



Agricultural Index Insurance Kenyan Experience: Background



Inclusive Insurance Regional Training Program

Dar es Salaam

Joseph Owuor

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Agriculture Index Insurance

Role and potential



Agricultural index insurance in Kenya

- **Agricultural insurance can ...**
- help smallholder farmers access finance and increase productivity
- enhance food security and provide finance for government for post-disaster relief
- **Innovations around product design and technology is opening new possibilities ...**
- index-insurance manages moral hazard and allows for simpler claims assessment
- hybrid products - index for weather and indemnity for pests and diseases
- advances in technology support more accurate indices – automated weather stations
- **Agricultural insurance is gaining interest ...**
- government-led programmes and smaller pilots
- role in national disaster risk management strategies

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Question for Discussion



What are the challenges to providing agricultural or agricultural index insurance in your country?

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Challenges and limitations



- **Product design:** availability of reliable data and robustness of index, limitations of technology and managing basis risk
- **Costs:** high loss ratios and other expenses (e.g. maintenance of rain gauges)
- **Operations and partners:** managing a wide network of partners: insurers, reinsurers, aggregators (e.g. farmer associations for enrolment, premium collection, distribution of payouts), support services: data, actuarial, loss assessment, payment systems, software development, donors, government and supervisors
- **Product understanding:** complex product, appropriate point of sale disclosures, lack of awareness that are insured if fully subsidised
- **Demand:** weak demand, challenges with affordability
- **Coordination of stakeholders:** different interests (e.g. Ministry of Agriculture, disaster management agencies etc)
- **Regulatory issues:** uncertainty of approach, lack of expertise

Achieving scale and sustainability and ensuring that customers are treated fairly and get value from products is a key concern

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Implementation strategies



- **Product design:** focus on farmers' needs, keep products simple, use quality data (*don't lose sight of the customer in technical details*)
- **Cost:** leverage technology (*mobile technology*)
- **Operations and partners:** focus on farmers' needs (*fast claim payouts through automated weather stations linked to an online database, SANASA Insurance Sri Lanka*), train partners (*train-the-trainers scheme, Thailand*)
- **Demand:** product bundling (*personal accident, hospitalisation SANASA Insurance, Sri Lanka*), government subsidies and other support for national programmes (*Kenya, Uganda*), strategies to develop farmer understanding of insurance
- **Coordination of stakeholders:** multi-stakeholder steering committee (*Kenya, Uganda Agriculture Insurance Scheme*)
- **Regulatory matters:** clear framework, product approval, monitoring of index insurance projects, develop expertise (*Philippines, Kenya*)
- Integrate with other risk management measures (*land development, water conservation, crop and livelihood diversification and credit support, DHAN Foundation, India*)

Agricultural index insurance in Kenya

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Question for Discussion



Are there any examples of implementation strategies to overcome the challenges of agricultural insurance in your country?

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Looking forward



- Aim to have small-scale farmers voluntarily buying competitive agricultural insurance products in an informed manner
- Various initiatives have made some headway but there is still a long way to go
- Aim to see pilot schemes transit to full commercialisation and achieve scale


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Background to IBI in Kenya




- Pilot Index-based Insurance (IBI) products have been sold in Kenya since 2010
- About 7 leading companies are involved in the pilot phase of IBI products
- IRA Kenya is very supportive of the development of pilot IBI products in the Kenyan market
- Draft Index Insurance regulations exist which lays out a legal framework for the design, marketing, claims handling and consumer protection requirements for these products


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Agricultural Index Insurance in Kenya



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Agricultural Index Insurance in Kenya

1. Kilimo Salama- Index Based Agriculture Insurance

- 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%

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1. Kilimo Salama Index Based Agriculture Insurance

- 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

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Index Based Livestock Insurance (IBLI) (2010-2013, Marsabit)

First Contract – Asset Replacement

- Livestock mortality data modelled from NDVI used
- Pays out when forage scarcity is predicted to cause livestock deaths in an area
- Rolled out in August 2013 – APA Insurance in Isiolo and Takaful Insurance of Africa in Wajir county
- Challenges: limited mortality data for scaling up and general data accuracy
- Complexity of design, data scarcity and precision concerns resulted in a move to NDVI only contracts

New Contract – Asset Replacement

- Pay out at the beginning of the dry season rather than the end
- Insured Unit- Cost to keep livestock alive during drought
- Greater attention to the science of remote sensing
- Rolled out in January 2015 – APA Insurance (Marsabit & Isiolo), Takaful Insurance of Africa (Wajir , Isiolo, Mandera, Garissa) counties

Agriculture Index Insurance

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 – February – payouts should be made by mid February of every year
- For the Long Rains Long Dry season (LRLD) of March –September – Payouts should be made by mid August of every year in case there is a trigger

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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)

Agriculture Index Insurance

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



Agricultural Index Insurance in Kenya

- 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
- Out of the 70 UAIs, 62 UAI had trigger for payouts
- Estimated total payout USD 2.15 million to 12,000 farmers (Beneficiaries in all the counties) made in February 2017

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



Agricultural Index Insurance in Kenya

- The 2nd phase covered a total of 6 counties (Marsabit, Mandera, Tana River, Isiolo, Turkana and Wajir)
- Cover was provided to 14,000 farmers with 70,060 livestock units
- For the Long Rain Long Dry season (March – June, 2017), final index readings released on 23rd August, 2017
- Payouts triggered in 55 out of 70 UAIs
- Estimated total payout **USD 3.09 million** to 11,407 farmers (Beneficiaries in all the 6 counties) to be made in September 2017

Summary of KLIP.

- Total premium paid on the programme since inception – **USD 2.15 million**
- Total payouts to date – **USD 5.36 million**
- Loss ratio - **250%**

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3. Kenya Crop Insurance Programme – KCIP (AYII)



- Insurance programme launched in March 2016
- Target – Farmers with < 5 acres parcels of land – maize and wheat crop
- Government subsidises 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
- Programme expanded to 10 Counties from March 2017

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Question for Discussion



Describe the key features and partnerships of one example of an agricultural insurance or agricultural index insurance in your country?

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Thank you

Joseph Owuor
Senior Supervision Officer,
Insurance Regulatory Authority
www.ira.go.ke
jowuor@ira.go.ke
+254 719 047 249