

## Summary

### Microinsurance Conference 2008

**5–7 November 2008,**  
Centro De Convenciones y Exposiciones  
**Cartagena, Colombia**



#### Session 6 – Capacity building for financial literacy

**Steve Boucher**, University of California – Davis, USA

*An educational outreach strategy for area yield insurance: Lessons from a pilot program in peru*

In July 2008, a pilot micro-insurance product will be offered to cotton farmers in Pisco, Peru. Our presentation will describe an educational strategy to teach farmers about this product, which provides area-yield insurance linked to working capital loans (typically under \$1,500). The product is the outcome of a unique collaboration between the research, microfinance and insurance communities. The initial product was developed by researchers from the University of Wisconsin and the Instituto de Estudios Peruanos. The insurance is provided by a Peruvian insurance company, La Positiva. Finally, the product is delivered by the Caja Rural Señor de Luren, a local micro-finance institution based in Pisco.

Farmers' lack of experience with formal insurance products represents a significant obstacle impeding the development of agricultural insurance markets in developing countries. Peru is no exception. Cotton farmers, who typically manage less than 5 hectares of land, face significant yield risk driven by weather fluctuations and pest infestations. In spite of this risk, they have never had access to crop insurance.

Successful and sustainable introduction of crop insurance in this environment hinges on clearly communicating the nature of the insurance; including both its benefits and costs. Lack of understanding creates two potential pitfalls. On one hand, farmers that are unfamiliar with insurance may not make the effort to explore the benefits; resulting in low demand for the product. On the other hand, the presence of basis risk raises the possibility that an insured farmer who experiences low individual yields expects an indemnity payment even though average valley yields are above the strike-point. This type of misunderstanding could potentially lead to conflict, a bad reputation for the insurance product and collapse of demand.

To address this issue, we have designed an educational and outreach strategy that will ensure that farmers take their decision to purchase (or not) based on a clear understanding of the insurance product. Our strategy draws on the approach of experimental economics. During May and June of 2008, we will carry out a series of marketing and outreach sessions throughout the Pisco Valley. The sessions consist of two parts. First, farmers participate in experimental “games” that introduce them to area yield insurance and simulate their decisions to either purchase or not purchase insurance. By seeing the

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implications of their insurance decision over a series of game rounds (or “seasons”), farmers gain first-hand experience about the costs and benefits of insurance. The second part of the session will consist of a detailed discussion of the insurance product and an ensuing question and answer session.

Our presentation at the conference will provide:

- 1) A description of the insurance product;
- 2) A detailed discussion of the educational methodology and;
- 3) A discussion of the results of the games.

**Key messages:**

- 1) Area yield insurance is a viable means to reduce risk and strengthen rural credit markets in developing countries.
- 2) An extensive educational campaign is crucial for the successful and sustainable introduction of area yield insurance.
- 3) Experimental games are an effective mechanism to teach farmers about the costs and benefits of area yield insurance.

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