KENYA AGRICULTURE INSURANCE

EXPERIENCES & CHALLENGES
ABOUT UAP-OM

- We are a Pan African company with operations in Kenya, Uganda, Rwanda, Tanzania, South Sudan and DRC.
- We offer General Insurance including health solutions, Life Insurance, investment and other related financial services.
- We have vibrant agriculture Department that is centralized in Kenya to offer immense capacity in agriculture insurance.
- Our agriculture solutions are cycle complete ranging from seed solutions to post harvest solutions.
OVERVIEW

- Kenya Agriculture Insurance overview
- Solutions explanation
- Regulation and legislation
- Partnerships
- Agriculture insurance environment in Kenya
KENYA AGRICULTURE INSURANCE HISTORY

- Agriculture Insurance formalized in 2006 in the Kenyan market. The Reinsurer had agreed to offer capacity for this class of business. The industry responded by forming an association called Agriculture Insurance managers which had 4 insurance companies. This association dissociated in 2010. The number of insurance companies underwriting Agriculture in at least a section based function has grown to over 10 currently.
- Currently high level discussions are ongoing to form a pool for the government business.
- The premium has grown from less than KES 50,000,000 in 2009 annually to over 350,000,000 by 2015.
- Solutions
  - Traditional insurance on both crops and livestock insurance
  - Index insurance on both crops and livestock
  - Hybrid of traditional insurance and index insurance
  - What’s next? ()
# Agriculture Insurance Solutions

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<td>Insurance</td>
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<td>T1 Crop</td>
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<td>T1 Livestock</td>
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<td>Crop Index</td>
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<td>Livestock Index</td>
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<td>Crop Hybrid of T1 &amp; Index</td>
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## SOLUTIONS EXPLANATION

- **Traditional crop insurance**
  - **Perils Insured**
    - Drought
    - Excessive rainfall
    - Hall damage
    - Windstorm
    - Flooding
    - Frost damage
    - Fire
    - Uncontrollable pests and diseases
  - **Insurable Interests**
  - **Expected Revenue**
  - **Budget Cost of Production**

### Characteristics
- A percentage of the total risk is guaranteed
- The risk survey is subjective “seeing is believing”
- The farmer needs to keep proper records
- The farmer needs to demonstrate good husbandry
SOLUTION EXPLANATION

Traditional Livestock Insurance

Perils Insured

- Death or loss of livestock due to:
  - Accidental death (lightening, injury, fire, flooding, snake bite, poisoning)
  - Diseases of terminal nature. (Liver diseases, acute diseases)
  - Emergency slaughter on a vet's advice
  - Theft by use of force
  - Calving complications
  - Epidemics

Insurable Interest

Market value of the animal

Characteristics

- The risk is subjective
- Hence the use of expert opinion - Vet
- Farmers need to keep up to date records
- Farmers need to demonstrate good husbandry
SOLUTION EXPLANATION

- Livestock Index

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<tr>
<th>Perils Insured</th>
<th>Characteristics</th>
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<tr>
<td>Drought as Demonstrated</td>
<td>Highly objective.</td>
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<tr>
<td>By greenness/Forage</td>
<td>Uses satellite to quantify the greenness. NDVI</td>
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<tr>
<td>availability</td>
<td>Farmers do not need to keep records</td>
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<td>Farmers do not need to demonstrate good husbandry</td>
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Insurable interest

The pre-agreed Value of a TLU
SOLUTION EXPLANATION

- Crop weather Index

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<tr>
<th>Perils Insured</th>
<th>Insurable Interest</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>Rainfall extremities</td>
<td>Pre-agreed value</td>
<td>Highly objective.</td>
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<tr>
<td>Temperature Extremities</td>
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<td>Uses satellite to quantify the</td>
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<td>extremities. Weather Index</td>
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<td>Farmers do not need to keep</td>
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<td>Farmers do not need to demonstrate good husbandry</td>
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**SOLUTION EXPLANATION**

- Crop hybrid

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<tr>
<th>Perils covered</th>
<th>Insurable Interest</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>Rainfall extremity</td>
<td>Expected Revenue</td>
<td>Index is the main cover</td>
</tr>
<tr>
<td>Temperature extremity</td>
<td>Budget Cost of Production</td>
<td>Traditional cover serves to address non indexable risks.</td>
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<td>Uncontrollable pests</td>
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<td>Uncontrollable diseases</td>
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<td>Hallstorm</td>
<td>Pre-agreed value</td>
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<td>Flooding</td>
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<td>Fire</td>
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<td>Strong winds</td>
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AGRICULTURE INSURANCE REGULATION AND LEGISLATIONS

- **The Insurance ACT cap 487**
  - This is the regulating tool for the insurance business in Kenya.
  - Policy holder funds

- **Kenya Index based- Insurance Policy paper- IRA**
  - This serves to recognize index insurance as a risk based tool. It allows event-based risk tool- it cannot be viewed as a gaming tool.
  - It gives criteria for treating customers fairly.
  - It also gives guidelines on capitalization.
AGRICULTURE INSURANCE REGULATION AND LEGISLATIONS

- The Movable Property Security Rights Bill, 2016 seeks to provide - KLRC initiative
  - for the use of movable property as collateral for credit facilities,
  - to establish the office of the Registrar of security rights,
  - to promote consistency and certainty in secured financing relating to movable assets,
  - to enhance the ability of individuals and entities to access credit using movable assets
  - and to establish a Registry to facilitate the registration of notices relating to security rights in movable assets.

- Regulations that are still not clear
  - Weather data ownership is by the government. The tools used to generate these data, do they require to be declared to the government (Meteorological department) or probably procured through Meteorological department.
NECESSARY PARTNERSHIPS/ ENABLING ENVIRONMENT

- Research & development and advisories providers
- seeds companies, crop nutrition companies
- crop protection companies, off-takers
- financing companies, insurance companies
- Government
The government is creating a conducive environment for small scale farmers insurance. The government from late 2015 is subsidizing the crop insurance premium by 50% and 100% for the livestock herders. This is increasing the penetration ratio. The qualification criteria for the subsidy is acreage < 5 hectares, livestock units up to 5 TLU (Tropical Livestock Unit which is equivalent to 1 cow).

Off takers are organizing partners to fit in the needs realm of the farmers. They need to create a strong value proposition including premium pricing to avoid produce diversion.

Financing companies are also having affinity of farmers. The affinity is limited to loan repayment period.

Inputs companies are also having affinity of farmers. This affinity is supply linked and need to be qualified by adding an off taker.

Insurance companies are also creating affinities based on homogenous solutions. This affinity needs to be qualified by other actors including off takers.
CHALLENGES/ OPPORTUNITIES

■ Breakdown in solutions communications to the market. The solutions are in existence however the adoption rate as evidenced by the industry premium average is still low.

■ High payout frequency- the climate change is making it difficult to guarantee a harvest

■ Low financial literacy

■ Low purchasing power

■ Opportunistic claims in livestock and crops
THANK YOU