Relaxing liquidity constraints in microinsurance demand -- ICARD [1]

About the Project

Project Name: Relaxing liquidity constraints in microinsurance demand -- ICARD
Type of Facility Project: Microinsurance innovation grantee
Country of Operation: China
Region: Asia and the Pacific
Sub Topics: Business models, Premium collection, Demand, Agriculture
Type of Risk Carrier: Regulated insurance company
Type of Distribution Channel: Agriculture output buyer (e.g. food processing company)

Organizational Overview

The International Center for Agricultural and Rural Development (ICARD) was jointly launched by the Chinese Academy of Agricultural Sciences (CAAS) and the International Food Policy Research Institute (IFPRI) in 2003. ICARD focuses on policy research, capacity strengthening, and communication to support the design and implementation of agricultural and rural development strategies that will help achieve food security, poverty and hunger reduction, and overall economic growth in China.

Project Description

The overall objective of the project was to introduce an effective, commercially viable swine insurance scheme for smallholder swine farmers in a poor western province of China. Farmer demand for insurance is often low, even when premiums are heavily subsidized. Liquidity constraints and lack of trust in insurance providers play an important role in low take-up of micro-insurance in developing countries. The project is testing an alternative premium collection method, which allows farmers to def...

Beneficiaries

The beneficiaries of the initial pilot will be smallholder, swine farmers in rural Zizhong County, Sichuan Province. A target group of 2000 households will be identified for the pilot. Pending the results of this pilot, there is the potential to further scale up the project to reach the entire province smallholder farmer population.

Learning Agenda

- Does offering a voucher allowing deferred premium payment impact insurance uptake? If so, how? And by how much?
- Do vouchers allowing deferred premium payment impact different groups of farmers differently?
- Is offering a deferred premium option a commercially viable proposition?

Project Status

Key Performance Indicators

The project took place between August 2010 and July 2012. The experiment using the voucher mechanism began in June 2011. A total of 1,684 respondents were included in the baseline study, of which 488 received the voucher allowing them to postpone the premium payment until the end of the insurance period. The results suggest a strong increase in take-up as a result of receiving the voucher. Households with the voucher were 11 per cent more likely to purchase insurance than those without it.

Project Updates

As of August 2010 Researchers started to define the theoretical framework, the design of the experiment, the voucher mechanism, and the sampling methods. As of December 2010 The baseline survey was conducted by six teams who were previously trained in the actual survey sites. From the 32 townships in Zizhong County, 3 were selected for the research: Gongmin, Chonglong, and Ganlu. After that, six villages were randomly selected from each of the three townships. All swine farmers w...

Project Lessons

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On the main determinants of demand for insurance  Liquidity constraints have a negative influence on the demand for swine insurance. With usual up-front premium payments, the fact that credit is not available to purchase insurance may reduce insurance take-up. Liquidity constraints affect demand for all insurance products, but can be even more problematic for farmers as premiums must usually be paid at the same time that other inputs are bought, and som... READ MORE [2]

On the effect of deferred payment on demand  Providing farmers with the opportunity to defer premium payment until the end of the insured period can increase the demand for insurance. In the experiment conducted during the project, farmers from the treatment group who received a voucher allowing them to delay premium payment (with an interest charge) until after they had sold their livestock were 11 per cent more likely to purchase insurance than those that d... READ MORE [2]

On the effect of deferred payment on premium payment defaults  Deferring premium payments does not increase premium payment defaulting rates. A potential problem with delayed premium payment is that farmers might not pay if the insured event does not occur. A livestock producer insuring animals against death who subsequently experiences no deaths may be reluctant to make the premium payment. As evidenced by the high payment rates observed in the experiment, t... READ MORE [2]

On the suggested improvements to swine insurance in China Adapting the insurance terms to the needs of local farmers can improve swine insurance and encourage producers to commit to a contract. Swine farmers have different perceptions and needs. A product that suits larger farmers may not be adequate for smaller ones, for example. Therefore, adapting product features to different target groups may enhance farmers' willingness to pay for insurance and impro... READ MORE [2]

On replication in other contexts Identifying local specificities is vital before replicating the Chinese experience to other contexts. A successful experience in the Zizhong County may not experience the same level of success if transposed to another place in the same format. It may be the case that liquidity and insurers' default are not constraints faced by swine farmers in other regions, or that the government is not as present in insurance and the agri... READ MORE [2]

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