

# Index Based Livestock Insurance Borana Program, Ethiopia

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# IBLI Background

- Index based Livestock Insurance (IBLI) Borana program is an asset protection contract designed to compensate pastoralist against forage scarcity that may happen as a result of drought.
- It uses an NDVI based index to trigger the insurance and applies that to livestock.
- The satellite monitors grazing conditions which are used as a proxy for the health of livestock.
- It was launched in August 2012
- At this moment working in 10 districts in Ethiopia

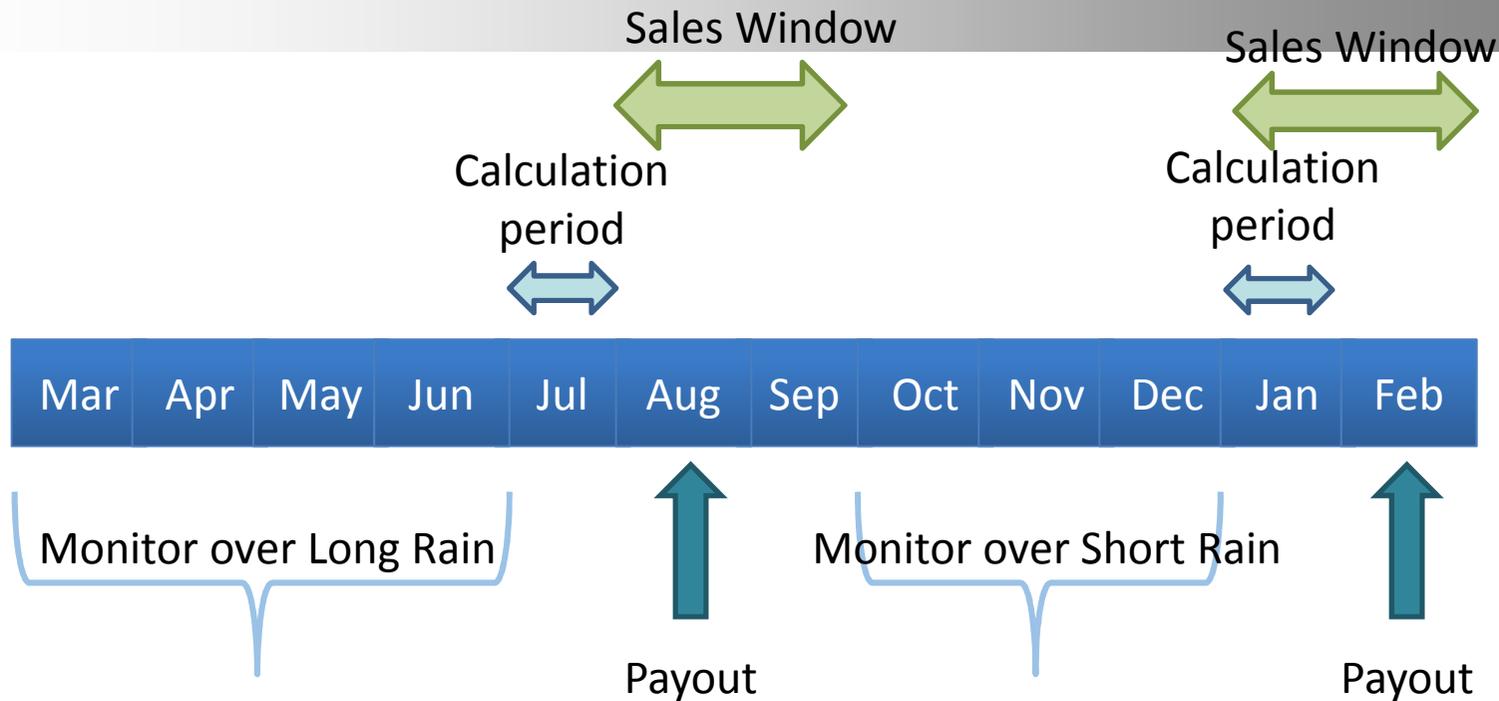


# IBLI Product Design

- Voluntary scheme: pastoralists purchase product depending on number of herds & their capacity to pay.
- Annual contract combining two coverage seasons: LRLD (58%) (March-September) and SRSD (42%) (October-February).
- The contract divides woreda(districts) to index sub clusters in order to insure the reliability of the index readings.
- Seasonal payout function thus will be an explicit function of cumulative deviation of NDVI from normal of the coverage season.
- Two sources of NDVI data used in the contract design and pricing (2 different satellites, one compliments the other)



