

Launching the first weather index-based agricultural insurance scheme for smallholder farmers in Myanmar

1. DEVELOPMENT RELEVANCE

Country context

In Myanmar, agriculture contributes between 35 to 40% to the GDP and employs up to 70% of the 32.5 million labour force.¹ Therefore, the government prioritises the modernisation of the agricultural sector in its economic and social development agenda. Among the government institutions supporting the agricultural sector, the Myanmar Agriculture Development Bank (MADB) plays an important role as the largest banking institution serving farmers and rural areas. The Ministries of Finance and Agriculture perceive the introduction of risk mitigation tools for smallholder farmers (SFs) as a key priority for enhancing agricultural productivity and 'pro-poor' rural economic growth.² They see insurance as vital for unlocking agricultural lending. Since 2016, the Syngenta Foundation for Sustainable Agriculture (SFSA) has been in discussions with the Ministry of Agriculture on how insurance products can be scaled to reach a greater percentage of the farming population.

Less than 10% of the 3.5 million smallholder farmers hold a bank account³ These are smallholders involved in well-established cash crop value chains, such as pulses, sesame, groundnut, rice and rubber. The low agricultural loan portfolio of banks and microfinance institutions is a reflection of the high co-variant risks beyond the control of smallholders, such as adverse weather events, that can lead to high loan default rates. Limited access to formal credit compels smallholders to borrow from far more expensive informal sources (like moneylenders) for the most urgent working capital needs, and also limits them from investing in high-quality farm inputs and fixed assets that are required to raise their low productivity.

Formal insurance penetration is extremely low at 0.08% due to product restrictions and the lack of public awareness, low per capita income and distribution challenges. Myanmar's GDP has been affected due to the recent political crises impacting economic activities due to reduced mobility and incomes, protests and labour shortages, as well as the ongoing disruption of critical business services, including logistics and telecommunications, and public services such as health and education.

Financial-sector context

Smallholders rely on traditional financial management practices, and their knowledge-level offers a large scope for improvement, as they have had little to no exposure to financial education (FE). There is not much difference between the financial education level of smallholder men vis-à-vis women. However, women smallholders have a small lead with regard to household financial management as they are arguably the ones in charge of the purse strings. Only a few smallholder farmers have heard of agricultural insurance. Agricultural loans compared to insurance are relatively well-known, but they can improve their knowledge in the area of loan use in order to improve productivity and avoid over-indebtedness.

Table 1: Population and economic indicators			
Population in million (2021 estimate)			55.4
GDP Growth			
2018	2019	2020	
6.8%	1.7%	- 10.0 %	
Inflation 2022 (compared to the previous year)			6.47%
Trade balance (% of GDP) (2020)			54.47%
Foreign direct investment (net) (% of GDP) (2019)			2.53%
Net ODA received (% of GNI) 2019)			3.133%
Remittances received (% of GDP) (2020)			2.82%
Economic Freedom Index (Rank among 186 countries) (2022)			149
Poverty indicators			
GDP per capita (USD) (2020)			1400.22
Gini Index (0= equality 100= inequality) (2017)			30.7%
International poverty rate (2017; at 1.90 USD/day)			1.4%
Poverty headcount ratio at national poverty line (2017)			24.8%
National rural poverty headcount rate (2017)			30.2%
Multidimensional poverty index (2021)			0.176

¹ <http://agris.fao.org/agris-search/search.do?recordID=US2014600713>.

² www.worldbank.org/en/topic/financialsector/brief/agriculture-finance.

³ <http://documents.worldbank.org/curated/en/241951468060547171/pdf/866300Revised0000MADB0Final0April08.pdf>.

Financial inclusion remains a challenge in many low-income countries despite research showing the positive benefits of formal financial access and Myanmar is no exception. The Insurance Business Regulatory Board (IBRB) is still in the early process of developing a regulatory framework for index-based agricultural insurance.

