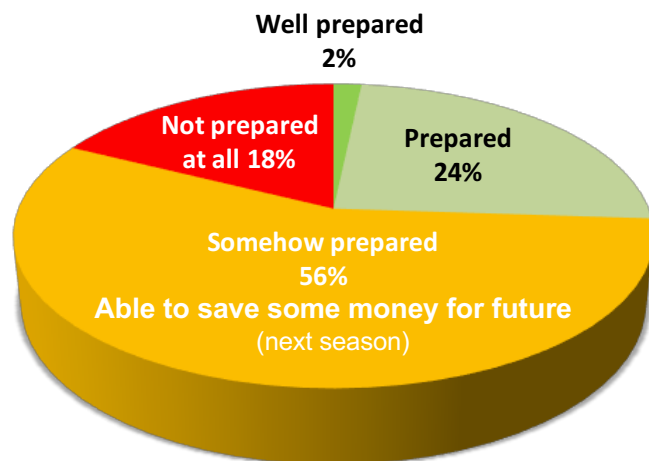
***Prioritise sensitization and training at village level** - it is important for the farmers to understand the functionality of the scheme and product benefits; claims settlement process in particular.*

***Policy document & premium receipt to individual farmer in local language** - To build transparency and trust amongst the farmers on the overall scheme; encourage retention and attract enrolment*

***Prioritise working with cooperatives** - More number of farmers can be enrolled; ease of premium collection and monitoring agricultural activities*

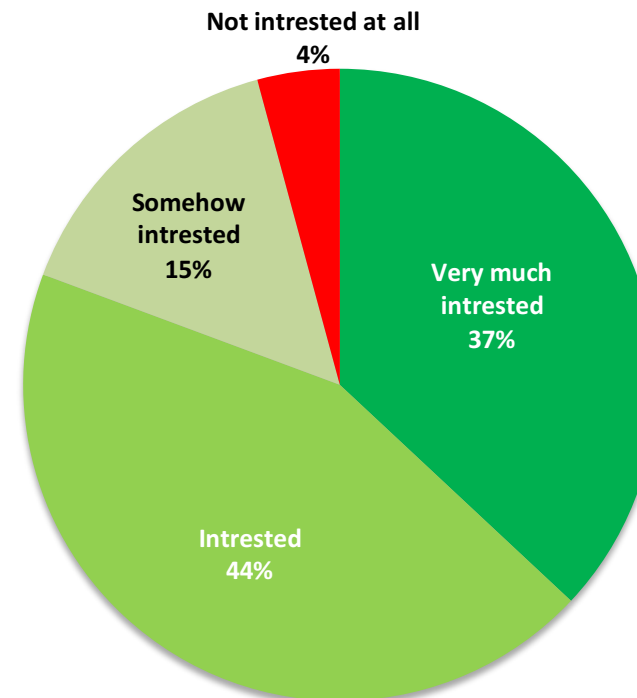
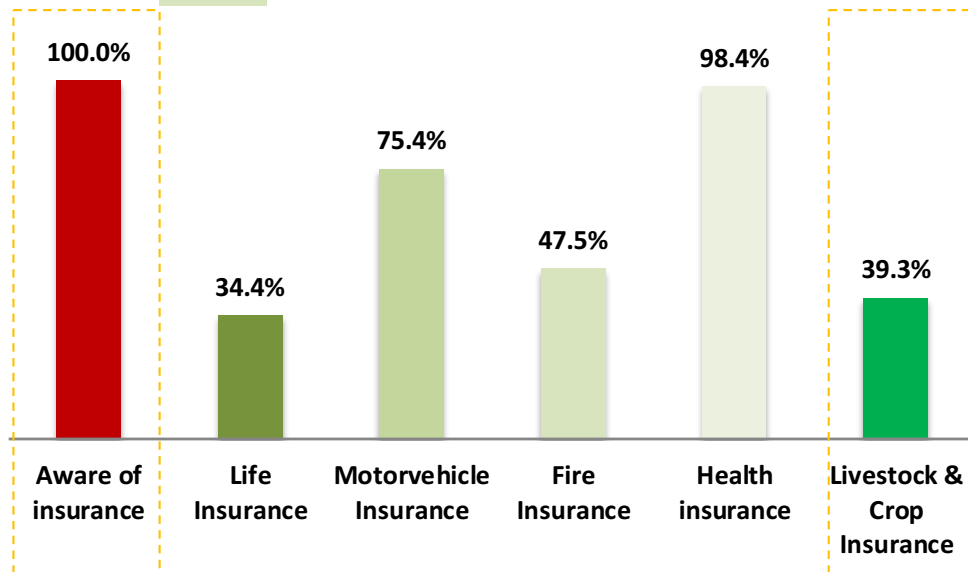
Note: The side study covered **9 districts in 5 provinces of Rwanda, **10 FGDs** were conducted (30% women) practicing **11 different agricultural activities** as part of Feasibility Study*

