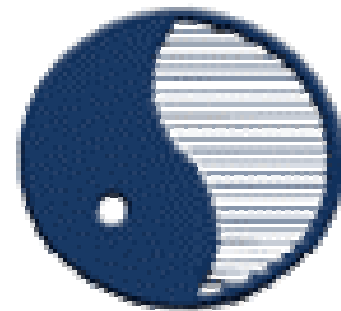

Innovative Finance For Sustainable Development



BASIX
Equity for Equity

Contents

- Introduction BASIX and Micro insurance services at BASIX
 - Evolution of Weather Insurance at BASIX
 - Challenges and Issues
 - Critical Factors
-

Introduction BASIX and Micro insurance services at BASIX

BASIX Mission

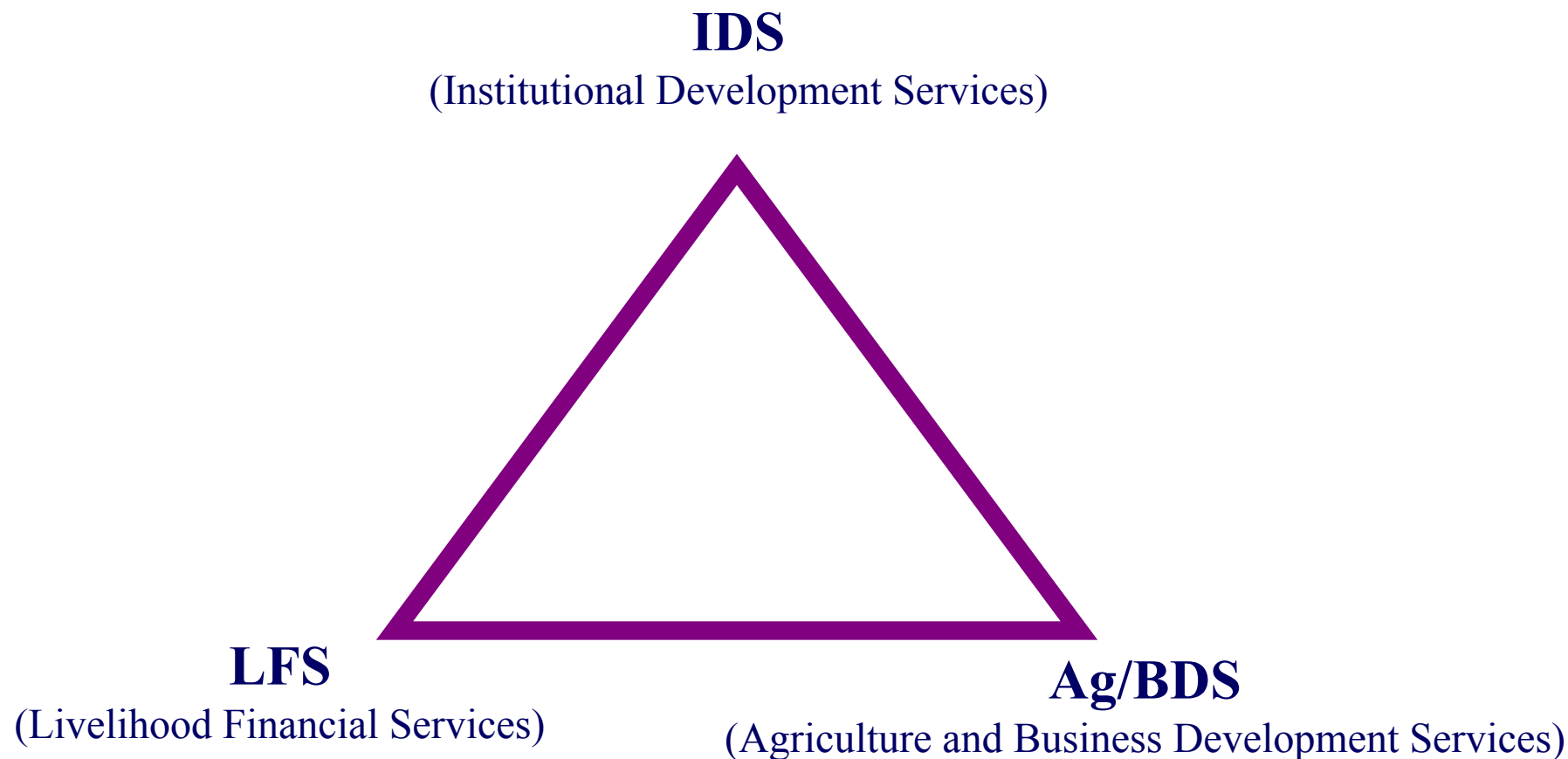
To promote a large number of **sustainable livelihoods**, including for the rural poor and women, through the provision of **financial services and technical assistance in an integrated manner**.