- Only 26% of adults in Myanmar are financially served (i.e., use a financial product – formal or informal). Most people use informal ways to save (e.g. buying gold), borrow (e.g. from friends and moneylenders) and transfer money (traditional agents). A couple of state-owned banks, such as the Myanmar Agriculture Development Bank and the Myanmar Economic Bank are engaged in financial inclusion, but commercial banks focus on the upper segment of the market.
- Individuals indicated that the main reasons for not having an account included the perceived lack of money, lack of documentation required for KYC, perceived lack of need for financial services, and the physical distance to financial institutions.
- The insurance market in Myanmar is highly regarded as one of the most existing investment opportunities for international insurance companies as the penetration rate remains the lowest in the region as the market is hugely untapped.
- There are 12 private insurance companies, 33 foreign insurance companies and international brokers, including three Japanese insurance companies. 22 insurers and 11 international brokers have opened their offices in Myanmar. Among them, the three Japanese companies have been permitted to conduct limited insurance business in the Thilawa Special Economic Zone (SEZ) in Yangon.
- IBRB allowed Global World Insurance Co. Ltd and Myanma Insurance (MI), supported by Sompo Japan to undertake a two-year crop insurance pilot project in 2018.

Partner financial institution(s)

Ayeyarwaddy Seeds Company Limited (ASC)

ASC, as a Group Holding Company of Awba, has a strong market position in vegetable seeds and is diversifying rapidly into maize distribution, and pulse and oilseed seed production.

Business Vision: ASC's vision is to become the first choice seed supplier for farmers and smallholders in Myanmar. Awba's vision is to shape the future of Myanmar's agricultural sector by becoming farmers' first total agricultural solutions provider, of which seeds are an important component.

Business Strategy: ASC' strategy is to create value by offering high-quality seeds to farmers and smallholders alongside complementary farm extension services as well as farm and financial literacy training. Awba's strategy is to provide holistic solutions from agricultural inputs to technologies to enrich and empower rural farming communities in Myanmar.

SFSA started building the knowledge and expertise around Weather Index-based Agricultural Input Insurance (WIAII) by working with two MFIs, Maha Agriculture MFI and Proximity Finance, one primary insurer, Grand Guardian Insurance Public Company Ltd. (GGI), the local re-insurer MI, as well as at the level of the insurance regulator and government policymakers over the past 3 years. Under this project, SFSA planned to build the required in-house WIAI insurance managerial and monitoring capacity at ASC to effectively manage WIAI group insurance policies, as the insurance group policyholder, that are embedded in its different smallholder business models. ASC is a well-positioned market player to launch the first two commercial WIAII schemes in Myanmar without being a financial service provider. It is important to note that distributors play a lead role in managing inclusive insurance value chains by leveraging the business relations they have established with their clients by bringing the insurance business to their underwriters of choice.

Grand Guardian Insurance Public Company Limited (GGI)

GGI was established with the purpose of delivering better insurance products, introduce value-added services, and raise the professionalism of the insurance industry in Myanmar. GGI mainly offers life and health insurance and is ranked second in terms of premium income. GGI is diversifying its business to include agricultural insurance as new business line and thus reach a significant market share (in percentage) as the first mover within the yet to be established agricultural insurance market.

Vision: To build an ideal environment for the growth and protection of wealth and people.

Mission: To deliver better products, value-added services and raise the professionalism in the industry.

Myanma Insurance (MI)

MI is a state-owned insurance organization which was founded in 1952. It started with life insurance and later added general insurance. Currently, MI offers 32 different types of life and non-life insurance products and services. MI has 39 branches in the country with headquarters in Yangon. MI is the largest life insurer in the country. It is in charge of the legal protection of foreign investors.

Vision: To reduce public losses caused by force majeure.

Objectives:

- Protect the public by managing their losses caused due to human errors and natural disasters.
- Protect against social disasters caused by human error.
- Elimination or lowering of public economic losses due to acts of God and/or human beings.

