

<b>Title of case study</b>	<b>Microinsurance reducing farmers' exposure to weather risk</b>
<b>Name of organization(s)</b>	<b>BASIX and ICICI Lombard</b>
<b>Business sector</b>	Financial Services
<b>Region(s) relevant to case study</b>	<input type="checkbox"/> All regions <input type="checkbox"/> Africa and the Arab States <input checked="" type="checkbox"/> Asia and the Pacific <input type="checkbox"/> Caribbean and Central America <input type="checkbox"/> Europe <input type="checkbox"/> Least Developed Countries <input type="checkbox"/> North America <input type="checkbox"/> Polar regions <input type="checkbox"/> Small Island Developing States <input type="checkbox"/> South America
<b>Country(s) relevant to case study</b>	India
<b>Adaptation sector(s) relevant to case study</b>	<input type="checkbox"/> Business <input type="checkbox"/> Education and training <input checked="" type="checkbox"/> Food security, agriculture, forestry and fisheries <input type="checkbox"/> Human health <input checked="" type="checkbox"/> Oceans and coastal areas <input type="checkbox"/> Science, assessment, monitoring and early warning <input checked="" type="checkbox"/> Terrestrial ecosystems <input type="checkbox"/> Tourism <input checked="" type="checkbox"/> Transport, infrastructure and human settlements <input type="checkbox"/> Water resources <input type="checkbox"/> Other (please specify):
<b>Adaptation activity</b>	<p>Agricultural productivity in Asia is at risk of severe losses as the climate changes. High temperatures, increased drought, and flooding all can lead to large-scale crop failure, as well as to slower productivity losses due to soil degradation. More than two thirds of the Indian workforce relies on agriculture for their income, and rainfall patterns often determine the availability of water for irrigation or the occurrence of floods.</p> <p>Traditional crop insurance typically has not been available to help Indian farmers overcome weather risks,</p>

because contracts are expensive to administer and therefore not commercially viable in most Indian rural settings. A key cost is the expense of assessing crop damage for large numbers of small farmers.

By contrast, “index based” insurance uses the strong correlations between crop yields and rainfall to trigger insurance payments to policy holders when rainfall is below a certain level, and therefore does not require insurance companies to assess crop damages for individual farmers. This can dramatically cut transaction costs and make insurance more affordable.

In 2003, ICICI Lombard General Insurance Company formed a partnership with BASIX, a Hyderabad-based microfinance institution, to pilot the sale of rainfall index insurance contracts to small farmers in Andhra Pradesh, India. The Commodity Risk Management Group (CRMG) of the World Bank provided technical support, and the project became the first weather insurance initiative in India and also the first farmer-level weather-indexed insurance offered in the developing world.

BASIX and ICICI Lombard emerged as pioneers in the weather insurance business in assessing the risk exposure of the agriculture sector to weather fluctuations. Strong partnerships and the use of BASIX as the intermediary agent between the ICICI and rural farmers were fundamental to the scheme being trusted and scaled up. Detailed qualitative and quantitative research of rural markets and farmers needed to be carried out, and new weather monitoring stations had to be installed to measure rainfall levels, activities that aided in improving the company’s image in front of the farmers. Moreover, innovative features like doorstep delivery and quick payouts when index triggers were reached also greatly aided in the smooth and effective expansion of the program.

This successful experience has sparked much broader interest in weather- indexed insurance in India, and elsewhere, in aiding adaptation to climate change by providing pro-poor weather insurance products. However, while insurance might decrease short-term vulnerability by providing cash immediately after a weather event, it is difficult to tell what long-term impacts it might have for adapting to climate change. By encouraging people to continue living in high-risk areas or by making people more risk averse with insurance than they would have been otherwise, it is possible it could prove “maladaptive” in the long run. Incentives for risk management need to be aligned well with insurance premiums for such mal-adaptations to not occur.

	<p>Insurance companies like ICICI and BASIX also will likely go through a process of adjusting their products, pricing and delivery over time, as they learn more about their customers' risk profiles and adaptation options. Ultimately, it may also require considerable government oversight of insurance and insurance products, and government intervention through other risk management initiatives, to make sure that resilience in the face of a change climate increases with insurance.</p>
<p><b>Cost-benefit</b></p>	<p>The initial launch of the scheme was very small and simple, with 230 participants and a focus on only crop-specific risks. But by 2005, the scheme had graduated to considering the risk exposure of an entire district to climate variations. During the 2005 monsoon, BASIX sold over 7,600 policies to almost 7,000 customers in 36 locations in six states. Strong existing delivery channels, strategic planning, effective and transparent communications with farmers and a complementary partnership with local organizations greatly contributed to this success.</p> <p>The partnership's communication strategy enabled farmers to understand insurance as a product, helped improve farmer trust in the scheme and also channeled customer feedback to ICICI, which then customized its product designs to suit different local conditions and needs. BASIX's existing presence in more than 10,000 villages in seven states across India and a staff of 1,280 meant that adding weather insurance to its comprehensive set of livelihood services created many economies of scale. By offering various bundled microfinance services for example, BASIX was able to maximize staff productivity, improve cost-effectiveness, and have a stronger impact on farmers' livelihoods.</p> <p>While the project has increased ICICI Lombard's penetration into the rural economy and expanded its customer base, it has also enhanced the company's weather risk related knowledge. ICICI Lombard now uses weather data and analysis in designing broader natural disaster and catastrophic risk covers and products. Other stakeholders have also gained substantial benefits from this project: BASIX has increased its client services; poor farmers have access to cash in the event of a low rainfall and low crop yield thereby reducing their vulnerability; the government has had to invest less in establishing a safety net for its vulnerable populations; microfinance institutions and banks have a lower risk of loan defaults; and finally international development agencies can focus on providing fast relief to victims of</p>

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	catastrophic disaster events.
<b>Case study source(s)</b>	<p><a href="#"><u>Case Studies and Tools: A Systematic Review of the Literature on Business Adaptation to Climate Change (Network for Business Sustainability)</u></a></p> <p><a href="#"><u>Making Climate Your Business: Private Sector Adaptation in South East Asia (WRI)</u></a></p> <p><a href="#"><u>A Strategy to Engage the Private Sector in Climate Change Adaptation in Bangladesh (International Finance Corporation)</u></a></p>
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