Investigation of Factors Affecting Agricultural Insurance Demand in Sri Lanka

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Introduction

Sri Lanka, like most of the countries in the Asian region has an agricultural economy and plays an important role in the nation's economy and social development. Though we had the self-sufficient economy in the past, today in most of the time the development of the country depends upon the commercial agriculture. It has become the backbone of the development of our country. Thus, central bank annual report has proved the contribution of Agriculture to Sri Lankan Gross Domestic Product (GDP)in 11.9% and source of employment for more than 32% of the Sri Lankan population (Central bank Annual Report, 2010).

In that context, as a developing country, Agriculture has gained the most prominent position in Sri Lanka. However, annual losses in Agricultural sector are huge in Sri Lanka due to unexpected bad weather, adverse prices of agricultural production, damages from insects and other various diseases. If the farmers come across with huge losses, they are helpless and always looking for a financial assistant from an external party.

All over the world, the use of Agricultural Insurance as a risk management tool has grown rapidly in recent years (Munich Re, 2009).In most of the countries, this kind of insurance policy was introduced almost four decades ago. In Sri Lanka, even though we have a great history,Agricultural Insurance is still not so popular (Poverty Portal Report,2010). Therefore, this research aims at an investigation of factors affecting the demand of agricultural insurance in Sri Lanka.

Methodology

The study adopts a quantitative technique based on primary data sampled 150 farmers in Ampara, Anuradhapura and Kurunegala districts. Sample was selected using stratified sample technique.Further data was collected from the sample farmers through questionnaires. The researcher used two questionnaires for policy holders and non-policy holders.

Factors affecting agricultural demand in Sri Lanka are analyzed using descriptive statistic, considering the agricultural insurance purchase as the dependent variable. Independent variables are premium flexibility, income level, land Extent, land owner ship, Expenditure, loss, Age, Knowledge, education and Expectation. Some variables are measured on five point Likert scales

Results and Discussion

Out of 150 farmers 40 farmers have Agricultural insurance policy and 110 farmers do not have agricultural insurance policy. Socio-economic characteristics of insured and non-insured famers are presented in table 4.1. The average age of the farmers was 40-45 and most of them have educated up to middle level of education. Age and Level of education, did not show any significant difference between policy holders and non-policy holders. Average land extends and expenditure of the policy holders was much higher than the average Land extend and expenditure of the non-policy holders. However, the difference was not statistically significant up to 10 percent level. Land ownership and average income level are statistically significant at 5 percent level.

Table 1: Socio- economic characteristics of the sample farmers

Variables	Policy Holders (40)		Non Policy Holders (110)		Mean Difference		Significance
	Mean	S.D	Mean	S.D		P	
Age (No of Years)	47.23	8.79	44.61	7.88	2.61591	0.103	NS
Education(No of Years)	11.03	1.1	10.95	1.26	0.070455	0.739	NS
Land Extend (Acres)	1.74	1.07	1.605	0.852	0.132955	0.481	NS
Income level	228750	91908	180000	68134	48750	0.003	**
Expenditure	91250	46530	88182	33474	3068.18	0.38	NS
Land Ownership	1.1	0.304	1.245	0.432	-0.145455	0.024	**

Note: ** Significant at 5 percent level, NS: Not Significant

Univariant analysis of other variables of policy holders' Knowledge, Premium flexibility and expectation are significantly affect the Agricultural insurance with the covariance 0.21, 0.08, 0.14, respectively.

Conclusion

Most of the Sri Lankan Farmers are willing to buy a Agricultural Insurance products. Premium flexibility, income, expectation, Land ownership and Knowledge are significantly affected the Agricultural insurance purchasing. This paper identified the factors those are most influential to farmers' Agricultural insurance purchasing decisions in Sri Lanka.

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