2. INTERVENTION APPROACH

Capacity building needs

The project aimed to launch the very first two to three commercial⁴ weather index-based agricultural (input⁵) insurance (WIAI) schemes covering smallholders who grow different crops in the different regions of Myanmar to kickstart systematic market development in agricultural insurance. It was the second phase of a longer-term market development strategy building on the past 3.5 years of insurance dry-testing combined with awareness and capacity building of all key stakeholders, including the private primary insurers (e.g. Grand Guardian Insurance Public Company Limited (GGI) with life and non-life licences), the public re-insurer Myanma Insurance (MI), the Insurance Business Regulatory Board (IBRB), lending institutions and input producers as potential insurance aggregators and group policy-holders, as well as officials from the Ministries of Finance and Agriculture. Most of the first phase was co-funded by SCBF and SFSA under the feasibility study ([FSW-15](#)), and further work funded by SFSA alone.

The first phase has created the required momentum⁶ where ASC⁷ together with GGI as its underwriter of choice decided to pioneer the first commercial WIAI schemes provided that SFSA would provide technical and complementary risk mitigation support in farm and financial literacy training (as outlined in the [linked FE project](#)). The aim of this 'second phase' of market development was to prove that commercial WIAI schemes for smallholders do work and thereby create a demonstration effect for other market actors to follow.

SFSA conducted multiple WIAI dry runs and collected crop and weather data at various locations in the Delta and Dry Zones over the past 3.5 years. This was mainly done in partnership with Proximity Finance and Maha Agriculture MFI as distributors, and insurers like GGI and MI.

⁴ A commercial insurance scheme means that the premiums are paid by the policyholder without subsidies from government and/or donors.

⁵ Input insurance means that the value of the farm inputs (like seeds, fertilizer, pesticides, land preparation, and labour etc.) - and not the expected yield - is underwritten against specific perils, like drought, flood, and so forth over the entire crop growth cycle or some crop growth phases only. It is important to note that crop yield insurance for smallholders does not work anywhere without substantial premium subsidies from government and/or donors.

⁶ The momentum was triggered by (1) the substantial insurance dry testing experience gained by SFSA and its partners, (2) strong political backing given by the Minister of Agriculture at a national agricultural insurance workshop on 18.11.2018, and (3) the regulatory sandbox approach of IBRB with support of SFSA as its technical adviser.

⁷ ASC is the seed company of Awba Group Holding (www.awba-group.com), a large agricultural input provider with a country-wide network of 2'500 input dealers and 11 companies. Apart from ASC, there are 4 agrochemical, 2 fertilizer, 1 manufacturing, and 2 technology companies, as well as Maha Agriculture MFI.

Main activity areas (goals, targets, resources & time frame) and outputs

Milestones / main activity areas planned and the output achieved:

