Learning Journey

Sanasa Insurance Company Ltd (SICL)

Index based crop insurance project

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**Project Basics**

**About the project**

In June 2008, Développement International Desjardins (DID) received a grant from the Microinsurance Innovation Facility to conduct a feasibility study for the development of a successful replication strategy for indexed crop insurance in Sri Lanka. The study was carried out with the support of SANASA Insurance Co Ltd (SICL), a Colombo based insurance company that supports a cooperative network of nearly 8,400 savings and credit institutions located across Sri Lanka with insurance offerings. SICL wanted to examine if agricultural insurance products adapted to the needs of its primarily rural clients could help improve their standard of living. The study aimed to assess farmers’ insurance needs, determine how the index-based crop insurance model used by BASIX, an India based MFI, could be adapted to the Sri Lankan environment, and create a financial model for the adapted microinsurance product in SICL’s product offering.

The study suggested that the implementation of an agricultural insurance plan by SICL would not only be possible, but also very beneficial to the 400,000 members of the SANASA group who were directly dependent on agriculture for survival. Furthermore, the study recommended a pilot in two areas, using aids developed by BASIX, followed by expansion to other areas. The financial model planned for a 5-year countrywide rollout.

SANASA applied for and received a grant from the Microinsurance Innovation Facility to implement the index-based crop insurance project, with DID as the project coordinator and services support provider and BASIX as the provider of training manuals and consumer awareness plans. The project aimed to minimize Sri Lankan farmers’ risk of an income loss due to unfavourable weather conditions. The 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.

Eventually, the project aimed to support the development of a grassroots cooperative insurance model and strengthen SANASA’s capacity to fully understand and safely manage weather-based insurance.
## Project Summary

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<th><strong>Project name:</strong></th>
<th>Index based crop insurance project</th>
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<tr>
<td><strong>Consortium Partners:</strong></td>
<td>SANASA, DID, BASIX</td>
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<tr>
<td><strong>Project start date:</strong></td>
<td>September 2009</td>
</tr>
<tr>
<td><strong>Duration:</strong></td>
<td>3.5 years</td>
</tr>
<tr>
<td><strong>Country:</strong></td>
<td>Sri Lanka</td>
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<tr>
<td><strong>Product:</strong></td>
<td>Weather Index based crop insurance</td>
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Project Updates

Key Indicators

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<tbody>
<tr>
<td>Number of insurance units sold</td>
<td>570</td>
<td>2241</td>
<td>1904</td>
<td>3337</td>
<td>2908</td>
<td>2617</td>
</tr>
<tr>
<td>Premium Income (SL Rs)</td>
<td>171,000</td>
<td>672,300</td>
<td>528,600</td>
<td>1,001,100</td>
<td>872,400</td>
<td>1,157,400</td>
</tr>
<tr>
<td>Number of Locations Covered</td>
<td>2</td>
<td>9</td>
<td>10</td>
<td>12</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Claims paid (SL Rs)</td>
<td>1,058,706</td>
<td>316,425</td>
<td>690,000</td>
<td>2,376,383</td>
<td></td>
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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.

What is happening?

As of July 2010

Training manuals on the weather index insurance product (WII) were developed. Proposal forms and master policy documents were prepared with the help of BASIX, and modified according to the requirements of the Insurance Board of Sri Lanka. A project team was put in place to coordinate with the various farmers’ societies. Product familiarization and training sessions were conducted for the societies’ coordinators.

Reinsurance arrangements with Swiss Re were put in place. A pilot was conducted in two areas with two weather stations in Kurunegala and Bombuwala and approximately 600 policies were issued. A system was put in place to obtain data from the Meteorological Department of Sri Lanka.

Preparations began for the second season (October to March). A professionally conducted consumer awareness and awareness drive was planned, for which a video was developed. Eight additional sites were shortlisted where the product will be introduced during this phase and historical data was obtained to develop the product for these areas. Based on the historical data and feedback from the field workers in the areas, product specifications were developed for all the locations.
As of November 2011

Four seasons had by this point been covered by the WII product. The number of locations had increased, along with uptake, but had not met initial expectations. Scale up was also restricted to 12 locations to increase the focus on these locations with the help of the SANASA branches.

Various training modules for participants at different levels of the company’s and the societies’ sales force were developed with technical inputs from BASIX.

Sales of the WII were slow during the previous seasons. One reason may be that society leaders and members were not convinced that weather index insurance could provide a simple and practical solution to the major risks they face, which are excess or deficit rains. To increase understanding of WII, SANASA decided that customer education programmes should be conducted as an ongoing process for a further period of two or three cultivating seasons.

