Learning Journey

Fundación Profin

Vida Agrícola

Contents

Project Basics ............................................................................................................................................. 1
About the project .................................................................................................................................... 1

Project Updates ..................................................................................................................................... 2
Key Indicators........................................................................................................................................... 2
What is happening? ................................................................................................................................. 2

Project Lessons ...................................................................................................................................... 9
On demand and consumer value........................................................................................................... 9
On supply and the distribution channel ................................................................................................. 10
On consumer education ......................................................................................................................... 11
On public private partnerships ............................................................................................................... 12

Next Actions .......................................................................................................................................... 13
Project Basics

About the project

Fundación Profin is an organization working to bring appropriate, equitable and comprehensive financial services to low-income people. The organization, with the support of the Swiss Agency for Development and Cooperation and the Danish International Development Agency, has developed different products and pilots involving microfinance organizations, private sector organizations and governments. Since 2006, PROFIN has worked on the development of microinsurance in Bolivia and the deepening of financial services, generating experiences and learning about microinsurance in the rural area. In particular, experiences with two risk management funds - Tarija the “Fondo de Transferencia del Riesgo” (FTR) or Risk Transfer Fund in the Bolivian region of Uriondo, “Fondo de Mitigación del Riesgo Agrícola” (FMRA) or Agricultural Risk Mitigation Fund in the highlands of La Paz - proved useful during the implementation of Vida Agrícola, a composite insurance product.

Vida Agrícola includes protection for agriculture, life, and property and is linked with technical assistance for non-financial risk management. The project involves prospective clients to identify priorities and provide input during the design and scaling-up of the product.

The project has been implemented in three phases, each lasting for one year. During the first year, PROFIN and its partner Nacional Vida/Latina Seguros designed the product, consolidated public-private partnerships with regional governments to confirm their participation in subsidizing part of the agricultural premium select distribution channels and partners, trained relevant stakeholders such as government institutions and distribution channels, and launched the promotional campaign.

During the second year, PROFIN and its partners implemented a pilot in Tarija. In the third year, the product continued to be implemented in Tarija. The expansion to other regions of the country was planned though it was held back given a new subsidized government program (SAMEP) that would have directly competed with Vida Agrícola.

| Project Summary |
|-----------------|----------------|
| **Project Name:** | Vida Agrícola |
| **Project Start Date:** | August 2010 |
| **Duration:** | 3 years |
| **Country:** | Bolivia |
| **Product:** | Composite (Agricultural – Life – Property) |
Project Updates

Key Indicators

Sold policies and covered hectares:

- 2011-2012 campaign: 41 policies – 43.25 hectares
- 2012-2013 campaign: 44 policies – 71 hectares
- 2013-2014 campaign: to be confirmed (Profin seeks to sell 2,400 policies)

What is happening?

As of February 2011

Fundación Profin has been working with the insurance company to define the final life insurance product (with Nacional Vida) and property and agricultural insurance (with Latina seguros). The proposed produce to be insured are: grape, sugar cane, corn and potato. These products represent the main crops being developed in the region of Tarija.

A market study has been prepared to validate the designed products and a baseline study to collect data on the situation of farmers in the region of Tarija. The study found that the target market prefers an agricultural only product over a composite product because the market does not feel vulnerable to life and property risks. Despite these findings, Profin has refrained from changing its product, hoping that claims will eventually increase demand for the life and property covers.

Given the political situation in the department of Tarija, where the government change brought a high degree of instability in the decision making process, Profin took the decision to also collect information on the more stable department of Cochabamba in order to have an alternative implementation possibility. Currently Danida is supporting the implementation for Cochabamba. The project will need to manage risks from government activities on an ongoing basis.

Once the insurance regulator accepts the products and the agreements with the government have been achieved, Profin will issue a call for proposals to select the distribution channel for the product.

As of August 2011

Profin has engaged in negotiations with financial institutions which could distribute Vida Agricola but the negotiations have not been finalized yet.

Profin has also approached several public actors in the Tarija region, such as the Federación de Productores, Gobierno Autónomo Departamental and SEDAG. Profin expects that partnerships with
these public actors will help create an enabling environment, promote Vida Agricola and provide subsidies for the product.

