IMPLEMENTATION OF INDEMNITY-BASED RICE CROP INSURANCE IN INDONESIA

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Presentation on “International Seminar on Implementing and Improving Crop Natural Disaster Insurance Program”
Jeonju, Korea, June 13-17, 2016
Organization of Presentation

- Introduction
- Agricultural protection and farm management
- Policy initiatives on crop insurance
- Indemnity-based rice crop insurance
- Lesson learned from the pilot study
- Closing remarks and way forward
Introduction (1)

- Agricultural development has instrumental and strategic role in the overall national economy
- Food security program: Availability, accessibility, and affordability
- Food production and productivity issue is increasing in importance: world population growth, influence of global market economy, and dramatic effect of climate change
Introduction (2)

- Food security is one of the national economic development priorities in Indonesia.
- Food production and productivity is improving through programs towards self-sufficiency in corn, soybean, sugar, and beef while keeping the sustainability of self-sufficiency in rice.
- Rice production growth is critical due to agricultural risks → farm damage and harvesting failure.
Main questions:
- How agricultural risks are responded?
- To what extend does the rice crop insurance application protect farmer’s interests and improve farmer’s income?

- Global climate change
- Agricultural risks: farm damage, harvest failure

Farm field activities
- Farmer’s protection and empowerment
- Rice crop insurance application
Agricultural protection and farm management

- MoA’s four main targets are to:
  1. Achieve sustainable self-sufficiency,
  2. Improve food diversification,
  3. Increase added value, competitive advantage, and export,
  4. Enhance farmer’s welfare

- Importance of agricultural insurance:
  Crop insurance is introduced to protect farmers from farm damage/harvest failure, to provide working capital, and to improve farm performance: rice crop insurance
Agricultural protection and farm management (2)

Crop protection:

- Crop farms always threatened by risks and uncertainty (impact of global climate change)

- Adoption of innovation and new technology; adapt to climate change

Farm management:

Farmers are strongly encouraged to practice good farm management $\rightarrow$ GAP for specific locations
Insurance in agricultural development:

Crop insurance is risk share economic concept, a new financial scheme, and is applied to protect farmers from great loss due to natural disasters (global climate change) and other farm risks.

Farmers obtain benefits when they experience farm damages → avoid high interest rate loan from money/capital lenders.

Indonesia: The issuance of Law No. 19/2013 on Farmer’s Protection and Empowerment is the legal support to apply agricultural/rice crop insurance.
Policy initiatives on crop insurance (2)

Target in insurance-based agricultural development program:

- Protect farmers from farm income losses
- Educate farmers to improve farm management
- Contribute farm production to national stock (rice), open job opportunity, and allow regional economic movement through private sector
- Encourage insurance companies to play significant role in serving the farmers while the government facilitate the programs → PPP compliance
Policy initiatives on crop insurance (3)

Rice Crop Insurance Application Strategy
Three-way Coordination Approach: PPP

Public sector (Government/regulator/facilitator)

Rice Crop Insurance (PPP/Partnership network)

Insurance company (Private sector)

Farmers/farmer’s group (Rice farm)
Indemnity-based rice crop insurance (1)

- Rice crop insurance in Indonesia: Pilot studies applying indemnity-based scheme
- First pilot was completed during the first planting season: Oct/Nov 2012 to Feb/Mar 2013 (623 ha); Second pilot: Dec 2013-Mar 2014 (2,970 ha); and Third pilot: Oct. 2015-March 2016 (233,499.55 ha)
- General insurance companies (state-owned company) are participating in the implementation
Indemnity-based rice crop insurance (3)

Ministry of Agriculture
Directorate General of Agricultural Infrastructure

Office of Agriculture (Provinces)

Office of Agriculture (Regencies)

Sub-district/Village Officers

Farmers/Farmer’s Groups (The Insured)

Insurance Companies (Risk Bearer)

Insurance Agents

Budget Allocation for Premium Subsidy

Premium Subsidy

Premium paid by farmers

Insurance Policy

Insurance Claim

Socialization, risk identification & loss inspection

ICASEPS, Ministry of Agriculture
Indemnity-based rice crop insurance (4)

Criteria of participants:
- Member of farmer’s group with active management administration and adhere to GAP as directed by local Agriculture Office
- Comply with terms and conditions of insurance contract

Criteria of locations:
- Irrigated rice farm (sawah land) with clear boundaries
- Area not more than 2 ha, irrespective of location split
Indemnity-based rice crop insurance (5)