BASIX will strive to yield a competitive rate of return to its investors so as to be able to access **mainstream capital and human resources** on a continuous basis.

Rationale for providing insurance to customers

- IMRB study – Impact of micro-credit
 - Increase in borrower income, asset ownership and social participation in a small way
 - Customer satisfaction on service and terms high
 - Credit alone has limited impact on livelihoods
 - Issues: Unmanaged risk and low productivity and low price realisation
 - Review of strategy:
 - Add risk mitigation services - non-financial .e.g. vaccination
 - Add risk management services like insurance, derivatives
 - Ag/business development services for productivity enhancement, value addition and market linkages
-

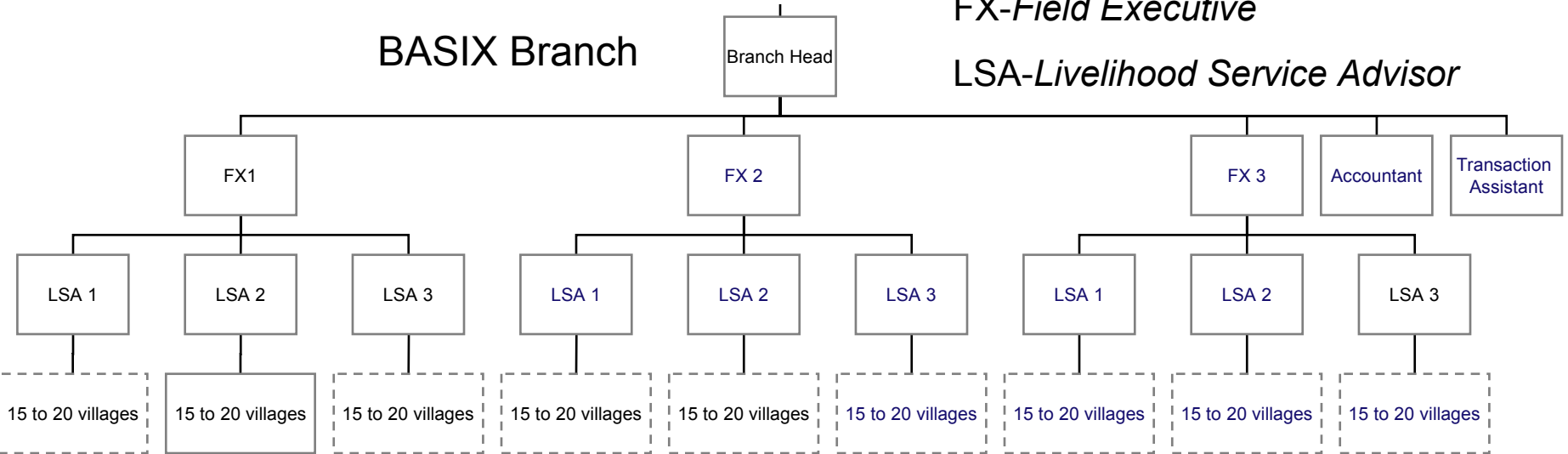
Strategy for providing Livelihood services in a sustainable manner



BASIX Branch

FX-Field Executive

LSA-Livelihood Service Advisor



LSA travel to village



Interacts, assesses and provides...



Credit



Insurance

Agri-Business development services



Insurance product suite for BASIX customers

■ Insuring Lives

- Death
- Disease
- Disability

● Livestock



● Crops



● Enterprises



Evolution of Weather Insurance at BASIX



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Evolution of Weather Insurance at BASIX

- ❑ BASIX operates in over 12,000 villages spread over 9 states in India, serving 0.5million customers
 - ❑ With a mission to promote sustainable livelihoods
 - ❑ And by choice works in the poorer and arid districts of India
 - ❑ Where Agriculture is the predominant source of livelihood for households
 - (majority(80%) of whom have a land holding of less than 2hectares)
-

