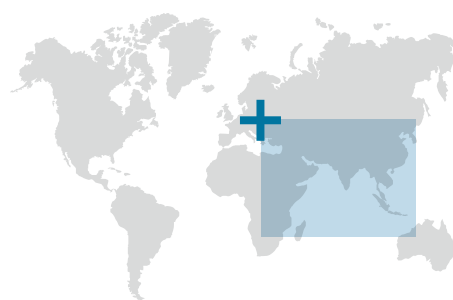


# IN FOCUS: RISK DIVERSIFICATION AND UP-SCALING POTENTIAL



## SUBJECT

The development of sustainable insurance solutions requires thorough risk assessment, modelling and layering. Agricultural and climate risks are mainly of a systemic nature, i.e. they affect a large geographic area or large parts of the population simultaneously. If the insured risk is not adequately spread, one catastrophic event can threaten the viability of the whole scheme. To lower covariate risks, the portfolio thus needs to be diversified in terms of crops, type of risks, and different geographical regions.

Further diversification can be achieved through an adequate reinsurance programme. While local market-based insurance is suited to protect against more frequent risks, the extremely rare, highly catastrophic risk layer is more effectively absorbed through international reinsurance. Government and/or development partners can also step in as reinsurers of last resort. Since risk diversification is difficult to achieve with stand-alone pilot projects, insurance schemes need to be developed with a view towards reaching scale quickly.

For projects supported by development agencies, this need for up-scaling requires a focus on capacity building: local insurers need to be able to identify business potential, adequately price risks and develop a range of products that are tailored to the needs of their prospective customers.

Since 2010, The International Labor Organization (ILO) has been working with Sanasa Insurance Company Ltd. (SICL), to design simple, flexible, and affordable weather index insurance products for paddy farmers. From 2012 the Global Index Insurance Facility (GIIF) of the IFC/ World Bank Group has supported SICL for further expansion of WII products for paddy and tea farmers.

## CHALLENGES

- **The high cost of premiums** has inhibited sales of weather index products to paddy farmers. The Sanasa team plans to modify the design to reduce premium costs. Premium subsidies are also being explored as a possible means to reduce costs and expand the market.
- **Farmer awareness and education** through a strong mass media awareness campaign on weather index insurance is needed to promote sales. In addition, smallholder farmers are often confused between traditional indemnity insurance and Index insurance.
- **Data:** Availability of accurate data to facilitate good, effective product design.

There have been difficulties obtaining rainfall data in a timely manner from the meteorological department which has challenged the smooth operation of weather index insurance in Sri Lanka.



## SOLUTION

### Introduced various mode of premium payment

Depending on their financial capabilities farmers are given many options to select and pay premium. Minimum premium amount has been set to LKR: 300.00 (US\$2). Also this product is bundled with the other micro insurance products offering additional covers such as PAB (personal accident benefits), Health, Property, Funeral expenses. This was done mainly to reduce the basis risk of farmers and provide a comprehensive cover for the farmers.

### Long term plan to educate farmers:

SICL followed long term strategy to raise awareness of WII among farmers. Accordingly, awareness session targeting monthly gathering of CBO and farmer societies, specially produced TV drama, radio advertisement, representations at national level agriculture exhibition and product focused simple and comprehensible leaflets are some of those techniques used to educate farmers.

### Put up community based weather stations:

SICL has set up a network of community based weather stations consisting of 35 weather stations.

These weather stations can provide real time data and available on website as well as to mobile phone. Network of weather station is implemented by SICL and set up in the village giving authority to CBO in order to keep security of weather station and its reliability.

### Name of programme:

Index-based crop insurance project

### Duration:

September 2009 – ongoing

### Programme area

Sri Lanka

Focus Region: Southern, Eastern, western, North-western, Central provinces and Sabaragamuwa

### Name of component activity:

Weather Index Insurance (WII)

### Cooperation:

The ILO's Impact Insurance Facility  
Global Index Insurance Facility (GIIF)

## LESSONS LEARNED

- Weather index insurance is not a sole solution for all risks faced by the farmer.
- It cannot be operated in all areas. Yet, it shows great promise as a tool to reduce the severe effects from weather related phenomena.
- It is an easily-operated product, free from defects of delays, lack of transparency, presence of human error, bureaucracy and complicated procedures in claims settlement.
- Weather insurance seems more effective when it is linked to a large package of risk management strategies products and services.
- Premium subsidies scheme is required at the commencement of WII programme in order to overcome costs and encourage purchase by the farmers.
- Take measures to update the network of collecting rainfall data by automated equipment for receiving real-time data.

### Implementing partners

SANSA Insurance Company Ltd (SICL),  
Développement International Desjardins (DID),  
KA Pandit Consultant and Actuaries

### Target group:

Sri Lankan farmers' at risk of an income loss due to unfavourable weather conditions

### Documentation:

[www.sicl.lk/](http://www.sicl.lk/)

### Contact person

**Ravinda Herath**

E [ravinda@sicl.lk](mailto:ravinda@sicl.lk)