Farmer's Response – Rwandan Context*



24%

Neither *satisfactory nor adequate enough* to deal with the losses



*Q: If a coping mechanism was introduced as a scheme in your area but **you had to pay for it**, how interested would you be in being part of the scheme?*

Not interested at all – those who have some *past experience* – in addition to *high basis risk*; farmers with limited product knowledge never understood the functionality of the product in terms of claims payout



Why Government...?



Why MPCl (Multi Peril Crop Insurance) stands out?

Basis risk - An insured individual farmer can experience a severe yield loss on his/her farm and not receive an indemnity if the area yield average is unaffected.

Localized risk / perils - Index based insurance schemes will not work in areas with high losses due to localized perils, e.g. hail, strong wind, local flooding by river, etc. that only affect small areas or few farmers.

Homogeneous Unit Areas of Insurance (UAI) Defining the homogenous UAI can be difficult i.e. climatic zone and cropping systems are uniform (e.g. same soils, rainfall regime; same plant varieties, planting dates, similar management practices). The policy is not suitable for mix up type of farming.

Historical weather and area yield data – Any index insurance schemes requires accurate historical data to estimate the historical yield averages. During crop harvesting, accurate yield measurement through proper sampling and crop cutting are required. A good data auditing systems is thus a key requirement.

Microclimates - Has many microclimates i.e. the weather on one side of a mountain may be sharply different from the other side, leading to very different farming experiences by farmers in close proximity

Objective – Government / National Scheme

To **manage risks and losses** amongst smallholder farmers, **increase productivity in agriculture through improved access to credit** and higher yielding technology such as seeds and fertilizers and support the transition from subsistence to commercially oriented farming

At the scheme design level the following objectives should be met

To provide **insurance coverage** and **financial support** to the farmers in the event of failure of any of the notified crop and livestock as a result of natural calamities, pests and diseases

To improve **access to financial (lending) institutions** and ensure flow of credit to the agriculture sector and thereby **encouraging farmer to adopt innovative and modern agricultural practices**

To allow banks to expand their lending portfolio to agriculture sector without increasing default risk

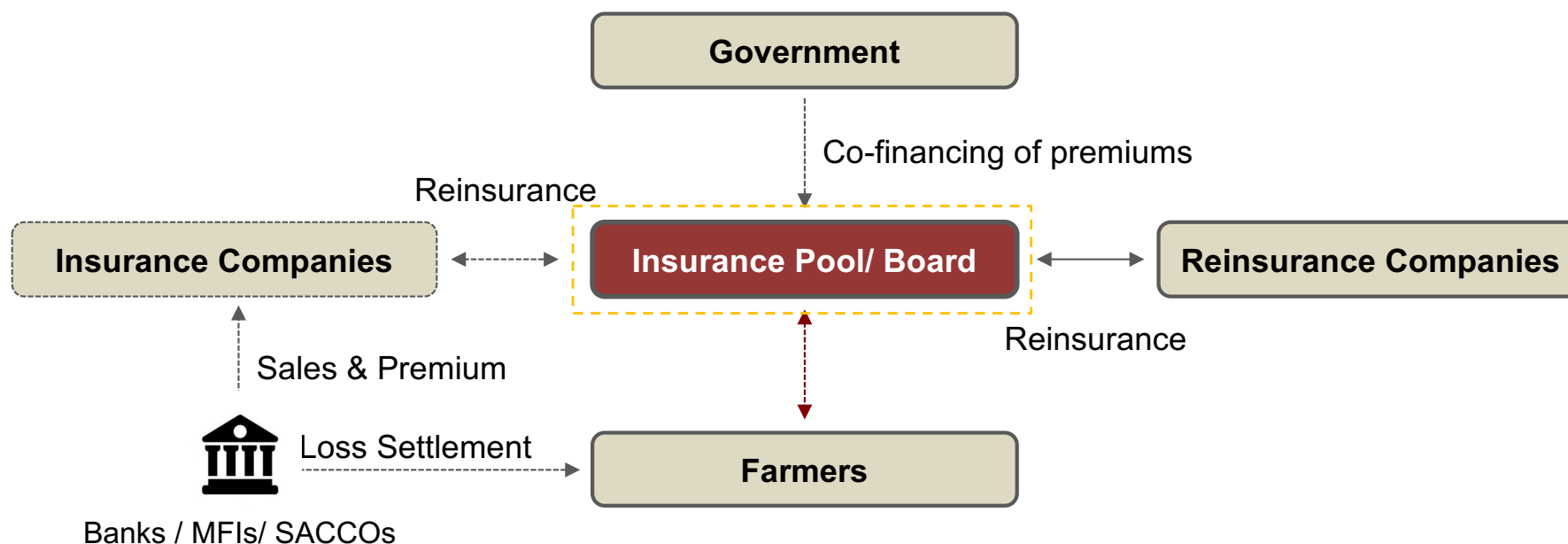
To make effective use of Government subsidies