Year- 2004

Stages

Sowing

Growth

Harvest

Time

10Jun-14Jul

15Jul-28Aug

29Aug-02Oct

Rainfall Index

35 days

44 days

34 days

75mm

110mm

75mm

112mm

Loss in yield



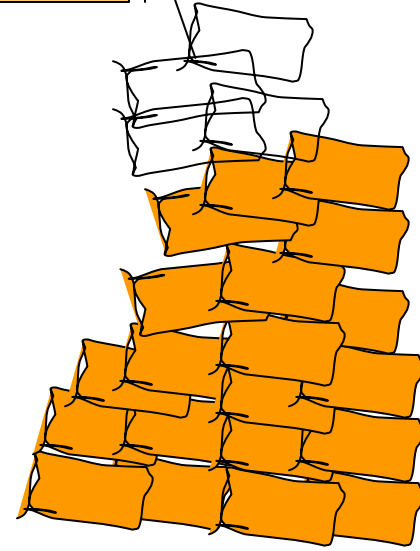
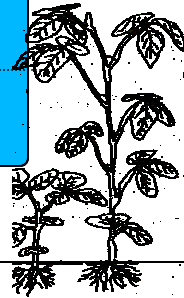
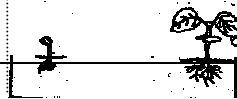
63mm

