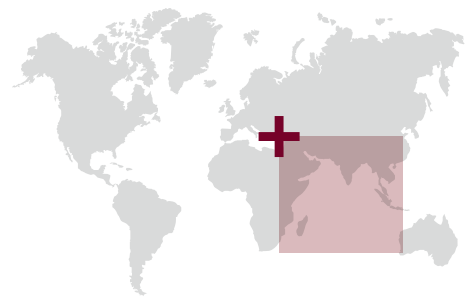


Evolving Climatic Adaptation Through Crop Insurance



AT A GLANCE

Name

Evolving Climatic Adaptation Through Crop Insurance

Duration

July 2009 – December 2012

Focus area

India

Target group

Small-scale farmers across eight districts in two states of India involving 15 blocks.

Funds available

Confidential

The project is jointly implemented by ...

Development of Humane Action (DHAN) and the People Mutuals an insurance initiative of DHAN

The core objective is ...

to develop various mutual crop insurance products small-scale farmers who do not have access to insurance mechanisms for adapting to climate change related issues.

BACKGROUND

Climate change impacts differ based on the risks and vulnerabilities in a local context. In India, rainfed farmers, face various risks to their livelihood. Weather risks are the primary concern as more than 60 to 80 percent of crop yield depends on the adequate quantity and proper distribution of rainfall. In the past decade, farmers have faced many issues arising from climate change, including a decline in annual rainfall, late onset and early withdrawal of monsoon, and a change in dry spell patterns.

The consequences of these changes can be dramatic and include frequent crop losses (and associated loss of income), migration and change of vocation. The traditional coping mechanisms such as savings or credit are not sufficient to manage these issues; they also are not available to all. The farmers, however, do not understand insurance well or lack a culture of risk management. Most farmers equate payment of premium to saving and expect something in return. Their land-holding is fragmented and their income is low. They do not have access to existing commercial insurance companies' crop insurance products and services which meet their needs.

APPROACH

Given the highly localized nature of climate change impacts, the mutual insurance committee (MIC), of each location had the autonomy to decide which risks they would like to address through insurance and which they could address by themselves or through other means. The product was designed and implemented by a MIC, which consists of older farmers from each covered village. Community, itself will decide on the method of claim payment.

The pilot began in 2009, DHAN trained staff and community leaders to conduct exposure visits to the federations where crop insurance had been implemented during the past period. As the index based crop insurance was new to farmers, staff wanted to make sure that farmers understood the product concepts and its relevance for their crop risks.

Challenges

Introducing crop insurance products to farmers participating in the programme produce problems including:

Low enrollment: DHAN's experience in the first round has shown that due to lack of time, education efforts were insufficient, meaning that farmers did not fully appreciate the association of crop yield loss to the quantum of rainfall, thus leading to low enrollment.

Consumer education: The installations of rain gauge took approximately 90 days in the first round of the project, this reduced time available for education and sales of products which contributed to low enrollments. This also contributed to lack of trust as farmers did not physically see the rain gauge from where data will be collected for their fields. In addition, when explaining the insurance product, farmers had problems understanding the rainfall measurement being used in the product.

Product mix: DHAN understood that layering an index insurance programme on other activities being carried out by the field staff was a challenge. Repeated clarifications backed by case studies of similar projects helped the sales team understand the concepts and equipped them to explain them to the beneficiaries. Additionally, since field staff was the first point of access for the beneficiaries, the data updates, claims settlement process and timing had to be clear to them so that they could answer queries from the beneficiaries.

Premium collection needs to be aligned to availability and ability to pay. It became apparent to the sales teams that the premium collection period coincided with the time the farmer had to pay for other inputs, like seeds and fertilizers, which involved sizable cash outflows. Farmers were therefore hesitant to also make insurance premium payments.



LESSONS LEARNED

Consumer inputs and education: Consumer education on the insurance product must be carried out at the village level. One aspect of this is the participation of leaders plus additional village representatives who provided inputs on the relevant crops to cover and the connected risks, the cover, and affordable price. Due to the awareness created for the weather index insurance and the contact with the community, the renewal ratio was overall 83 per cent, ranging from 30 per cent to 100 per cent across different blocks, with an expenses ratio of 47 per cent.

Community Ownership: The close collaboration with the community enabled DHAN to gain a clear understanding of the cropping patterns and the rainfall requirements and therefore to design a better product. Under the mutual insurance initiative, the community was fully involved in product design, member administration, and claim administration. Even when risks were transferred to an insurer, the community continued to perform all these functions except policy administration and claim disburse-

ment. Since they are involved from the initial stages of the programme, the community in general, and the governance/mutual insurance committee in particular, possesses better knowledge of the product.

Viability and sustainability: Existing government schemes at a different price necessitated DHAN to building on existing systems. DHAN used the Agriculture Insurance Company to carry the risk and help with developing the product. This model of co-development of the products and transferring risk to the national insurer helped DHAN create products in line with AIC's other products (reducing confusion amongst farmers), and offer them to the farmers at better (lower) premium rates. Furthermore, the project the insurance programme piggy-backs on the tankfed / rainfed / coastal agriculture programme infrastructure and systems which DHAN has developed over many years, thus led to minimal operational costs and ensures its sustainability.



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Websites

For more information about implementing partner visit:

www.dhan.org

For more information on the project visit:

www.impactinsurance.org/projects/lessons/evolving-climatic-adaptation-through-crop-insurance

DISCLAIMER

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