To **provide standard insurance contracts** and lay down procedures and principles for the operation of agriculture insurance, to ensure centralized and standardized loss adjustment activities

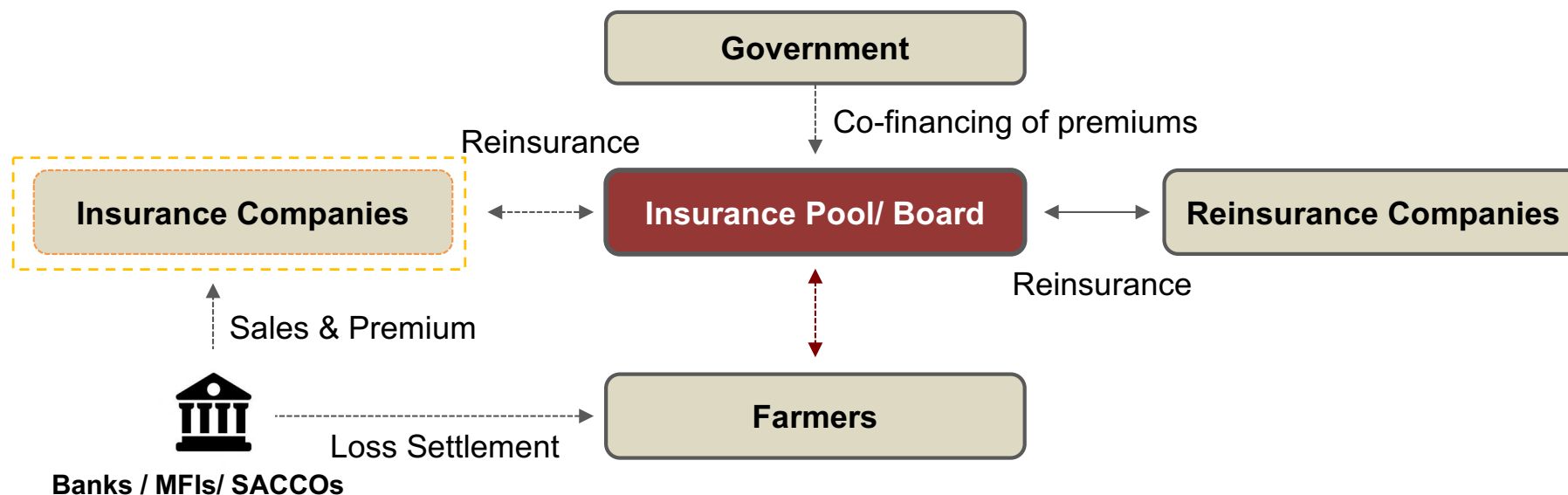
Proposed Insurance Program

Public-private partnerships (PPP) can create an environment that is **more conducive to agricultural insurance**. The essential pillars and achievements of this PPP model include:

- Public co-financing of premiums** and catastrophe losses
- Setting insurance **enabling uniform terms and conditions**
- Efficient, **transparent and uniform settlement of claims**