12mm

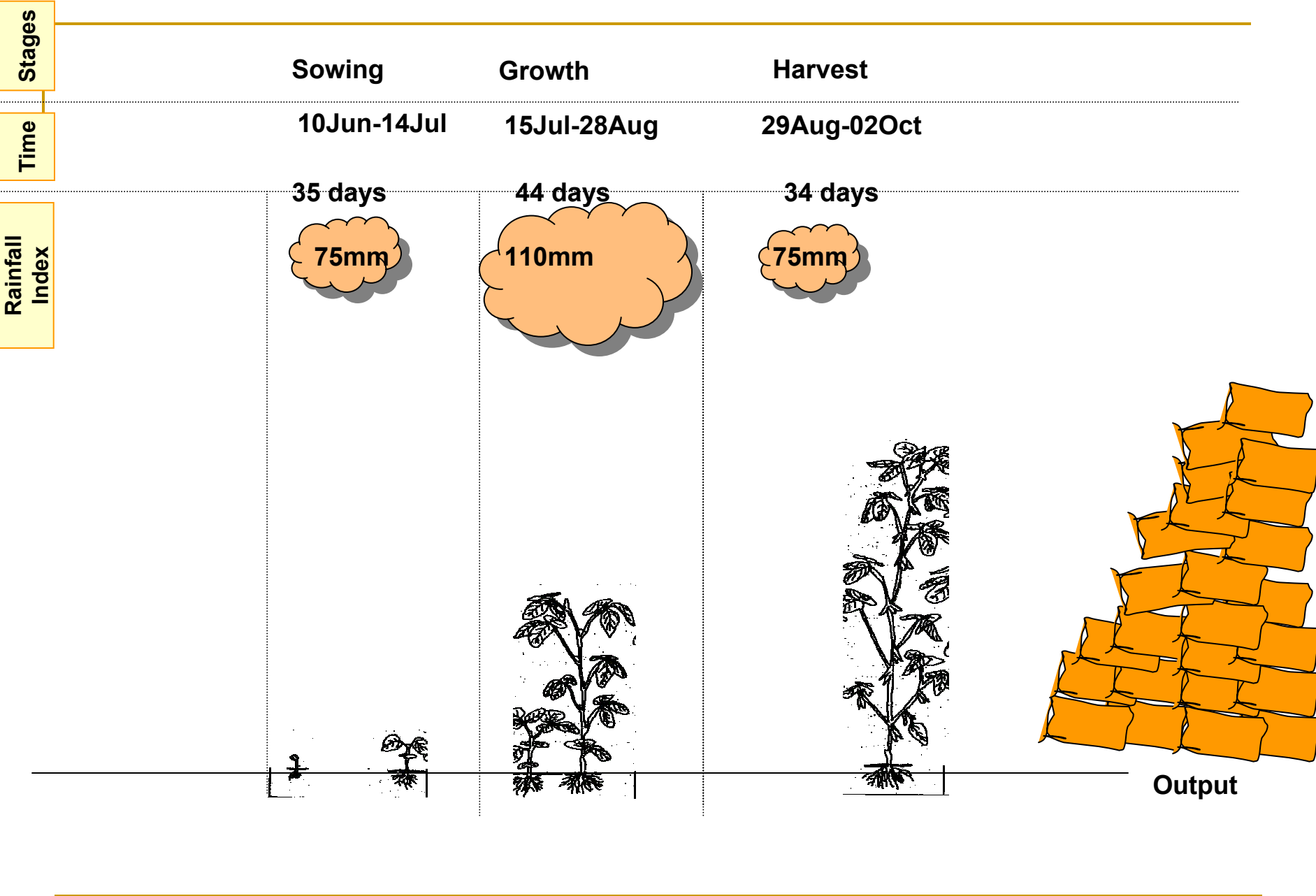


25.8m

84.2m



Output



Stages

Time

Rainfall Index

Sowing

Growth

Harvest

10Jun-14Jul

15Jul-28Aug

29Aug-02Oct

35 days

44 days

34 days

75mm

110mm

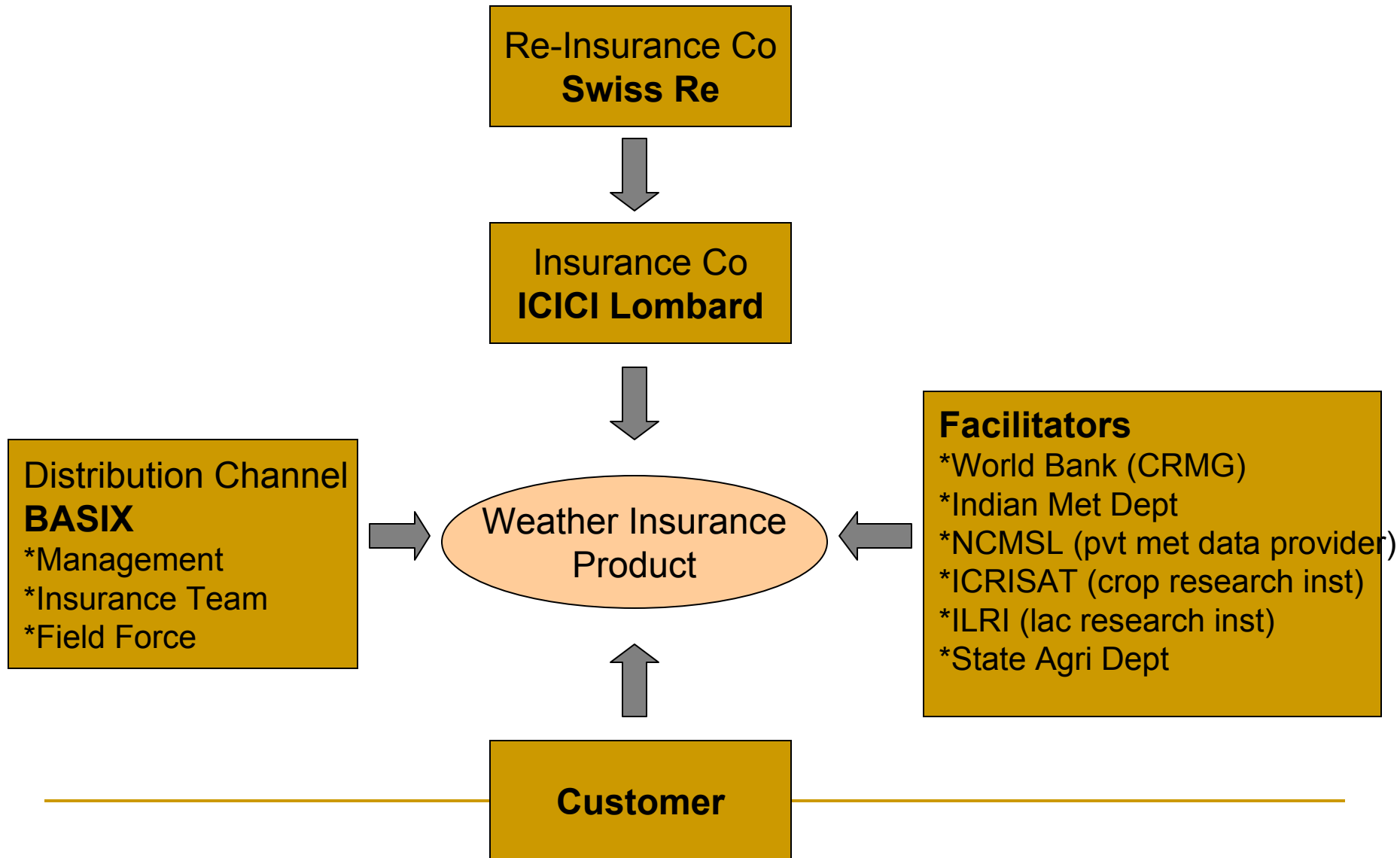
75mm

Output

Evolution of Weather Insurance at BASIX

- BASIX's customer contact and interactions in the initial years of operations showed that while credit is necessary, it is not sufficient for promoting livelihoods
 - (as on june-07 BASIX made cumulative disbursements of Rs 10 Billion and had an outstanding credit portfolio of Rs 3 Billion)
 - Risk management particularly for rainfed-agriculture was identified as an important credit plus service to be offered to its customers
 - Between 1999-2001, BASIX carried out research and undertook small pilots in testing an in house crop insurance scheme
 - Which culminated in the first weather insurance pilot in 2003, in collaboration with ICICI Lombard and World Bank
-