Nacional Vida has begun developing software for the distribution channels, which will facilitate a streamlined enrolment process. Yet, the development will be postponed to the next year due to delays in the negotiations with distribution channels.

**As of February 2012**

The public private partnerships have not brought the expected results. It came to an internal conflict of interests within the Federación de Productores and the governor was dismissed. Profin decided to not involve them in the 2012-2013 campaign.

Profin has selected its distribution partners, which are the MFI Prodem, and the credit and savings cooperatives El Churqui and San Francisco Solano, and in late 2011, the product was distributed for the first time in Tarija. Late authorization by the regulator and delays of PROFIN in having all the documents ready postponed the product’s launch. The first sales campaign ran from the 21st of December 2011 to the 25th of February 2012. Printed material as well as radio and TV broadcasting were used as marketing instruments. Overall, 41 policies were sold during the first campaign (2011-2012).

In light of the low sales volume, Profin has noticed that it does not know how effective its marketing strategy is. Thus a consultant will be hired who will carry out 3 tasks. First, the 9 areas of Tarija, where policies were sold, will be examined to find out more about the level of knowledge about the product and thus the effectiveness of advertising and socialization campaigns. Second, the consultant will evaluate the technical accuracy of the index model. Third, the consultant will gather market information for the adjustment of the product as well as advertising and socialization in the new areas.

The experience of another grantee of the Microinsurance Innovation Facility – La Positiva in Peru – has attracted the attention of Profin. This Peruvian insurer has improved its offer by introducing a substantially more expensive agricultural multirisk product. This provides farmers with an opportunity to compare prices and benefits and choose between different products. The experience of agricultural multirisks products of Latin American insurers will also be reviewed to build an adjustment model for potato and corn for the three regions.

**As of November 2012**

In June and July, loss assessment took place. Some districts suffered losses between 80 and 100 per cent of their harvest, while others suffered losses between 20 and 30 per cent. Some even had a good harvest. There were still no actual claims to be paid for the agricultural component of the product as a result of large homogenous zones which are not representatives for all farmers in these zones. Initially, Latina Seguros made the decision to not make any payment, given that the triggering event did not occur. Profin was concerned that the farmers’ confidence in insurance would decline if they did not pay them. Thus, Profin assumed 50 per cent of the payment and agreed with Latin Seguros on ex gratia payments. To avoid similar problems in the future, the claims assessment process will be revised. The
trigger of the homogenous zone will remain in place but it will be compared against the average crop loss of each municipality in order to bring down the size area to compare.

Nacional Vida has finalised the development of enrolment software for distribution channels to enable sales agents to complete the enrolment process in no more than five minutes. The introduction of new software has required a simplification of the product. Thus the life component now only covers one person rather than two and the maximum sum insured of the property component has been reduced from Bs. 21,000 to 7,000, so that it matches the maximum sum insured of the life component.

Commissions have been increased from 5 to 10 per cent in order to provide distribution channels with more incentives to sell insurance. Moreover, new criteria for recruiting distribution channels have been developed. One of them refers to the distribution channel’s orientation towards social responsibility. Profin hopes that such distribution channels are not only interested in financial incentives but also non-financial incentives, such as the product’s delivery of client value. The other criteria concern: the outreach of the channel in the target market; the willingness of the salesforce to sell insurance; opportunities to increase the rural portfolio of the channel; the channel’s commitment to the product; and the possibility of bundling insurance with credit products.

Based on the new criteria, Profin has decided to distribute its product in the second campaign through Ecofuturo and IDEPRO in addition to the existing distribution partners El Churqui, Prodem and San Francisco Solano. Direct sales agents which are financed by the insurance company and which work full-time on selling insurance will also be placed at the branches of Prodem to provide clients with better services and improve sales performance.

