

Weather Index Insurance

The weather is unreliable. It impacts agricultural production in many ways. Poor yields and crop damage due to adverse weather can lead to lower revenues for farmers.

This can lead to difficulty in paying back loans and meeting household expenses.

Weather Index Insurance is a new tool for farmers to protect themselves and their lenders against the financial impact of bad weather.

What Is Weather Insurance?

- It is a new type of insurance that covers crop production losses caused by adverse weather.
- Adverse weather can be caused by deficit rain, excess rain, excessively low or high temperature, high wind speeds or other weather parameters used to identify weather risks
- It measures changes of specific weather features, such as rainfall amounts received at the nearest weather station, rather than changes in a yield on a farmer's field.
- It does NOT cover losses related to: pests, diseases or poor farm management.

How Does Weather Index Insurance Work?

- Weather Index Insurance is sold as part of a loan package and payouts from the insurance automatically contribute to paying off the loan.
- A weather variable (such as rainfall) is measured throughout the season at the farmer's nearest weather station.
- Weather Index Insurance is tailored to meet specific risks identified by a group of farmers. If there is particular concern about drought, an index covering deficit rainfall can be created. If the concern is about flooding or excess rain during certain critical periods, the index can be created to cover excess rain.
- The insurance payout amount is calculated using a transparent formula based on independently measured weather data that is specified in the insurance contract and can be determined and checked easily and quickly.
- The more extreme the weather compared to historical averages, the larger the payout and more of the loan is paid down.
- To get Weather Index Insurance, the farmer must pay a premium to the insurance company:
 - Premiums are included as part of the loan package.
 - Premiums are not refundable if there is no payout.
 - No matter what happens, the farmer must always repay his or her loan fully if the insurance does not pay out the full amount.

Why You Should Consider Buying Weather Insurance?

- All farmers know that the weather is unpredictable which creates risk for farmers, their sponsors, agri-businesses and banks.
- If it does not rain yields can drop resulting in losses and making it difficult to repay loans.
- Weather insurance is a new insurance product designed to help repay loans in times of unreliable weather. It will help provide access to credit again the next year.



Frequently Asked Questions

1. How will the farmer know the payout amount?

Payouts are calculated by taking the amount of rainfall measured at your local weather station and applying the insurance payout formula in the contract terms and conditions.

If a payout is due money will be automatically transferred within 45 days to the farmer's bank and their loan amount will be reduced by the amount of payout. The farmer can request the rainfall data from his bank or sponsor and can calculate the payout, or ask his bank or sponsor to do so.

2. How is weather stress defined?

This insurance looks at the cause of loss and not the loss itself. Weather stress is NOT defined by what happens in a farmer's field and the condition of his crop. Instead it is determined by the weather (rainfall) at the nearest weather station and comparing this to the conditions specified in the insurance contract. Measurements are taken at the weather station because making this measurement is not possible on each individual farmer's plot. It is assumed that the weather received at the station is similar to the rainfall received on the farmer's plot. Though the weather will not always be exactly the same, it is assumed that farms within approximately 20 km of the station will be affected in a similar way.

3. If there is no insurance payout can a farmer get back the premiums paid?

No, premiums are non refundable. Once the premium is paid, it cannot be returned.

4. Is it possible for a farmer to suffer a loss and yet not benefit from the insurance?

Yes, this is possible if the weather at the farmer's field is different than that at the local weather station. For example, if rainfall at the weather station was normal but the rainfall at a farmer's field was severe, a farmer would receive no payout. This can also work the other way around – the weather station can have worse weather than the farmer, in which case the farmer get a payout/ A farmer can also suffer a loss that is not related to deficit rainfall, which are not covered by the insurance contract.

5. Who is Eligible For Weather Index Insurance?

If you are: a) a farmer who is a member of a club which is part of an association participating in the insurance program; b) you have a production loan, and c) you live within 20 km of the nearest weather station, you may be eligible for weather insurance. Please contact your bank or sponsor to find out more.

Things to Keep in Mind

- Payouts are based on weather at the local weather station not the farm
- If rainfall is different at the farm than at the weather station the farmer may not receive a payout
- This can be a problem since at times rainfall variability, even within short distances, is high.
- There is a cost, since premiums are due in advance and are non-refundable
- Weather insurance only covers losses related to a specific weather index such as excess or deficit rainfall, other non-weather risks like pests and diseases are not covered

Key Product Benefits

- The weather is easy to observe and provides an objective trigger for the insurance payout.
- Payouts are calculated automatically and offset against their loan – there are no claims to file.
- Payouts come quickly to provide compensation when you need it
- Weather insurance can improve sustainability of crop production by giving access to credit
- Financiers are more willing to offer credit because with weather index insurance their risk has reduced.
- Because the product is part of the loan, it can be paid off quickly lowering the total interest paid

If you are interested in weather insurance and would like to know more please contact your local bank or any of the following:

Sonarwa Insurance Company

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