The ecosystem that delivered



Program Evolution at BASIX

- **First pilot of rainfall insurance carried out in 2003**
 - 1 district
 - 2 products, 1 rainfall station (only district rainfall station)
 - 230 policies sold
 - Single phase product

 - **Second year – 2004**
 - 3 districts
 - 10 product variations, 5 rainfall stations (block level stations included)
 - 427 policies sold
 - Coverage given for 3 phases of crop
-

Program Evolution at BASIX

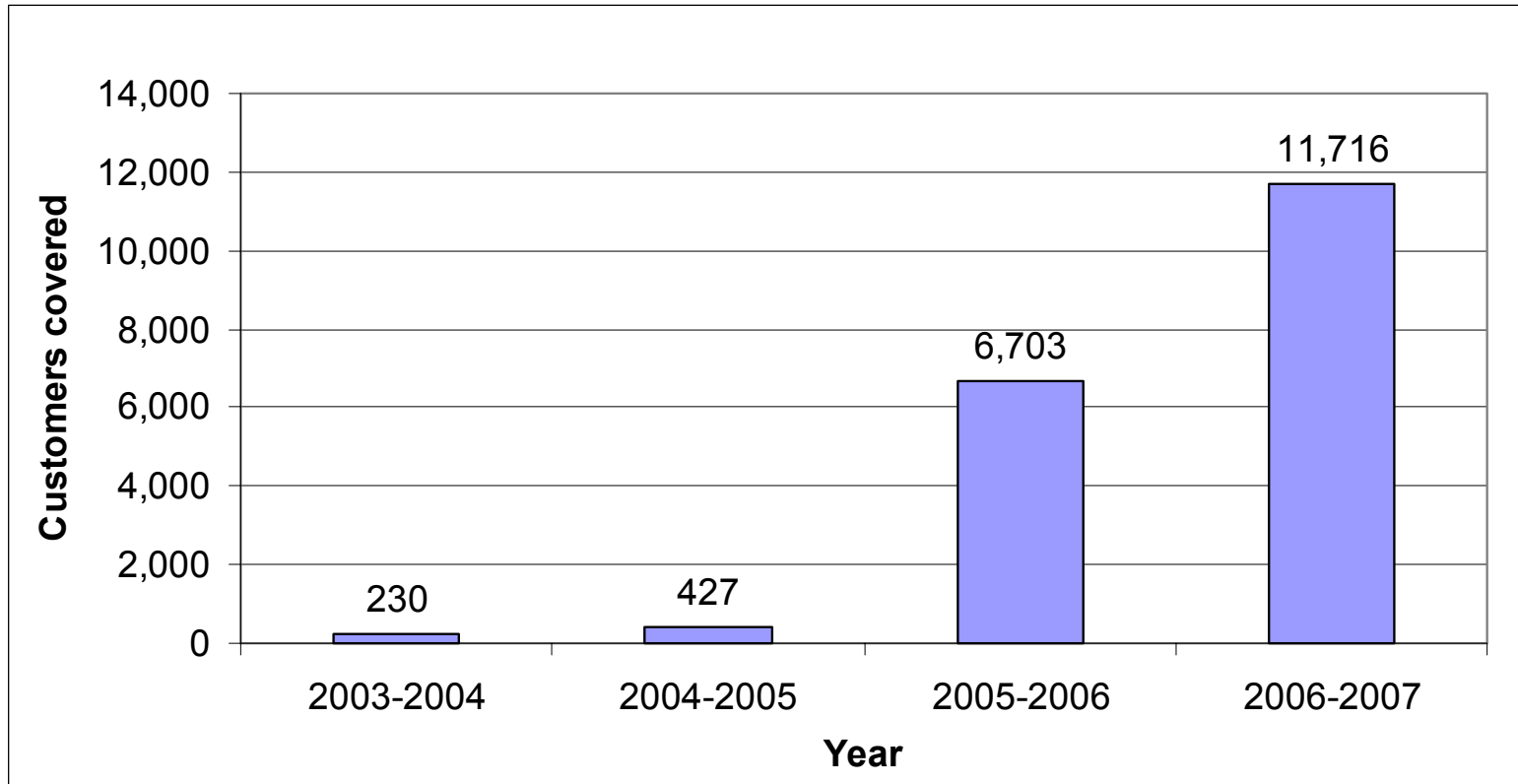
■ **Third year- 2005**

- ❑ Moved to a generic weather insurance product
- ❑ Introduced more enhanced product features e.g dynamic cover start date
- ❑ Sold weather insurance products with reference weather stations in 36 locations
