

From index based insurance  
towards comprehensive financial  
services



# Journey of index insurance

Index Insurance

Index Insurance + Financial services

# Agriculture credit scenario in India

- Branch expansion policies in rural areas in 1980s helped banking outreach. 32,000 rural branches of Commercial banks and RRBs, 14,000 cooperative bank branches, 98,000 PACS
- Problem of inequality: 66 percent of large farmers have a deposit account; 44 percent have access to credit. However, 87 percent of the poorest households do not have access to credit, and 71 percent do not have access to savings from a formal source.
- Difficulty in accessing formal finance has resulted in a heavy reliance among poorer rural households on informal finance—mostly moneylenders, shopkeepers
- Access to insurance, also remains limited among the rural poor, 82 percent of households had no insurance, and practically none of the poorest households surveyed had insurance (RFAS 2003). Top seven HDI states that account for almost 80% of cumulative insurance

# Suggested journey

**Index insurance + Non financial services**

**Index insurance + Non financial services + Financial services**

# Index insurance + Non financial service

- Proposed services
  - **Weather insurance** (potato and rice)
  - **Weather forecasts** to enable farmers to take proactive steps
- Key learning
  - How does comprehensive products affect:
    - Access to credit
    - Productivity
    - Agriculture practices
    - Attitude towards risk
- Area profile
  - Relatively poorer agri-risk management infrastructure: Howrah and Kamrup (districts in West Bengal and Assam states of India)
  - Low agri credit penetration, thus low insurance take up (credit linked)
- Channels
  - Rural banks, NGOs, MFIs, cooperatives, input firms, retail

# Index insurance + Financial + Non financial

- Pepsico contract farming model for chip grade potatoes
- What does the package offer?
  - *Greater access to capital*
    - Credit
  - *Risk transfer*
    - Weather index insurance
  - *Risk reduction*
    - Seeds, agro chemicals, manures
    - Monitoring and advisory services
    - Assured market price with flexibility for upside pricing

# Challenges involved

- Difficulties due to basis risk
- Imperfect understanding about the product
- Product features, hedging high probable events

# Optimal Conditions for Index Insurance

- No cash (credit and savings) constraints
- Perfect input and output markets
- Low basis risk, risk aversion, hedging full production and not a part of it
- Perfect understanding about the product
- Weather data is readily available

## Approach of CIRM

### Demand side:

- Need driven (Modular products, Portfolio covers, Bundling, reduction packages)
- Affordability (Cash/ credit availability)
- Literacy (Value of insurance, understanding)

### Supply side:

- Bundling with other products, process innovation
- Pricing (Lack of infrastructure)

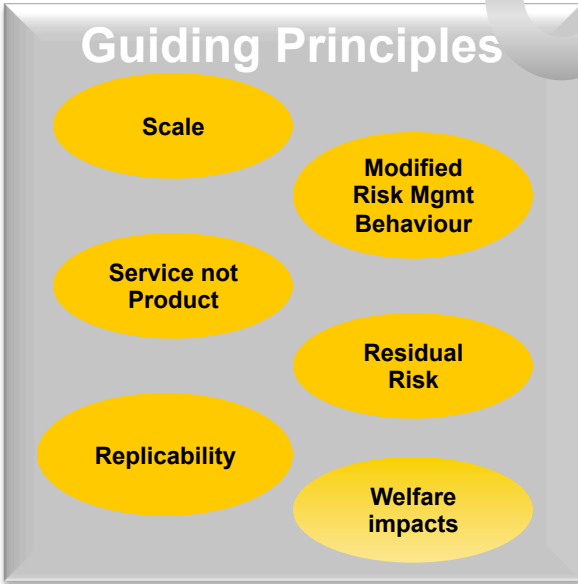
Livestock,  
Weather tickets

Credit linked  
weather insurance

WRMS, Pepsico, Long  
term weather products

NDVI, Localized  
w.s.





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