Profin’s agricultural insurance has become exposed to competition with a public programme. The Bolivian government has launched Seguro Agrícola de los 70 Municipios Más Pobres (SAMEP) (Agricultural Insurance for the 70 poorest municipalities), a 100 per cent subsidized programme for catastrophic insurance that covers USD 145,77 per hectare carried out by the National Institute for the Agrarian Insurance (INSA). SAMEP provides insurance services for six different crops (potatoes, corn, wheat, beans, oats, barley and quinoa) in 64 municipalities in 6 regions (La Paz, Oruro, Potosí, Cochabamba, Chuquisaca and Santa Cruz). The final design and implementation of SAMEP still needs to be clarified but Profin seeks to provide the government with information about Vida Agricola to contribute to the successful design and implementation of SAMEP. Moreover, Profin plans to inform farmers about SAMEP and the private insurance programmes in its marketing campaigns to enable them to distinguish between public and private insurance programmes.

A consultant has been hired to carry out the previously mentioned tasks. The consultant’s analysis of the farmers’ perception has demonstrated that Profin needs to further improve the farmer’s understanding of and confidence in insurance. In Cochabamba and Chuquisaca less than 20 per cent of the surveyed were aware about insurance. In Tarija 49 per cent of the surveyed were aware about insurance. The survey also highlighted that 83 per cent of the surveyed are not aware about the existing national agricultural insurance of the government. The consultant’s market study also found that farmers are primarily concerned with agricultural losses, while life and property losses play a secondary role. An agricultural loss has been experienced by 67 per cent of the surveyed in Cochabamba and 78 per cent of the surveyed in Chuquisaca. The percentage of farmers affected by life losses amounted to 18 per cent in Cochabamba and 12 per cent in Chuquisaca. In both regions, less than 8 per cent have experienced a property loss. The willingness of farmers to pay for insurance was also analyzed, demonstrating that 94 per cent of the surveyed farmers in Cochabamba and 48 per cent of the surveyed farmers in Chuquisaca
said that insurance should be free. In terms of their willingness to pay for insurance, the three regions differ significantly. One out of three farmers in Cochabamba, nearly every second farmer in Chuquisaca and four out of five farmers in Tarija would be willing to pay for insurance.

As of February 2013

Farmers received the ex gratia payments in September after Latina Seguros had postponed payments since July. The delayed payout and small amount (given the ex gratia payment) have been unsatisfactory for farmers, reinforcing the need for an adjustment of the loss assessment methodology.

SAMEP was initially supposed to be offered commercially and a procurement call took place in November 2012. A pool of insurers, comprising Credinform, Bisa, Latina, Alianza and La Boliviana Ciarzuc, made a proposal to the government. Profin supported the pool of insurers with information. However, INSA eventually did not award any proposal, partly because Credinform and La Boliviana Ciarzuc did not meet the government’s requirements.

Approximately 92,000 farmers in 63 municipalities have already been enrolled under SAMEP, calling for an implementation of an insurance programme. The government has considered two options to implement it. It will either establish an insurance fund, allowing insurers to underwrite risks which exceed the financial capacity of the fund; or it will run a public insurance programme without involvement of private insurers. Regardless of the final decision, Profin seeks to provide the government with technical assistance with the objective of improving access to agricultural insurance.

The 2012-2013 marketing campaign has made use of printed material as well as radio and TV broadcasting. Moreover, Profin has decided to employ two more instruments to strengthen its campaigns. First, street theatres will help promote Vida Agricola. Second, promoters will be employed to take a door-to-door marketing approach to raise awareness about Vida Agricola. The promoters will be recruited from the municipalities based on their popularity and reputation to ensure that they are in a privileged position to raise the confidence of farmers in insurance. Profin expects that these new strategies will improve the farmers’ confidence in insurance. However, both strategies have been cost-intensive, restricting their potential. To further raise the awareness of farmers about insurance, Profin has noticed that it should not only carry out its campaign during a few months of the year but rather throughout the entire year.
The marketing campaign has also provided further insight into the farmers’ understanding of the product. Most farmers have a better understanding of the benefits and the claims procedure of the life and asset component of the product than of the agricultural component. In light of these findings, Profin considers to adjust its product design, loss assessment and timing of payments in order to make it easier for clients to perceive the value of insurance.

One of the distribution channels – Ecofuturo – has designed and implemented a microcredit product which provides farmers with access to up to Bs. 12,000 and which requires the purchase of Vida Agricola. Ecofuturo has furthermore introduced five sales agents who visit farmers in order to sell them insurance. To further improve the outreach of these agents, the use of mobile technology and more agents are under consideration.