- ❑ Scaled the service to 6 states in India.
- ❑ Sold to 6,703 customers
- ❑ All insurance companies put together reached more than 100,000 farmers
- ❑ Simplified data entry and processing

■ **Fourth year- 2006**

- ❑ Introduced excess rainfall cover to all locations
 - ❑ Products designed for 50 weather station locations
 - ❑ Selling took place in 7 states
 - ❑ Sold to 11,500 customers
 - ❑ Outsourced data entry and some of sales support services
-

Weather Insurance- Growth year to year at BASIX



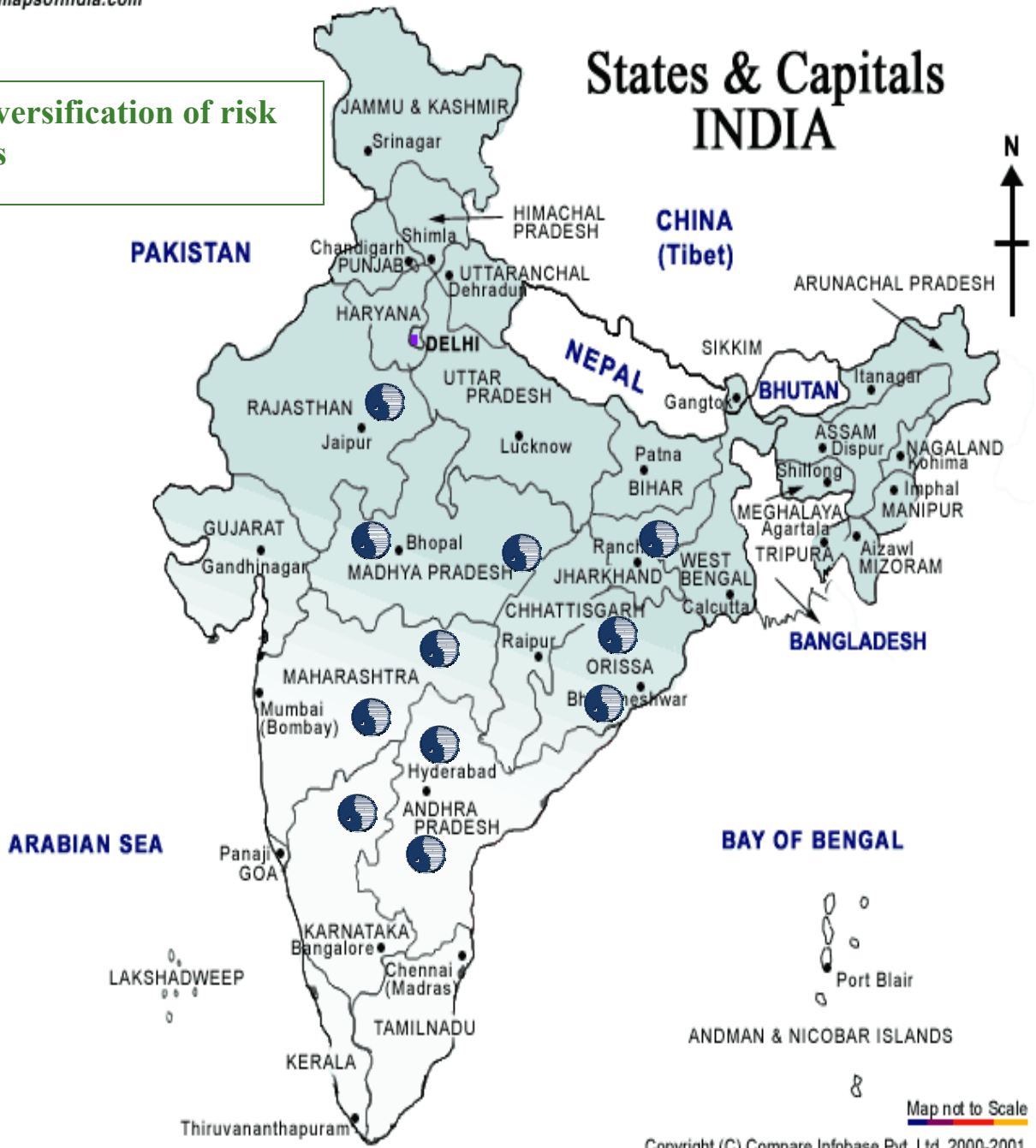
Financial Performance

Year	2003	2004	2005	2006	Cumulative
Claim Payout/Premium Collected	<1	>1	<1	>1	<1 (70%)
Weather Stations	1	5	36	50	

