

RESULT STORIES

GLOBAL INDEX
INSURANCE FACILITY

SRI LANKA

LENDING STABILITY TO THE FARMING STRUCTURE IN SRI LANKA

Background

For eight years, Chandrasiri Vanasunder, a small holder-famer in the Ratnapura district of Sri Lanka, bore the losses caused by drought and excess-rainfall on his 2-acre tea estate. But all that began to change in 2012, when a sales representative from Sanasa told him about 'index-based insurance' for tea plants. "As soon as I heard about the product, I knew that this was a good product. I have suffered severe losses in the past, and this seemed like a smart idea to help me prepare for future uncertainty." Vanasunder's judgment proved right, as approximately half-way through the last season, he received a 1500 (Sri Lankan)rupees payout to help mitigate his losses from drought.



In the island nation of Sri Lanka, approximately 38 per cent of the total labor force is engaged in agriculture. While rice remains the main crop and farming rice remains the most important economic activity for the majority of the people living in rural areas, cash crops like tea, bananas, rubber and coconut have grown in importance and contribute greatly to building the financial ability of the rural population.

However, agricultural productivity is still low by global standards, and most farmers have not been able to migrate to value-added agricultural products, for which there is constant demand from middle-classes and export markets.

The Sanasa Journey

Insurance allows farmers access to scarce capital, new farming techniques and technologies thereby leading to increased investment by farmers and improved harvests and livelihoods. However, insurance coverage among small businesses (MSMEs) is estimated to be less than one-two per cent, and is almost nonexistent for smallholder farmers.

"Here in Ratnapura, we do not have a planned irrigation system and are completely dependent on rainfall for water" small-holder farmer, Chandravathi explains. "I still remember it so clearly, in 2000-2001 we had a terrible drought and no matter how much I tried bringing water from the river, I could not bring enough water to save my crop. I lost everything that year. It was devastating."

To help farmers like Chandravathi, the World Bank Group's Global Index Insurance Facility (GIIF) partnered with Sanasa Insurance in June 2011, to develop an Index-Based Insurance product for paddy farmers. They followed a systematic approach scaffolded by 30-year long weather data supplied by the Meteorological Department of Sri Lanka. After launching the initial pilot product for just over 100 farmers, the product was further re-calibrated to meet both climatic vagrancies and farmer expectations. A full program was launched in August 2012, and tea was added to the portfolio of crops, which could now benefit from index-based insurance.

FROM 100 FARMERS IN 2011 TO 11,000 FARMERS IN 2013

The trust built through Sanasa societies was pivotal in the success of promoting Index-based insurance in the rural areas. With over 800 Sanasa societies spread across the island, there already existed a robust network of agents and distributors with personal connections to the farmers.

Sa-Na-Sa literally translates into saving loans cooperative. They have established their credibility in the rural areas across the island and have excellent outreach to over one million members through credit institutions in all provinces of the country. The leaders of the local Sanasa societies were first trained in the nuances of Index Insurance and they in turn worked with local representatives to help educate the rural consumers on the concept and workings of Index-Based Insurance.

Sanasa's strong and thoughtful marketing plan is one of the key strengths of the program. In addition to selecting strategic local representatives who are an integral part of the social community, they supplemented this 'personal touch' with regular road-shows, radio spots and even a docu-drama capsuling how index-insurance can serve as an effective risk-management tool. These initiatives have seen been supplemented by initiatives to further build the capacity of the local Sanasa Societies.

Farmers like Chandravathi, were among the first to opt for insurance sold by Sanasa. "As soon, as I heard that insurance was offered for tea, I met the marketing agent to learn more. I did not want to suffer such a big loss again. I filled out the forms on the same day and paid in advance for 6 months, so that I could avail a good premium rate."

Challenges

This successful journey was not without challenges; the idea of index-based insurance was a novel concept, which had a long way to go before gaining acceptance with the local population. The idea of payouts dictated through an automated system and without surveying the 'damage' seemed improbable to many, especially those accustomed to traditional insurance. Adding to this was the fact that premiums were significantly higher than that of traditional insurance.

The topography of the country, coupled with the lack of data and trust-worthy satellite stations lent its own set of problems. "With 46 different micro-climatic zones, it is especially difficult to design products for up-country areas in Sri Lanka" says Mr.Ravi **XXXX** of Sanasa. "We don't have as many satellite stations as we would like, recording accurate data and in the rare cases that we do, it is challenging to convince farmers that satellite data and not a 'real person' dictates their payouts.

Also, index-based insurance only covers weather-based uncertainties, whereas traditional insurance covers farmers for a more risks including wild beasts destroying crops, unforeseen political events etc.



Development Impact

The Sanasa Insurance project's goal is to enhance agricultural productivity and improve the living standards of small farmers in order to ensure food security in Sri Lanka. To ensure that they positively impact every aspect of a farmer's life, they sell bundled products - one can buy crop insurance along with life, property or health covers.

Last season, Alice Nonah not only lost her crops but a large tree fell on her house making it unsafe to live for her family and her 1-year old grandson. "Initially, I was afraid, but then I remembered that I had bought property and life insurance along with the crop insurance. I called the agent immediately and she responded very quickly. Once I got my payout, I used the money from the property insurance to move into a rented place and then used the money from the crop insurance to buy new saplings" she says, while smiling at her grandson. Like Nonah, many women make the ultimate decision on buying insurance and control a large part of family finances in Sri Lanka.

There are other advantages too. Vimla Ratna, gazes at his 1-acre farm and explains "With climate change and weather patterns being so unreliable, it is very important and essential that we have some kind of protection to help us. This is after all our own land."

Chandrasiri Vanasunder, Sanasa's loyal customer and a thought-leader among the village locals continues to be a strong supporter of weather index-insurance. "Since the pay-out only depends on the weather, I can be confident that I won't get a field officer who will come in and try and reduce my claim amount or skip my claim amount. If the index triggers, I will get the payout, simple and straightforward. I will definitely buy weather-index for all my crops."