Rationale - Single company versus pool coinsurance



The **pool could place the risk with multiple reinsurers** with **uniform terms and conditions**

The ability for the pool coinsurers to **retain a much higher level of risk** than if one company is appointed to underwrite the business

The ability to purchase **common account reinsurance protection** leading to **major cost savings** in the reinsurance program through risk pooling/risk diversification

Economies of scale; initial program cost (e.g. consumer education, setting up process, operating systems) are either taken up by the government or shared amongst the coinsurers



Case Study - Indian Model – World's single largest agriculture insurance market

Target / Coverage

All farmers **including sharecroppers and tenant farmers** growing the notified crops in the notified areas are eligible for coverage

~ **40 million farmers are covered, bundled with essential livelihood services** such as agricultural credit compulsorily

Coverage of Risks (following stages of the crop and risks leading to crop loss)

1. Prevented Sowing/ Planting Risk
2. Standing Crop (Sowing to Harvesting)
3. Post-Harvest Losses (crops which are allowed to dry in cut and spread condition in the field)
4. Localized Calamities: Loss/ damage resulting from occurrence of identified localized risks

Comprehensive risk insurance cover (MPCI – Multi Peril Crop Insurance) cover yield losses due to **non- preventable risks e.g.** drought, flood, pests and diseases, natural fire and lightening, storm, cyclone, typhoon, hurricane

Crops

Food Crops; Oil Seeds; Fruits & Horticulture

Making the program **Universal**

Role of Government

1. To provide standard insurance contract and design the overall program
2. To lay down procedures and principles for the operation of agriculture insurance, to ensure
 - a. Centralized and standardized loss adjustment activities
 - b. Effective use of Government subsidies

Government support in **subsidizing premium and implementation through a multi-agency framework** under the guidance of the Ministry of Agriculture
Investment in open data infrastructure and integration of climatic and agronomic data from multiple sources

Report Card – Impact and Reach

WIDENING THE BENEFITS OF PM FASAL BIMA YOJANA FOR FARMERS

1.9 crore hectares of agricultural land covered under PMFBY in current Rabi season

1.64 crore farmers opt for insurance under PMFBY in the same season

5.3 crore farmers covered under the PMFBY in first two seasons of 2016-17

Rs. 13,240 crore allocated for settlement of pending arrear claims for 2016-17

**PROSPEROUS FARMERS
FOR A PROSPEROUS INDIA**

Source : Media Report

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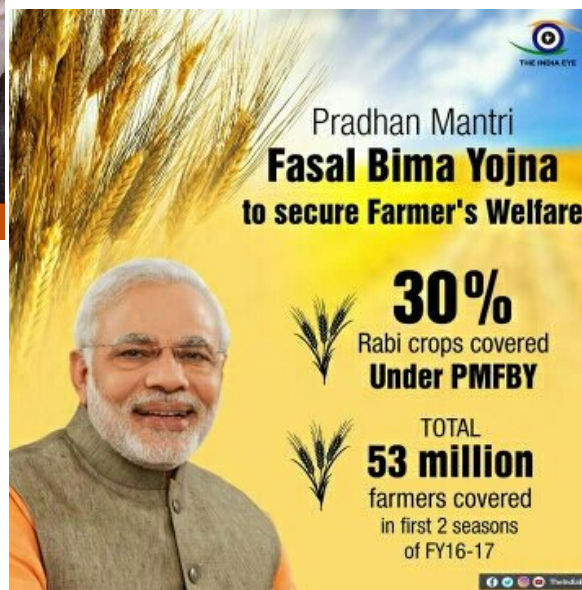


The PMFBY was launched in January 2016 replacing the older schemes to ensure farmers pay less premium and get full and early settlement of the claims

INR 223,449.3 million gross premium collected during the 2016-17 crop year, and total claims are estimated to be INR 151,006.8 million

INR 94,468.3 million of claims have been approved and claims of INR 66246.5 million have already been settled / paid by insurance companies

In 2016-17, 53 million+ farmers were covered



Role of Donor Organizations - Technical Assistance – Initiatives

Public Sector

- Assist in **project management**
- Institutional and legal elements of a **pool (coinsurance) program**
- Support to capacity development for **product design and evaluation**
- Support development and implementation of the monitoring and evaluation framework