It was also necessary to strengthen the sales force in the field to achieve higher uptake of the product. Although society agents were given commission for sales, their contribution was lower than expected, since most of them were employees of societies and had little time beyond performance of their normal duties to explain and push the WII product. SICL recruited 30 graduates qualified in the subject of agricultural science to act as Marketing Executives / Agricultural Officers to assist and motivate society agents to sell WII products.
As of January 2013

SANASA, with support from DID continued to implement the product over successive seasons. The product triggers were modified based on field feedback and observed variations in weather. The focus was on creating awareness about the availability of the product, and previous claims payouts were used as demonstration cases to help inform farmers’ decisions.

However, restricted reinsurance availability continued to be a hindrance. 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.

Additionally, all the features included as part of the relationship (such as the accidental death benefit included in the product offered by SICL) was made visible to the customers during the customer education campaign since they add considerable value to the product and most people don’t even know they have them. This required investment in training and awareness session aimed at sales force so that the relevant message could be effectively communicated.

As of April 2014

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 GIIF of the 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.
Project Lessons

On product and services bundling

Cost considerations may restrict bundling possibilities. It was worth exploring options to bundle WII with existing financial services (loans) and to leverage the existing distribution system. At the time of designing the project, the intention was to introduce the weather insurance mainly to farmers who were taking loans to commence paddy cultivation. This arrangement had to be given up since SANASA society leaders were of the opinion that the combination of this insurance with loan schemes would enhance the cost of borrowing beyond the farmers’ capacity.

This led to the development of the concept of “Insurance Plus”, which denotes the availability of programmes to help farmers improve their productivity and get away from a negative mentality when no claims are made by the insured.

On consumer awareness and sales

Cooperative societies can act as effective distribution channels. Since the farmers are in touch with societies for various other products, they form an effective means of accessing the target farmers. However, care needs to be taken since society employees have found it difficult to sell insurance along with their other tasks. It may therefore be worthwhile to experiment with exclusive sales personnel for insurance embedded at the society branches. The society and the leaders can help organise farmers meetings and take care of farmers’ queries.

The first round of sales highlighted the need to equip sales agents and marketing executives with knowledge of agricultural practices in order to convince clients. Since the concept of index-based insurance is new, the farmers asked many questions on its impact on their current cropping practices. Therefore, attempts were made to select agents with knowledge in agriculture and to provide them with basic training on agricultural practices. The recruitment of agriculture science graduates helped improve communication with the farmers on agriculture topics.

Training and communication with farmers to should address overall agriculture requirements. Successive rounds of sales highlighted that besides basic product knowledge there is a requirement to explain overall crop, farm, and agriculture requirements so that customers see value in the relationship with the insurer. Providing these additional services can make the benefits more tangible and position the insurer as an organization that can advise and help clients.

Product configuration needs to be finalized well in advance of crop cultivation to allow for sufficient time for an educational and promotional drive. Farmers take time to understand and then invest in a new concept like index insurance. They also take time to “try” by not buying large quantities of an unknown
product and waiting to see results with a trial purchase.

In the earlier rounds of sales the time available for selling the product was only about 15 days since product configuration, pricing and getting reinsurance support took time. In the latest round, about 45 days were available for customer education and awareness, which seems to have had better results, especially in the new areas such as Ampara and Polonnaruwa.

In addition, continuing education programmes over two or three seasons as an ongoing process and not just during the sales period seems to have created better awareness and better customer response to the product.

Videos have not proved as effective, both in terms of reach and in terms of cost, as radio programmes, posters and leaflets. Feedback from customers and field staff suggested that the impact of the videos was negligible, with only 7 per cent reporting to have either seen or been influenced by the video. There were also challenges ensuring that the video was shown in all the targeted areas due to terrain and infrastructure constraints. In contrast, farmers appreciated the reach of radio and gained a better understanding through the leaflets and posters, which they could carry with them and refer to.

On product and process modifications

Frequently incorporating farmers’ views into products can be time-consuming and counterproductive. SANASA took feedback from the farmers and modified the product, including phased sales. These modifications had mixed results. Modifying the product to reflect farmers’ views is useful, but constant adaptation of product feature is time-consuming and may become confusing for stakeholders. It is important to stabilize the product after some time. Frequent product modifications and "over-customization" is time consuming and can limit the potential client base.

Proper understanding of the coverage by farmers can persuade them to pay a higher premium, provided coverage is sufficient. 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 impact of claims demonstration cases is also very important in encouraging farmers to see value from the premium they pay.

The frequency and timings of premium payments are very important. Monthly modular contracts are useful for farmers’ understanding and acceptance of the product. This allows farmers to pay small premiums each month. However, doing a sales and collection activity each month can be challenging for the insurer and distributor, hence the advantages of this approach need to evaluated keeping in mind the renewals and expected revenues each month.

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. Instead of being sold in units, which may not cover the actual requirements, a premium that fits the size of the land which is to be insured, is more easily understood by the farmer. 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. In this way, farmers know at each stage how much money to expect. More frequent payments also provide more frequent demonstration cases to encourage further sales.