



**PROFIN promoting Agricultural Microinsurance in Bolivia:
Public Private Development Partnership (PPDP) with
huge potential for rural poverty alleviation**

Case Study of the Risk Transfer Fund (FTR) Uriondo

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Who is the PROFIN Foundation?

PROFIN is a non profit organization (grown out of SDC project 1998-2008, now mainly financed by SDC and DANIDA), that initiates, develops and facilitates processes of financial innovation, searching for articulation with non financial services, coordinating and working with the private sector and public institutions.



Improve access of micro, small and medium, rural and urban farmers to adequate and fair financial services

Actively contribute to the improvement of livelihood conditions and poverty reduction in Bolivia and the region

Context: winegrowers in Uriondo, Tarija

- Rural Municipality with high poverty indices
- More than half of the national grape production
- Over 80% of farmers with less than 1ha, 60% less than 0.5 ha
- High production risks due to hail paired with high production costs and weak or no resilience capacity
- Diversified agroproduction: mostly grapes, but also fruits, vegetables, livestock.
- Lack of information on yield (actual and historical) data, but cadastre of grape production
- Weak insurance literacy, and/or lack of trust in traditional insurance companies



What is the Risk Transfer Fund FTR?

- An insurance mechanism for the winegrowers of Uriondo
- Start in 2009
- Sum insured: 100% of production costs
- Covered Risk: Hail
- Onsite damage evaluation by local expert team (trained local winegrower technicians)



Why and how was the FTR created?

- Demand from local Government concerned with the need for an agricultural insurance solution
- Intention of Mayor to channel National Disaster Relief Resources through an insurance mechanism:
 - Farmer as a Client (versus disaster victim)
 - Payouts on time (versus delays of 6-8 months)
 - Proper damage evaluation and indemnity payouts according to real level of affection (versus indiscriminate distribution of food, fertilizers, etc)
- Demonstration of vision and political will by constituting a Reserve Fund
- Agreement upon gradual implementation of the agricultural insurance, starting with grape and gradually including more crops and risks
- Products and processes customized to client needs

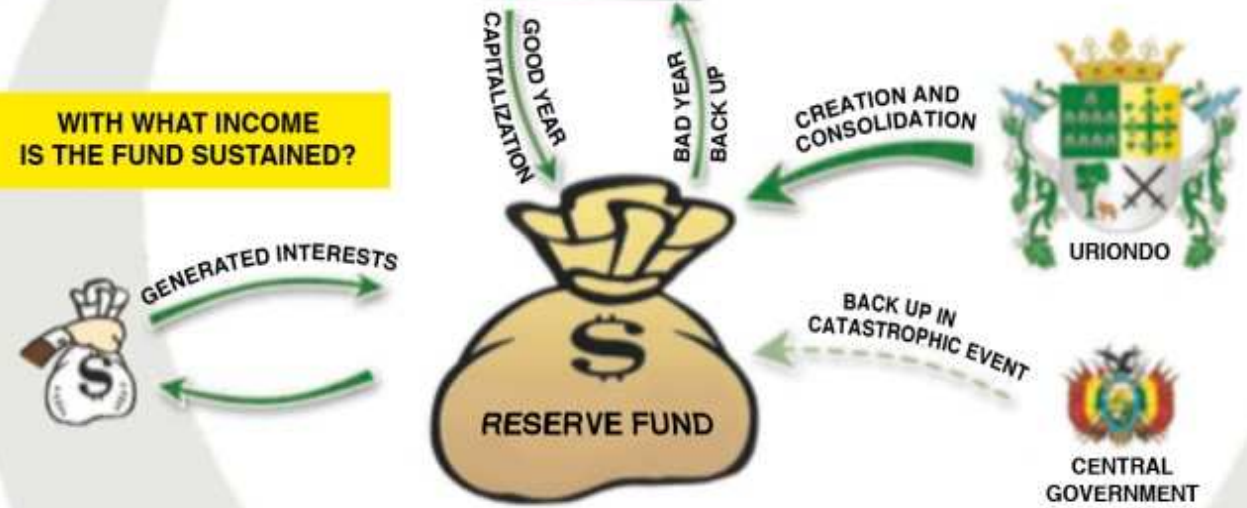
The PPDP's institutional set-up

- PROFIN Foundation: Development of the technical, financial, institutional and legal model, conducting stakeholder negotiation, policy lobbying, actor sensitization and education, damage evaluation as well as technical assistance for clients
 - Local Government: Constitution of a Reserve Fund and co-financing of the premium
 - MFI El Churqui: Distribution channel, premium collection and indemnity payments
 - NGOs, public and private institutions: Technical assistance to reduce production risk
- ➔ Next step: inclusion of the private insurance and reinsurance sector

HOW DO FARMERS PARTICIPATE?



