

Banks, Insurance Firms to Launch Crop Loan Insurance Scheme from *Rabi* Season

A meeting of the State Bank of Pakistan's Task Force on Crop Loan Insurance Framework today agreed to launch crop loan insurance scheme for farmers throughout the country from coming *Rabi* crop season.

The Task Force meeting, chaired by Dr Shamshad Akhtar, Governor State Bank of Pakistan, held at SBP, Karachi was apprised that the insurance companies and banks have shown their willingness to start the scheme.

The Task Force constituted by the Governor SBP last year under the Chairmanship of, President Habib Bank Ltd., was assigned to develop a commercially viable and sustainable Crop Loan Insurance Scheme with the help of all stakeholders to mitigate the risk of losses occurring to agricultural borrowers due to natural calamities and risks of defaults to banks by such borrowers.

Dr Akhtar said that since major commercial banks and insurance companies have developed their crop insurance programs/products based on the framework developed by SBP Task Force and some of these have already come to the market, therefore, the objective of the Task Force to develop a commercially viable and sustainable Crop Loan Insurance Scheme (CLIS) that can be adopted by the market players has been accomplished.

"It is hoped that the scheme will not only facilitate the banks in expanding their outreach of agricultural credit but will also reduce burden on the national exchequer," Dr Akhtar added.

During the meeting, the Chairman of Task Force, President HBL Mr. Zakir Mahmood, explained that development of a market-based system was a challenge particularly in the backdrop of many unsuccessful moves made in the past two decades. Therefore, the Task Force adopted a strategy to review the lessons of international best practices, he said and added many data series were compiled by SBP on calamities announcements, crop wise, & district wise loan disbursements, size of production loans, data on write-offs & NPLs and other seasonal analysis. The insurance companies also shared the database with the reinsurers abroad and after detailed deliberations a workable, viable and market-based framework has been formulated.

He pointed out that the proposed framework is based on common denominators acceptable to leading insurance companies and banks. The scheme would provide cover to the borrowers against their losses due to natural calamities up to the amount of outstanding loan and mark up thereon. The insurance companies will charge a maximum of 2% premium for all major field crops and the risk is covered against excessive rains, hail, frost, flood, drought, and crop related diseases like viral and bacterial attacks or damage by locusts. The scheme will be mandatory for the borrowers of the banks.

The representatives of the insurance companies said that after successful implementation, the insurance cover will also be extended to the non-borrowing farmers. Governor SBP, while thanking the private insurance companies, appreciated the role of the

Task Force that has provided a pure commercial and viable solution of crop loan insurance. Dr Akhtar emphasized on the development of a comprehensive data base of the experience of insurance companies and banks for reviewing the issues and remodeling of the framework periodically. This Task Force would be called upon to review the developments after some experience has gained on implementation of the crop loan insurance scheme.