Given that SAMEP provided farmers in Cochabamba and Chuquisaca with agricultural insurance, Profin decided not to run its 2012-2013 campaign in these regions. Instead, the second campaign concentrated again on Tarija, where the previously mentioned analysis of the willingness to pay also highlighted that farmers are willing to pay for agricultural insurance. The second campaign resulted in the sales of 44 policies.

The financial institutions struggled to reach out to farmers in remote rural areas, partly because many potato and corn farmers often have to travel at least 2 hours on land transport and several hours of walking to arrive at the closest sales point.

As August 2013

Whereas farmers experienced delayed pay-outs during the first campaign, the payments of the second campaign (2012-2013) were made in a timelier manner. Profin expects that this has provided farmers with a better experience with insurance, strengthening the farmers’ confidence in Vida Agricola. For the third campaign, Profin seeks to settle claims quickly to further strengthen the farmers’ confidence in insurance.
The third campaign (2013-2014) will experience some substantial change. First, the insurer Alianza will replace Nacional Vida as the underwriter of life and property risks. Second, an individual adjustment methodology will be introduced for the agricultural component to avoid previous problems with loss assessment due to large homogenous risk zones. For example, using districts rather than the large homogenous risk groups is under consideration to reduce the basis risk. Third, farmers will have the choice of either purchasing a composite product (agricultural, life and property risks) or insurance for any of these risks. Profin expects that these measures will strengthen the farmers’ understanding of and confidence in insurance. Fourth, the staff of Profin, insurers and distribution channels will be provided with more training about the product in order to put them in a better position to inform farmers about the product in awareness-raising campaigns. Fifth, Profin seeks to better monitor and evaluate the effectiveness of its awareness-raising campaigns.
In addition to the previously mentioned changes, Ecofuturo and Prodem will distribute Vida Agricola during the 2013-2014 campaign. San Francisco Solano, El Churqui and IDEPRO will no longer function as distribution channels because they have failed to meet regulatory requirements for selling insurance. Profin plans to sell 2,400 policies in its third campaign.
Project Lessons

On demand and consumer value

Non-financial values for clients allow for a better welcome of agricultural products that may seem expensive at first glance. In the case of the FMRA, the clients perceived the premiums as high (15% of the insured premium), though they bought the insurance product given the personalized technical assistance that they could receive. In the case of the FTR, the surveys showed how farmers found the price of the insurance as fair, but a great motivation to buy the product was the attention they got from the officers, and because the policy was easy to understand.

Trust and information are key factors in the planning of a commercialization strategy; lack of these can deter sales. Farmers who were not clients of the product expressed the lack of information and the lack of trust in the product as the main reasons for not buying the product. People wanted to wait and see if the product would pay claims. People were also aware of previous bad experience in proto-insurance products (charging premiums and then disappearing).

Complex products need to be set up in an easy to understand way for clients to improve the sales effort. Fundación Profin has found great challenges in putting together a policy for a composite product that can be easy to understand. The integration of three different products and two legal entities involved has created a challenge to create a single policy for the composite offer. Former ASFI current APS (the regulation entity in Bolivia) doesn’t allow for the same policy to cover both property damages and life, therefore two policies will be issued and are been registered. These will be explained in six pages in an easy language for better understanding.

Smaller homogenous risk zones are perceived as fairer by farmers, while large homogenous risk zones can undermine the farmers’ demand for and confidence in index insurance. The loss assessment of the agricultural component initially relied on large homogenous risk zones, which included farmers with significantly different risk exposures. These groups were not perceived as representative by farmers and created a high basis risk. Thus the triggering even did not occur during the 2011-2012 campaign, although some farmers experienced a loss of up to 100 per cent. Profin has consequently adjusted its loss assessment methodology, taking into account the average loss of municipalities to have more representative information for the average farmer in each municipality available. More seasons of experience to collect this kind of information are key to the refinement of adjustment methodologies.