WITH WHAT INCOME IS THE FUND SUSTAINED?



Insurance options

Per ha	Option A	Option B
Insured sum	US\$ 2'000.-	US\$ 3'200.-
Total Premium	US\$ 191.-	US\$ 263.-
Subsidies by local Government	US\$ 114.- (60% of total premium)	US\$ 146.- (55% of total premium)
Premium of the client	US\$ 77.- (3.8% of insured sum)	US\$ 117.- (3.6% of insured sum)

Assumption: 300ha insured



First results

Loss ratio (indemnities paid out divided by total premium): 37%

Total amount of premium	US\$ 68.044
Total sum insured	US\$ 675.453
Total indemnity payments	US\$. 24.760
Number of insured ha	225
Number of clients	187

Lindolfo Lazcano, client

"When the hailstorm fell, we used to receive (from the government) just a few pounds of beans and rice with weevils. That was not a palliative! God bless this insurance, it was awaited for a long time..."

Thelmo Miranda, client

"The manager of the FTR has explained me very well how the insurance works, and also the contract is very comprehensible. The insurance has helped me to recover my investment."

Initial effects on clients

Topic	Result	Client Comments
Overall client satisfaction with the product	95% (satisfied and very satisfied)	„it works“ „they payed“ „they payed fast“
Satisfaction with premium level	95%	„It seems fair“ „I can afford it“
Intention for policy renewal	97%	„I feel protected“ „I feel safe“ „I worry less“

Positively mentioned by clients:

- Professional damage evaluation conducted by local experts
- Helpful and effective technical assistance
- Quick indemnity payouts (5 days max.)
- Very good client attention and clear explanation of the product
- Comprehensible contracts

Reasons why some farmers did not get insured:

- Lack of information, lack of trust

Initial effects on the insurance sector and the supervising agency

- Growing interest of local insurance companies
- Current negotiations with two insurance companies
- Encouraging and enabling environment created by the supervising agency for the financial sector ASFI
- Invitations by the ASFI for presentations of PROFIN's pilot projects and their findings, development of a microinsurance law



Initial effects on the MFI El Churqui

- Increase of loan portfolio through cross selling to FTR clients
- 98% of new clients very satisfied with service, 0% default rate
- Identification of latent demand for micro life insurance products and interest in selling new innovative microinsurance products



Initial effects on local, regional and national government

Municipalities:

- Successful implementation of FTR pilot generating instant demand
- Growing number of mayors acknowledging the importance of agricultural insurance for local economic development
- Mayor of Uriondo sees it as fairer and more transparent instrument than the actual use of public funds for disaster relieve and response

Regional Government:

- Successful implementation of FTR pilot generating instant demand

National Government

- Representatives of the national government have shown eager interest in PROFIN's pilot experiences, serving them as solid references for developing the National Agricultural Insurance Scheme

Agricultural insurances is a very attractive topic for any political campaign!

Challenges and risks

- Lack of productive and meteorological data
 - ➔ Modernizing and institutionalizing information management
- Slow progress in the inclusion of local insurance and reinsurance sector due to a) high and correlated risks, b) scarcity of risk calculation experts (actuaries), c) lack of data, d) poor risk taking capacity of the Bolivian insurance market, e) difficulty in cultural change
 - ➔ Important role (in the process of product innovation) of international reinsurance companies with experience in development and commercialization of (agro) micro insurance products, bigger portfolios and high risk diversification
- Risks related to political changes
 - ➔ Collaboration and coordination with governments on municipal, regional and national level; more innovation in financial and institutional models

Lessons learned

Besides solid risk calculations:

- Know your client. Priorities, needs, habits, etc.
- Simplicity of product as well as processes. Keep it simple and avoid small print!
- Adequate distribution channels. Selection based on criteria such as efficient service delivery, geographical out-reach, institutional solidity and client proximity and trust.
- Education and training. For demand AND supply side.
- Never fail to pay. Share this message with all your partners.
- Building PPDPs. Choose your partners well and include all of them in the design and commercialization process.
- Mandatory insurance schemes in order to control adverse selection.
- Strong political will. Commitment of the local Government is decisive for the successful implementation of the PPDP.

Potential and prospects: VidaAgrícola



VidaAgrícola

= composite microinsurance
(agriculture and livestock
+ life + property)

+ non financial Risk Management (technical
assistance)

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Thank you!

www.fundacion-profin.org



INNOVACIONES PARA EL DESARROLLO