Private Sector

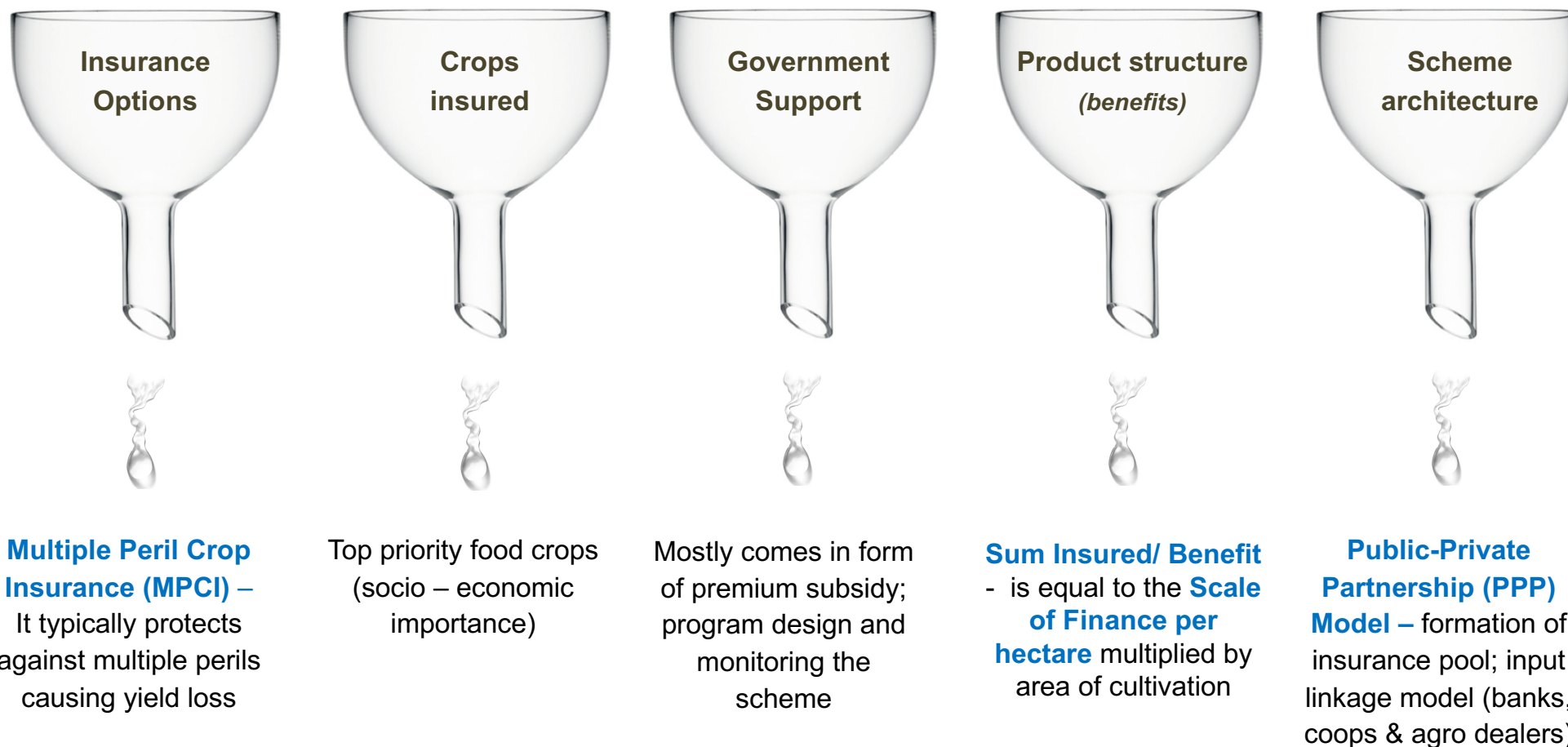
- Assisting in liaising with the Government, including possible distribution channels
- **Strengthening insurance distribution channels**
- Provide specific technical assistance to the private sector (conduct workshop and training programs for staffs)

Overall Market

- **Public Awareness - Consumer Education /** financial literacy program
- Engage with NGOs and civil societies in promoting insurance
- Explore technology to support the implementation of the overall scheme
- Data Management and Collection

*What would you expect from **donor organizations** to help improve access to agricultural insurance to small farmers?*

Key Considerations



**Crop Intensification Programme (CIP)*

Thank You