**Risks covered.**
- Specific perils, namely (a) flood, (b) drought, and (c) named pests and diseases (5 each)

**Premium tariff.**
- Offered to insurers at 3% of the total cost of production (IDR 6 m/ha or USD 500)
Indemnity-based rice crop insurance (6)

**Premium payment support:**
- Premium rate is USD 15/ha/planting season
- Government support (80% premium payment as subsidy or USD 12/ha); the farmers only pay 20% (USD 3/ha)

**Claim determination and payment:**
- Loss claimable: (a) the damage “intensity” reached level of 75% or above, and (b) the “extent” of damage reaches minimum 75% of total acreage
- Insurers will settle the claim by way of an inter-bank transfer within 14 days from the confirmation date
### Indemnity Illustration

<table>
<thead>
<tr>
<th>Farmer (with 1 Ha)</th>
<th>Damage intensity</th>
<th>Damage area</th>
<th>Stage of planting</th>
<th>Indemnity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>25%</td>
<td>25%</td>
<td>Within 10 day planting</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>50%</td>
<td>Within 10 day planting</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>75%</td>
<td>75%</td>
<td>Within 10 day planting</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>25%</td>
<td>25%</td>
<td>After 10 day planting</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>50%</td>
<td>After 10 day planting</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>75%</td>
<td>75%</td>
<td>After 10 day planting</td>
<td>IDR 6,000,000,-</td>
</tr>
</tbody>
</table>
Lesson learned from the pilot study (1)

East Java Province:

<table>
<thead>
<tr>
<th>Response and Perception</th>
<th>Experience in adoption and problems</th>
<th>Anticipation and Prospect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers, officials, and operator are full of spirit and excited to participate in the scheme</td>
<td>Miscommunication occurred due to imbalance of knowledge about rice crop insurance issues – slow adoption process</td>
<td>Farmers anticipate the agreement/insurance policy to their favor to cover the farm damage instead of only cover harvesting failure; claim process is expected to be simple, faster, and accurate</td>
</tr>
<tr>
<td>Positive perception about agricultural/crop insurance</td>
<td>Lack of socialization about rice crop insurance leading to poor coordination among the actors</td>
<td>Rice crop insurance scheme has positive prospect of expansion and development</td>
</tr>
</tbody>
</table>
Lesson learned from the pilot study (2)

South Sumatera Province:

<table>
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<th>Response and Perception</th>
<th>Experience in adoption and problems</th>
<th>Anticipation and Prospect</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Farmers, officials, and operator are enthusiastic to take part in the scheme</td>
<td>- No constraint for farmers to implement and coordinate with related institutions; however, there is gap between institutions with lack of coordination among the representatives</td>
<td>- Farmers expect to include farm damage (during the cropping period) in the insurance policy; farmers also need to simplify claim procedure and faster process in closing the insurance claim</td>
</tr>
<tr>
<td>- Positive perception on agricultural/crop insurance scheme and require intensive socialization with necessary adjustment on field condition</td>
<td>- Farmers need guide books for reference in the implementation of rice crop insurance scheme; these references are important for adaptive treatment of the scheme and for wider adoption</td>
<td>- The agricultural insurance scheme would be best applied in other commodities in different agro-ecosystems with the harmonious relation of stakeholders</td>
</tr>
</tbody>
</table>
Lesson learned from the pilot study (3)

- Rice crop insurance is working with intensive communication, cooperation and coordination among the stakeholders → PPP scheme is applicable

- Government intervention is necessary during the introduction of rice crop insurance scheme
  
  *(premium support, inputs availability at local level, and farm management)*

- Government role in such scheme would be gradually reduced to allow close cooperation between the private sectors (risk bearers) and the farmers (the insured)
Closing remarks and way forward (1)

- Government policies to maintain food security is expressed through several applied programs and activities.
- Agricultural/crop insurance is considered as a way to protect farmers from huge losses due to the negative impact of global warming.
- As one of programs in favor of the farmers, indemnity-based rice crop insurance is highly accepted and adopted.
Conclusions and way forward (2)

- Principles of PPP are applied in rice crop insurance scheme → strategic contribution of PPP to agricultural development
- Sharing experience and ideas and exchange of information and knowledge to improve agricultural insurance models (for different commodities) should provide more agricultural insurance options for farmers
THANK YOU