# IBLI Contract Cycle



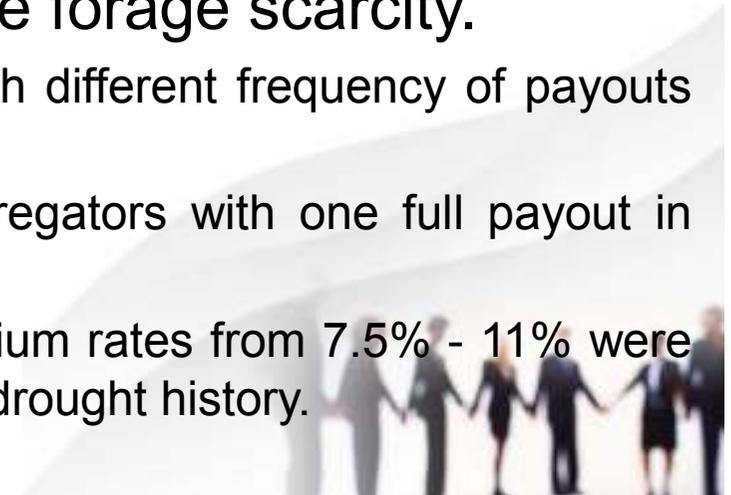
- Taking readings over the rainy period makes it possible to determine forage availability over the dry.

- Payouts can be made in time to protect livestock assets.



# Pricing/Underwriting

- Actuarial fair **premium rate** is calculated using burn rate approach:
  - annual premium rate estimated at the average of annual payout rates based on available 1982-2011 data
  - annual payout rates are constructed by combining two revolving seasonal payout rates together.
- **Pricing** has been done using Monte Carlo simulations.
- **Sum insured** based on the amount of money required to keep an animal alive during a time of severe forage scarcity.
- Strike levels (10<sup>th</sup> to 30<sup>th</sup> percentile) were set with different frequency of payouts and premium rates.
- 20<sup>th</sup> percentile was selected by pastoralists/aggregators with one full payout in every 2.5 years.
- Based on the selected strike level pure risk premium rates from 7.5% - 11% were set for different index clusters depending on their drought history.



# Distribution and Marketing

- The distribution channels are primary coops and unions who are established by the pastoralists.
- VIPs were deployed to undertake insurance extension works on contract bases.

## Marketing:

- Product specific promotions have been done through Radio including teachings and conversations.
- Posters and Banners have been fixed in major towns of each woreda/districts.
- Caps and T-shirts.
- Insurance education for the pastoralists
- By focusing on opinion leaders/Aba Gadas



# Claims & Reinsurance

- Index reading is undertaken by ILRI and the payout rates will be provided to OIC .
- Payout calculations are undertaken by OIC based on the predetermined sum insureds for each coverage seasons
- Posters and banners used for the index announcements.
- Claim payment ceremony will be organized to effect the payouts.
- At this time the reinsurance is placed at Africa Re
- The arrangement is Quota Share treaty with 40% retention.



# Sustainability & Client value

- Insurance uptake is low
- Need to convince regulatory body and government to give due attention towards IBLI to insure sustainability and viability.

## **Socio-psychological benefits for clients:**

- Emotional protection from risks of losses
- Maintenance of social status in the society

## **Economic benefits for clients**

- Cost effective- the premium is affordable to pastoralists and potential compensation is adequate
- Economic stability- households will be cushioned against losses caused by drought
- Improved quality of life- safeguard against dehumanizing effect of poverty



**Galatoomaa!!!**  
**Thank you!!!!**

