

UNCTAD/UNDP SEMINAR ON AGRICULTURAL INSURANCE

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GENERAL FRAMEWORK FOR  
AGRICULTURAL INSURANCE IN SRI LANKA

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A characteristic feature of peasant agriculture in Sri Lanka is the small sized holdings which afford a near subsistence income to the farmers. Until recently, the farmers without savings and adequate facilities for institutional credit were, by and large, compelled to obtain credit at inordinately high interest rates, commit their future produce to village money lenders at extremely low prices or even mortgage their farm land. The inevitable result of this was indifferent or disorganized methods of cultivation, lower net prices for output and greater indebtedness.

The situation was aggravated by the ever present risk of crop failure which can, in the normal course of events, arise from natural hazards like -

1. Drought.
2. Lack of water.
3. Floods.
4. Excess of water.
5. ~~Plant diseases.~~
6. Pests.
7. Damage by wild animals.

In this context, with a view to alleviating the position of the farmer, the Government of Sri Lanka enacted the Agricultural Insurance Law No. 27 of 1973, which replaced the then existing Crop Insurance Scheme which had been run on a pilot basis since 1958.

#### Policy

The revised insurance scheme was planned to be implemented in 3 phases, namely -

- (a) Insurance of paddy crop in the entire island.
- (b) Insurance of livestock, and selected subsidiary food crops and
- (c) Insurance of non-traditional export crops.

The objective of the scheme was to indemnify the farmer against loss, so as to stabilise farm incomes thereby promoting agricultural production, and also to undertake research for the promotion and development of Agricultural Insurance.

#### Financing the Scheme

The scheme is envisaged as a partially subsidised venture, the administration costs being borne by the State.

Although paddy insurance is compulsory under section 11 of the Agricultural Insurance Law, this is not enforced so that in effect insurance remains voluntary, participation by farmers has ranged from 10% to 45%.

Participation reaches satisfactory levels according as it is linked with institutional loans.

With a view to increasing participation of farmers, a proposal for providing a no-claim bonus to insureds who do not lodge claims for a given period is under consideration.

### Premium Rates and Coverages

The premium per acre is fixed on the basis of average yields and damage rates in different localities. The premia should be paid once every season (Maha and Yala) to the cultivation officer or any other authorised person or institution if not recovered by the Banks from cultivation loans. The premium rate charged is low when compared to the actual risk, being only a percentage of the real premium.

The rates of premia are in operation for paddy insurance.

- (a) A higher premium rate and hence a higher coverage in conformity with the scales of finance of the lending institutions which is obligatory on farmers who take agricultural credit.
- (b) A lower premium rate and lower coverage level offered as an option to those farmers who do not take agricultural credit, and who prefer a lower coverage.

The scales of finance referred to at (a) above have a direct relationship with the inputs needed by a farmer for his agricultural operations.

Under (a) the coverage per acre is decided by the Board on the basis of the standard yield value and on the scales of finance of the lending institutions.

Under (b) the coverage level is decided on the basis of the option exercised by the farmers.

However, the Agricultural Insurance Law provides for the exclusion of any area or extent of land where the risk of loss is considered excessive.

### Administration at Field Level

Under the present agricultural insurance scheme farmers are grouped within established geographical boundaries by the Agricultural Services Centre areas. All producers within this area receive the same production guarantees. Because producers could have different yields, some guarantees are either too high or too low.

Be that as it may, the fixing and operation of individual premia and coverages would involve a larger organization than is available at present.

Officers of the Board stationed in each of the 24 administrative districts of the island determine the appropriate dates for sowing in consultation with the District Agricultural Committees set up under the Chairmanship of the G.A.A. Government Agents, i.e. Chief Executive officers of the District, prescribe dates for payment of premia and for lodging claims. They also co-ordinate the collection of premia and process the Loss Notification Registers on which indemnities are paid.

Further, the Agricultural Insurance Board, in pursuance of its power to enter into joint schemes with other government departments or corporations, has come to an arrangement with Agricultural Services Centres (A.S.C.C.) and cultivation officers of the Agrarian Services Department, to exercise certain functions in regard to the administration of the scheme at field level.

The link between the scheme and the farmer is the cultivation officer, who acts as a source of information and guidance to the farmer, and also handles periodic collection of premia. As the local agent of the Board, the A.S.C. deposits the premia collection in the banks, provides facilities for reporting damages, sends periodic reports and handles disbursement of indemnities.

Unlike in certain other countries the method prevalent here provides for dealings with the farmer on an individual basis and not through co-operatives or other farmers' associations. This method, however, is not without its advantages in that all dealings take place directly with the farmers.

#### Loss Notifications

If there occurs any damage to a paddy crop in an insured field due to any of the specified causes, the insured person should provide notification

of the damage within seven days of the occurrence of such loss, to the agent appointed by the Board and an entry should be made in the loss notification register.

#### Loss Assessment

Loss assessment is done about two weeks before harvest by the loss adjusting officers by means of 'eye estimation' for which our officers are trained. Based on the percentage of loss thus arrived at, indemnity is calculated. Adequate trained staff and their mobility are essential factors in the prompt and efficient discharge of this all important function.

#### Award of the Indemnity

The amount of the indemnity payable in respect of the loss of paddy crop is paid to the farmer through the agent of the Board. Any sum due to an approved credit agency which has granted loans to the insured is paid direct to such agency and the balance, is paid to the farmer. If the insured dies before receiving his indemnity it will be paid to court. The progressive decentralisation of indemnity payments is now being put into effect in four of the administrative regions into which the island is divided by the Board to ensure the speedy settlement of claims.

#### Appeals Against Rejected Claims

If a claim to indemnity made by an insured farmer is rejected by the Board, or when the insured is dissatisfied with the amount of indemnity awarded, the insured person can make a written appeal to the Board, within 30 days of the notification of the rejection or payment of indemnity. The Board's decision on any appeal is final and will not be called in question in any court.

#### Insurance of Livestock

(a) The Board has provided for voluntary insurance schemes in respect of the following:

- (i) Cattle imported by the I.D.A. Dairy Development Programme.
- (ii) Cattle supplied to estate employees for Dairy Development in Nuwara Eliya district by the Ministry of Rural Industrial Development in collaboration with the Bank of Ceylon.

(b) At the request of the Agricultural Development Authority, the Agricultural Insurance Board has agreed to extend insurance cover to poultry to be operated in selected farms.

Cotton and Subsidiary Crops

Investigations are on hand in regard to the above crops with a view to bringing them under the Agricultural Insurance Scheme in due course. With the progress of the Mahaweli and other large scale projects, the Integrated Schemes of agricultural development in the Kurunegala and Matara districts, and the proliferation of other agricultural schemes throughout Sri Lanka, insurance of paddy and subsidiary crops is bound to acquire even greater importance.

In conclusion, the Agricultural Insurance Board of Sri Lanka welcomes the opportunity afforded to it by UNCTAD/UNDP of providing a forum for the exchange of ideas, views and experiences among chosen representatives in this field from various countries who are concerned with the vital problems connected with Agricultural Insurance in pursuance of their objectives of promoting economic and social advancement amongst the agricultural populations of the world.