Ex gratia payments help strengthen the farmers’ confidence in index insurance when the triggering event does not occur. Given the absence of a triggering event due to the large homogenous risk groups, Fundación Profin assumed 50 per cent of the payments and encouraged the insurer Latina Seguros to cover the remaining payments. The final ex gratia payment was not satisfactory for farmers but it at least avoided a worse experience. If farmers had not received any payment, their confidence in index insurance would have been undermined,impeding the emergence of an insurance culture. Donor support in this kind of situations that emerge as insurance models are improved are key to promote the scale up of index insurance.

Public and private agricultural insurance initiatives need to complete each other and farmers need to be informed about the risk, crops and conditions covered by each initiative. Farmers have expected support from governments as a result of government programmes that have been competing with Vida Agricola. This calls for more engagement between private and public actors to ensure that programmes
from both sectors complement each other rather than compete with each other. It also calls for information and marketing campaigns which inform farmers about the differences between public and private sector insurance programmes and how these can be integrated as risk management solutions and to the productive cycles of farmers.

**On supply and the distribution channel**

**Distribution channels for rural insurance products need to fulfill certain requirements.** Fundación Profin is developing a methodology in order to find the right distribution channel for a composite product in rural communities. The previous experience through pilots has shown that organizations fitting the following criteria will most likely be better distribution channels:
- Rural portfolio
- Wide range network within the area of intervention
- Administrative efficiency and institutional strength
- Institutional openness to innovation
- Common understanding about the impact of microinsurance

**The timing of sales needs to be coordinated with distribution channels.** Financial institutions are very busy with their core business activities in the last month of the year, where they place a higher amount of credits than any other time of the year. To overcome this challenge, the right timing of sales and processes need to be integrated in the channel’s business cycle, ensuring that the distribution channel can adequately prioritize the sales of insurance.

**Having dedicated sales staff to offer the product enables substantial increases in sales.** A commission was provided to motivate sales staff at financial institutions to distribute the insurance product. However, the financial incentives have not led to the desired sales performance, partly because the financial institutions’ own objectives sometimes required sales agents to dedicate 100 per cent of their time and effort to the financial institutions’ core business activities like credit and savings. To overcome this challenge, sales agents who dedicate all their time to insurance were introduced at Prodem, to take care of promotion, enrollment and servicing of Vida Agrícola. The amount of time that it takes to enroll a farmer to the program is longer than the regular credit linked products and the seasonal nature of agriculture also forces to be strategic during the short enrollment period having to create the right capacity.

**The timing of training for distribution channels matters.** A web-based enrolment software was designed and implemented. Training for distribution channels was held one month before the roll out of the software. Yet, the actual roll out was delayed, partly because of regulatory requirements, and users could not practice how to use the system. As a result, some sales staff had forgotten what they had learned and were not able to take full advantage of the technological advances. This calls for a more strategic planning of training, ensuring that users have sufficient knowledge about new software when they are required to use it. Training needs to happen slightly before the launch of activities.

**Financial institutions still struggle to reach out to clients in rural areas.** Working with financial institutions can make sense to distribute a composite insurance product, that can also bring value to their core business activities. Yet, these institutions have a particular rural approach and have found it difficult to reach out to clients in rural areas. Some farmers have been required to spend 5 hours on travel to the next financial institution and return to their home. This is a significant amount of time,
which can discourage farmers from purchasing insurance. Profin has considered working together with other distribution channels, such as direct sales agents, and using mobile technology to better reach out to farmers in rural areas.

**On consumer education**

**Several educational barriers need to be overcome when working with an insurer that is new to microinsurance.** An educational process must first take place within the insurance company as new concepts and a different culture need to be absorbed by the insurance company. For Latina Seguros, this experience was the first time that the organization was trying to develop products for the low-income market. Initially the expectations from the different stakeholders (implementer and insurance company) were very different. To overcome this, the personnel of the insurance company were taken on field visits to the farms of clients. The insurance company was shown the services that the FTR provided clients, with a stress on the difference from traditional clients, in terms of information, timings, personal attention etc. In this process, key persons in the insurance company need to be involved in the creative process of designing products, commercial strategies and client service.

