

Exploring challenges in scaling
up insurance as a disaster
resilience strategy for
smallholder farmers



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IRA

Index Based Insurance The Kenyan Experience

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in Singapore

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Agriculture Index Insurance



Agenda



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1. Preparing and Assessing an Agricultural Index Insurance Product Proposal



1. Introduction to Index Based Insurance in Kenya



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- The Authority has been very supportive of the development of pilot index-based insurance products in the Kenyan market.
- These pilot products may need to be redesigned once the formal regulations and product approval guidelines come into force. However most features of the current product
- The pilot IBI products started selling in the Kenya market in the year 2010
- About 7 leading companies are involved in the pilot phase of IBI products
- Draft Index Based Insurance regulations exist in the Kenyan market

b. Proposed Product Approval Guidelines



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1. IBI products not to require a prescribed minimum premium
2. Submit premiums on file-and-use basis only, one month prior to taking effect
3. State eligibility criteria – determining insurable interest,
4. No waiting or grace period to be allowed for IBI products,
5. Sales, Cover windows and any exclusions to be clearly specified
6. Must specify the data sources and back-up sources or method to be used to approximate lost/inaccurate data
7. Explain design features included to **minimize basis risk** in an **actuarial report**
 - Specify how index will be measured and results used to calculate the pay-out
 - Interested 3rd party be allowed to receive data and calculate the pay-out themselves
8. Policyholders do not need to lodge a claim – insurer must provide a notice

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e. Consumer Protection requirements

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Marketing material should explain product and risks

- Explain that pay-out depends on the value of the index and not the actual loss
- Explain which risks are covered and which will not be; what index is used to calculate the pay-out and **expected frequency of payout**
- Explain the eligibility criteria for buying the policy

Insurer must specify a complaints resolution process prior to product launch

Pay-outs must be verified, communicated and paid within 30 days

If regulator requires independent validation of index data

- A service level agreement (SLA) is needed with the independent body
- Explain how to resolve conflicts over the data, index values and benefits
- Explain in the SLA the penalties independent body is liable for if it makes mistakes



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1.

Index Based Insurance Pilot Projects
In Kenya

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1. Kilimo Salama Index Based Agriculture Insurance

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- Acre Africa registered as an Insurance Surveyor in Kenya
- Support from Syngenta foundation & GIIF
- Project started in 2009 -to protect small-scale farmers against unpredictable weather
- Insurer-UAP -a large insurance company based in Kenya,
- Crops insured include maize, sorghum, coffee, sun -flower, wheat, and potato,
- Coverage against drought, excess rain and storms
- Kilimo Salama currently insures over 70'000 farmers
- Also offers protection for seeds, chemicals and harvest outputs
- Premium income –over USD 2,100,000, Average Loss ratio 61%

1. Kilimo Salama Index Based Agriculture Insurance

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- Index-based weather insurance product that allows farmers to insure inputs purchased at participating agricultural dealers.
- Farmers pay a premium equal to approximately 5 percent of the USD 100 worth of inputs required to plant one acre of maize, and the input manufacturer matches with another 5 percent.
- Farmers can register through microfinance institutions, cooperatives, or agricultural dealers, all of whom use a mobile phone application to enter the farmer's details into the system.
- The farmer then receives a confirmation SMS listing registration details and a policy number. Rain levels are monitored using satellite data and automated weather stations;
- In the event of excess rain or drought, funds are automatically paid into the farmer's M-PESA account

2. Kenya Livestock Insurance Programme – KLIP (Phase 1)

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- Launched in Turkana and Wajir in October 2015 - with APA Insurance as the underwriter
- 5,012 pastoralists pre-selected by SDL as beneficiaries (2,510 in Wajir and 2,502 in Turkana). The contract should trigger twice a year i.e.
 - For the Short Rains Short Dry (SRSD) season of October 2015 – February 2016 – payout should be made by mid February of every year
 - For the Long Rains Long Dry season (LRLD) of March 2016 –September 2016 – Payouts should be made by mid August of every year in case there is a trigger

2. Kenya Livestock Insurance Programme – KLIP (Phase 1)

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- For the SRSD period, no location triggered a payout
- For the LRLD period, final index readings triggered in two areas (DIFF & BUTE units)
- 275 beneficiaries in the two UAI were affected
- A total of USD 35,266 paid to the beneficiaries
- The next phase to cover additional 4 counties (Marsabit, Mandera, Tana River and Isiolo)

2. Kenya Livestock Insurance Programme – KLIP (Phase 2)

- The 2nd phase covered additional 4 counties (Marsabit, Mandera, Tana River and Isiolo bringing to a total of 6 covered
- Rolled out in October 2016 (to cover SRSD season)
- Final Index readings were consistent with the situation on the ground
- Kenya experienced one of the worst droughts in 15 years in these areas
- All the 6 Counties – covering 70 UAIs were affected
- 62 UAI had payouts as follows;
 - 16 have full payouts
 - 7 minimum payouts (5% of the SI)
 - Approx. 15% -21 units
 - Approx. 30% - 18 units
- Estimated total payout USD 2.15 million to 12000 farmers (Beneficiaries in all the counties)

3. Kenya Crop Insurance Programme – KCIP (AYII)

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▪ Insurance programme Launched in March 2016

- Target – Farmers with < 5 acres parcels of land – maize and wheat crop
- Government subsidizes 50% of the premiums
- Insurance policy roll out (retail) – Embu, Bungoma and Nakuru counties
- Crop cutting Experiments to determine yield levels revealed that no payout was triggered in any of the counties
- Compensation to the Insured for Shortfall below the Guaranteed Yield in the UAI
- Guaranteed Yield – 80% of Expected Yield per unit Area of Insurance
- Currently being expanded to 10 Counties from March 2017 with the sales window expected to close by 15th April 2017.

Thank you

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