Main Activity Areas	Outputs / Comments
<p>Completion of the first wet season of ASC's commercial WIAII scheme for around 3,650 pulse seed producing and (2) around 1,500 maize producing smallholders covered against deficit and excess rainfall.</p>	
<ul style="list-style-type: none"> ➤ MOU signed between ASC, GGI and MI to launch the WIAII scheme with seed replanting guarantee product for maize and pulse seed producing smallholders with endorsement by the insurance regulator. ➤ Design of ASC's group insurance policy for around 3,650 pulse seed producing smallholders and around 1,500 maize producers ➤ Import and installation of around 3 to 5 automated weather stations nearby the locations of the targeted smallholders. ➤ Capacity building of ASC and GGI in setting up proper management systems to run and monitor the WIAII scheme with 'smart' KPIs. ➤ Supporting ASC to carry out a responsible marketing campaign for its WIAII scheme, seed production training, and financial literacy training for smallholders including training specifically targeted for rural women with co-funding under the complementary FE proposal. ➤ Close monitoring of the commercial WIAII scheme plus the complementary dry runs to test alternative insurance triggers and coverage. 	<ul style="list-style-type: none"> ➤ Myanma Insurance (MI) was unable to get IBRB approval, therefore, it was not ready to underwrite the risk. ➤ GGI business priorities shifted after their senior management was changed; hence they were not ready to underwrite the risk. ➤ Meanwhile, Global World Insurance Company (GWI) and Alliance Eagles Group (AEG) were ready to scale-up the commercial insurance programme; hence, SFSA supported GWI and AEG in preparing the application for IBRB approval and will implement the commercial programme during 2022 wet season. ➤ SFSA designed the group insurance policy for pulse and sesame growers and implemented the dummy pilot during the 2019 wet season. ➤ Five Automatic Weather Stations were imported. Rainfall data is derived from CHIRPS and is available for all of Myanmar. ➤ SFSA organized a series of face-to-face and online training programmes for ASC, MI, GWI and AEG staff along with other stakeholders. ➤ A series of training programmes were organized by ASC staff for ASC seed distributors and smallholders as a part of the FE trainings. ➤ The product upscaling project was suspended initially due to the Covid-19 pandemic, and the subsequent political unrest.
<p>Other activity areas not directly linked with the commercial WIAII scheme</p>	
<ul style="list-style-type: none"> ➤ SFSA would advise IBRB in developing an agricultural index-based insurance regulatory framework, including the learnings from ASC's two on-going commercial WIAII schemes. ➤ Conduct one dry run and possibly one commercial WIAII scheme with one or two MFIs during the wet season from May to September 2020. In the desirable case of a commercial WIAII scheme, the same main activity areas will apply as for the two schemes of ASC. ➤ Support the Ministry of Agriculture and IBRB to host a workshop in October 2020 on the findings and lessons learnt from ASC's first two commercial WIAII schemes. 	<ul style="list-style-type: none"> ➤ Conducted two steering committee meetings with IBRB and one training session with Myanmar Insurance. ➤ The other objectives were not achieved as the project was suspended due to the Covid-19 pandemic and subsequently the political unrest.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client-level

The roll out of the commercial Weather Index-based Agricultural (Input) Insurance (WIAI) during the 2019 wet season was delayed due to the licensing processes. Hence, SFSA implemented a “Dummy-Pilot Programme” in four Townships to test deficit and excess rainfall risks with 110 sesame and green-gram seed producing smallholders. SFSA was later unable to implement the scale-up of this commercial insurance product as the regulatory approval was not granted, the lockdown measures and restrictions emerging from the Covid-19 pandemic in 2020 and the deteriorating civil situation due to the military coup in February 2021. As no commercial insurance scheme could be launched, no definitive conclusions on client satisfaction, client drop-out, impact on social performance, claim frequency, and financial viability could be drawn.

Partner financial institution(s)-level

ASC's strong market position within the Awba Group's own input dealer network and digital communication channels reached hundreds of thousands of smallholder farmers in the country. Its commitment to creating shared value with smallholders was expected to permit it to disseminate financial information and insurance education using digital tools developed under FEW-20.

SFSA, as the implementing partner, carried out weather-index agricultural insurance (WIAI) dry-runs with several lending institutions and insurers over the past 3.5 years (partly with SCBF support through the [FSW-15](#) project) which enabled awareness-raising and capacity-building of all key stakeholders, including the insurance regulator.

A key supply side constraint was the absence of actuary capacity in the local insurance industry and the high costs to recruit foreign actuaries. As a result, the underwriting of microinsurance policies is still negligible in Myanmar. To overcome some of these challenges, SFSA will continue working with GWI to build their capacity and enable the roll-out of the commercial WIAI scheme during and beyond the 2022 wet season.

4. LESSONS LEARNT

- The main challenge that affected the implementation of this project was the time required to apply for and obtain the approval from the public-sector insurance regulator, and that no private sector insurers were ready to invest in developing the agricultural insurance market in the country. This aspect probably had a negative impact on ASC's motivation to invest further in organizing insurance product campaign, marketing and scale-up.
- The COVID-19 pandemic lockdown measures prevented international experts from travelling to undertake the capacity building and awareness-raising activities required to gain the stakeholders' confidence on the products, which was necessary for obtaining the regulatory approval.
- The ongoing internal political conflict in Myanmar made it impossible to complete the financial and insurance education initiatives and reach low-income populations and smallholders with insurance products.