CASE BRIEF:
APA INSURANCE
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DEVELOPING A STRONG KENYAN AGRICULTURAL INSURANCE MARKET

Kenya has been one of Africa’s pioneers in developing an agriculture insurance market to protect smallholders and pastoralists against the risks of an unpredictable and changing climate. This is vital in Kenya, where, according to the World Bank, six out of ten Kenyans depend on farming, livestock or fishing, and where more than three quarters of farmers are smallholders, who are particularly vulnerable to climate risks. The country’s first index-based agriculture insurance pilot took place in 2008. Since then, the Kenyan government, the private sector and development institutions have been collaborating and experimenting to grow the market. Today, the country benefits from a vibrant agricultural insurance sector characterised by a diversity of schemes that have reached significant scale. Two government-supported programmes exist for crop farmers and pastoralists, as well as an array of private, non-subsidised retail products, many of which are offered by APA. These private options are well integrated with farmers’ groups and cooperatives and offer additional protection to those not covered by the government schemes. Overall, according to the Association of Kenyan Insurers, agriculture premiums are growing rapidly in the country, with a 50 per cent increase in premiums in 2017 compared to the previous year. Other countries hoping to achieve similar levels of protection can learn a great deal from the Kenyan experience.

DEVELOPING CAPACITY TO OFFER AGRICULTURE INSURANCE

APA has played an important role in the development of a strong agricultural insurance market in Kenya, as one of the country’s largest private insurance companies and a strong partner of the Kenyan government. Microinsurance and agricultural insurance are significant elements of APA’s business, and the company currently covers close to a million Kenyans through these products. Nonetheless, developing the right kinds of partnerships with the government has been challenging and required a process of experimentation over the last four years.

One particularly important development was the launch of the Kenya Agriculture Insurance Programme in 2015 by the Ministry of Agriculture, Livestock and Fisheries and the World Bank. It is an area yield index insurance product covering maize farmers in 20 of Kenya’s 47 counties. An area yield index insurance product pays out claims to farmers when the average yield in their area falls below a set level, regardless of the actual yield on each client’s farm.

The scheme works through a distinctive public-private partnership model. Globally, most governments promoting such schemes offer a subsidy and sign up designated groups within the population. They invite insurance companies to bid for the insurance in designated areas of the country. Such schemes exist in several countries including India, Pakistan and Mexico. In Kenya, on the other hand, no one insurance company had the capacity or experience to insure a large group or area alone. Therefore, rather than competing for government contracts, seven insurance companies came together with the support of the government and the World Bank to establish a consortium and together launch the programme.

The insurance companies in the consortium take
on a more significant role in the programme than is usual in other countries. They are responsible for all functions, including signing up clients and delivering claims, while the government is responsible for paying a 50 per cent subsidy.

It was initially challenging to bring together seven companies with distinct management styles and differing expectations and motivations. The consortium had to establish a clear organizational structure to improve its coordination. It established a management board made up of the Chief Executive Officers from each consortium member and responsible for strategic planning. It also set up a technical management committee of technical experts and agronomists from each member, which is responsible for supervising day-to-day operations.

The scheme has slowly grown to considerable success, expanding through a range of partnerships and reaching around 337,000 farmers in the 2017-18 season. One of those partnership is with Equity Bank, which offers the product to farmers when they take out a loan. The programme aims to continue expanding to reach 1 million farmers by 2020.

The programme’s consortium model has allowed the private sector to gain expertise and insurance capacity over time. With limited microinsurance expertise when the scheme begun, the seven insurance companies all contributed experts to a technical committee, which jointly provided analysis on various aspects of the scheme. As a result, all the companies involved have been able to benefit from their joint expertise and gradually build their capacity.

At the same time, the consortium has been able to gradually retain more of the risk. Initially, the total consortium’s retention rate was only 10 per cent, with the remainder of the risk passed to reinsurers. Within three years, this has doubled to 20 per cent. The consortium has therefore proved a vital capacity building tool developing the strength of the local agriculture insurance market.

In addition, a similar consortium model has been adopted in Uganda. Many of the companies involved in the Kenyan consortium are also present in Uganda and are leading the consortium there, transferring the knowledge gained through the Kenyan experience beyond the country’s borders.

**BALANCING THE ROLES OF PUBLIC AND PRIVATE PLAYERS IN LIVESTOCK INSURANCE**

In the North of the country, livestock is the most prevalent activity, and it was therefore vital for the insurance market to also offer protection to pastoralists. They are served through two related schemes – the Kenya Livestock Insurance Program (KLIP), a government index insurance scheme, and the private Index-Based Livestock Insurance (IBLI) scheme. Both schemes use an index based on satellite imagery. The imagery is used to determine whether sufficient forage is available for livestock, and claims are paid out whenever the available forage falls below a certain level as a result of insufficient rainfall.

The combined forces of the public and private schemes have the potential to protect a large proportion of Kenyan pastoralists. However, the two schemes were initially established in a way that brought them into competition and restricted their joint impact. APA has over time been involved in both schemes. The government scheme, KLIP, is completely subsidised by the government, and clients are enrolled by the government with the help of village chiefs. The scheme covered over 18,000 pastoralists households in the 2017-18 season. IBLI, on the other hand, is offered to clients that do not fall under the government scheme and does not benefit from any government subsidy. It has been difficult to make sales as pastoralists perceive the premium as high compared to others receiving the same product for free through the KLIP scheme. After campaigning for many years, the government has agreed to a 50 per cent subsidy for the IBLI product, which will continue to be sold voluntarily to those outside the KLIP scheme. This is a significant opportunity for the private sector to expand the pool of people covered jointly by the two schemes.

Over a decade of building local capacity and experimenting to align public and private efforts, Kenya has developed a strong agriculture and livestock insurance market. The consortium model adopted for its agricultural insurance scheme has proved particularly successful, and a worthwhile model for other countries to consider.
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The ILO’s Social Finance Programme works with the financial sector to enable it to contribute to the ILO’s Decent Work Agenda. In this context, we engage with banks, microfinance institutions, credit unions, insurers, investors and others to test new financial products, approaches and processes. The Impact Insurance Facility contributes to the Social Finance agenda by collaborating with the insurance industry, governments and partners to realize the potential of insurance for social and economic development.

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