**Successful financial education requires strategic planning, monitoring and evaluation.** Profin engaged in financial education activities but it has not known whether its activities have been effective. What it did find out was that farmers had a poor understanding of the adjustment methodology as well as of the life and property cover. The latter may also partially explain why the scheme experienced limited claims for these covers. PROFIN noticed that it needs to carry out more strategic campaigns and that education activities need to be linked to the product and be monitored and evaluated to improve their effectiveness.

**Awareness-raising campaigns have a greater impact when they involve actors that are perceived as trustworthy in the target market.** Profin initially used printed materials as well as radio and TV broadcasting to raise awareness about insurance. But these strategies did not have the expected effectiveness. To strengthen its awareness-raising campaigns, Profin began employing promoters which are perceived as trustworthy in the target market. This has made it possible to tap into the potential of using personal relationships to leverage insurance.

**Constant campaigns are necessary to raise the awareness of farmers about insurance.** Profin has carried out awareness-raising campaigns during a few months of the year. After its second campaign in 2011-2012, it noticed that the campaigns have not proven sufficient and that constant campaigns throughout the year are required.

**All stakeholders in the delivery of awareness-raising campaigns need to receive adequate training.** The effectiveness of awareness-raising campaigns has been undermined by high staff turnover. This calls for adequate training for all stakeholders, including the staff of Profin, insurers and distribution channels, to ensure that they are able to inform farmers about Vida Agricola.
On public private partnerships

Support from the government varies as different political changes occur; therefore different strategies need to be implemented to face these situations. In the implementation of the FTR initially the local government in Tarija fully supported the project and agreed to subsidize the premium. Later the local government decided to stop subsidizing premium forcing a reduction in the insured amount and a premium rise. After this experience the organization has learned how to approach the support of the government, particularly when resources are involved. It’s seen that negotiations should go for a longer period so that the farming sector can organize to demand such things from the government.

Risk analysis about different scenarios with the government should be implemented for a more structured implementation strategy. Different scenarios had to be developed in order to better assess the different solutions in advance to some movements in the government activities. This tool has brought more certainty to the everyday activities of the project, by having alternative solutions prepared and ready to implement.

Need to create a shared vision about the benefits of microinsurance with the government. It is important to create a common vision with the different stakeholders in the government. Engaging government through events and activities can be tools to create a shared objective about the goals and need of a microinsurance program in the public policy arena. The current governor in Tarija is a farmer who knows the conditions that farmers face and the difficulties they experience in risk. Profin is trying to use this experience in the development of the project. If such experience doesn’t exist, then the right activities and mechanisms need to be developed.

The potential of public private partnerships can only be unlocked when both sides are able and willing to engage with each other. In the development of public private partnerships it will be necessary to determine the roles that each side will perform, identify the investments needed for public goods, analyze the best use of subsidies to benefit final populations, and develop the technical capacity of operators. Profin initially expected that public private partnerships would contribute to the success of Vida Agricola, assuming that they would result in better promotion, subsidies and institutional support. However, Profin only achieved that the public sector did not object the implementation and operation of Vida Agricola, while not meeting the other objectives. This failure has largely been related to an inadequate ability and willingness of private and public actors to engage in constructive partnerships. Profin experienced high staff turnover, which made it difficult to build and sustain good relationships between Profin and public actors. Similarly, the private insurers have not been involved in SAMEP, partly because some of them did not meet the specified requirements of the government. Moreover, the public sector’s institutions have been characterized by instability, as the dismissal of the government highlighted, and sometimes lacked the political will to seek closer ties with the private sector.
Next Actions

The experience of the last 3 years of the project has demonstrated that there are four key factors which have impeded the success of Vida Agricola – the effectiveness of its awareness-raising campaign, the loss assessment process (which relied on large homogenous risk groups) and a coexisting, subsidized government insurance programme, and the lack of experience on both public and private sectors in making private public partnerships work. To improve the client value and business viability of its services, Profin will restructure its own microinsurance activities and it will cooperate with a new insurer – Alianza – to provide life and property insurance. Profin also expects the government to become very active in agricultural insurance, so that it seeks to engage in public private partnerships with the government to strengthen the operations of SAMEP with the help of the previous experience of Profin in the field of agricultural insurance.