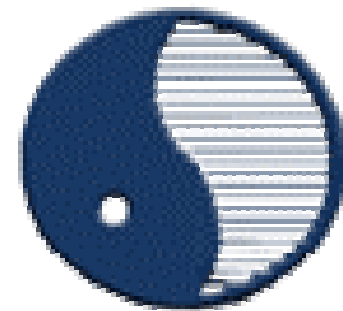
- In its limited experience, the product sustainability has been enhanced through **temporal** and **spatial** diversification of risk

States & Capitals INDIA

Spatial Diversification of risk
in 7 States



Challenges and Issues



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Challenges and Issues

- Need to reduce basis risk through
 1. Deepening the network of weather stations to make the weather data more relevant to farms that are scattered over a wide geography
 - (but, is the investment to be private or public?)
 2. Improved design of the product to increase the correlation of the indices to crop requirements
 - (yet simple enough for the easy comprehension of the majority of farmers, who are illiterate)
 3. Integration of insurance with Business development services that focus on risk mitigation and productivity enhancement, so as to give a more complete solution to customers and to also reduce cost of transactions
 - (in the absence of this, there are undue expectations from farmers on the risks that a weather insurance contract can cover)

 - Greater investments to educate the target market on the concepts of insurance, its function and benefits.
-

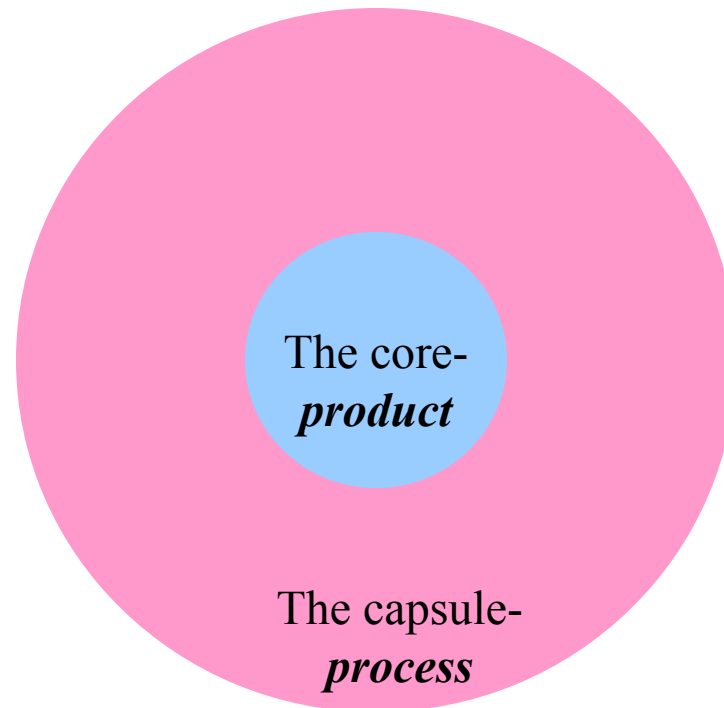
Automated weather station from NCMSL



Challenges and Issues

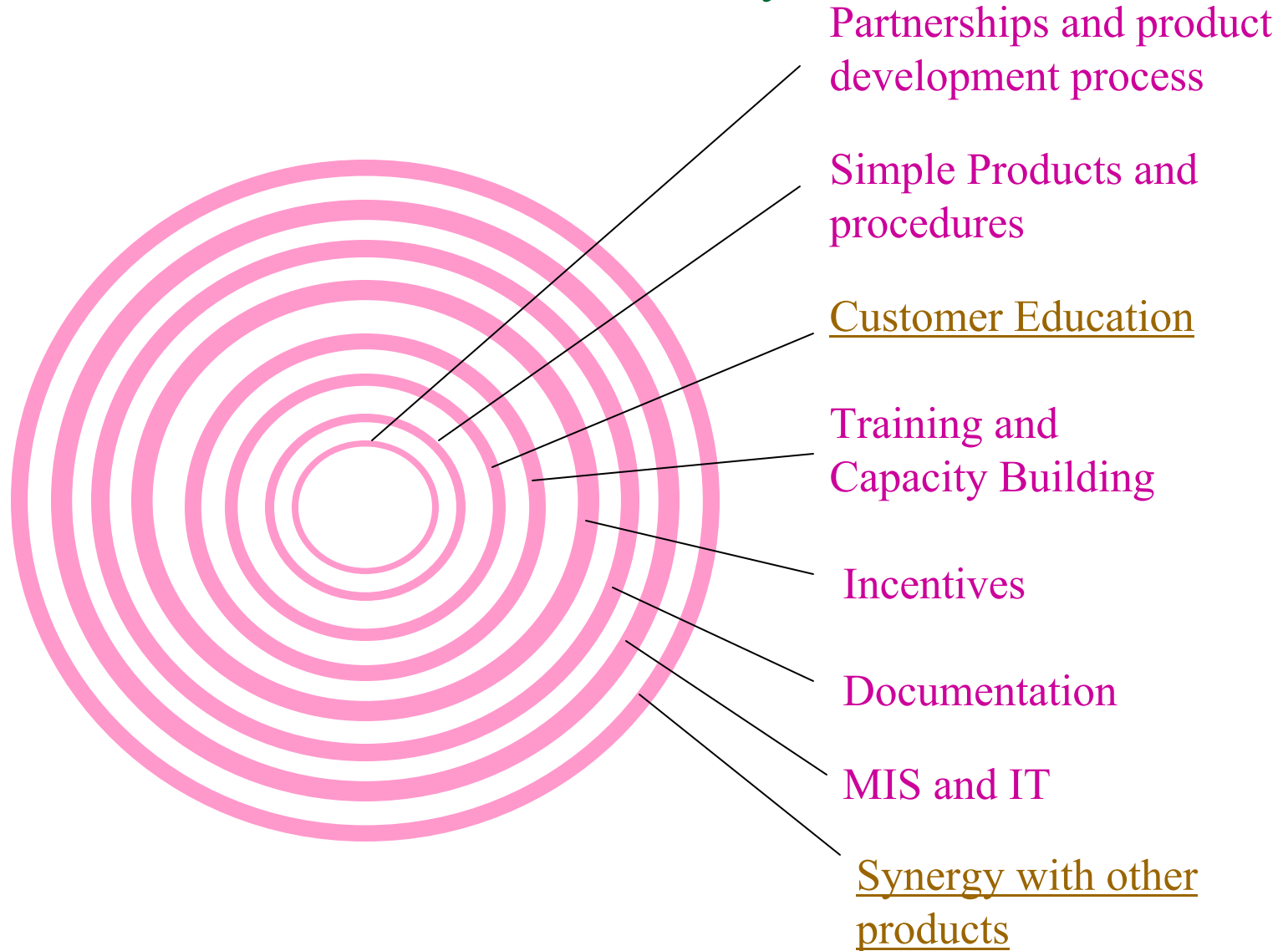
- Service tax rates levied reduce the affordability and attractiveness of the product to customers
 - Need to improve the maintenance of existing IMD weather stations so that certified weather data may be made available more promptly
 - (In some districts it takes more than 3months to obtain certified data and such locations weather insurance loses one of its key promises of quick settlement of claims)
 - The setting in of path dependency- market chooses a product that may not be the best.
-

Dissecting the challenges in delivering Micro-Weather Insurance



BASIX experience and initiatives have been largely to address the process bottlenecks and make fine refinements to products from time to time.

...and there are several layers to it



Customer awareness and education

- Through
 - Village meetings
 - Various forms of print material and
 - Creative multimedia content
 - Communication in
 - Claim settlements

- Customer education programs may not translate into immediate uptake

- Need for investment from several stakeholders- both private and public



Synergy with other products and services

- Rural customers need various financial and non-financial services
 - Distribution costs for intermediaries is high due to geographically scattered rural customers
 - Distribution costs per product/service can be reduced by providing multiple services through a single window
 - Making the products more affordable for rural customers
-

Critical Factors

Critical Factors

- Collaboration
 - Piloting product concepts
 - Channeling customer feedback into product design
 - Continuous improvements in each product cycle
 - Emphasis on product communication to customers who are illiterate
 - Efficient policy distribution and claim servicing
-

Thank You

www.basixindia.com

Hemanth Kumar Valvekar



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