It’s a matter of faith: the role of trust in agricultural insurance
This blog is the first in a series that explores agricultural insurance insights in Nigeria in partnership with PULA, a global insurtech that provides agricultural insurance to farmers. The insights summarised in this blog series are also detailed in a research report that will be discussed during a webinar in early 2021.

Busara and Pula are conducting experimental research to better identify the behavioural mechanisms that affect the uptake of insurance among smallholder farmers in Nigeria. In this first blog, we explore the concept of trust. Trust is an important psychological mechanism throughout the customer journey for insurance uptake, from trust in the process of registering for insurance and in the organisation offering insurance, to trust that the insurance company will pay-out in the event of a shock. By conducting experiments to measure trust in a spectrum of actors and in the concept of insurance itself, we hope to contribute to the design of interventions that might transform the insurance market in Nigeria.

We conducted qualitative and quantitative research with more than 750 farmers. We conducted in-depth interviews and ran behavioural experiments with farmers to test different factors that may impact insurance uptake. Due to COVID-19, all experiments were done over the phone, with farmers randomised into different conditions and provided with verbal descriptions of scenarios to which they had to respond.

**Do farmers trust the concept of insurance?**

Many of the 40 farmers with whom we conducted in-depth interviews, expressed skepticism and concerns about insurance. The distrust was often about not receiving a pay-out in the event of a loss, and a lack of understanding about insurance.

“The main concern is after doing it (getting insurance), and you incur losses and you don’t see anyone to tell you ok your farm has been insured”.

Farmers reported that they would be more likely to trust in insurance if communication and explanations about it were clear.

“If they can have a seminar with us, tell us more about the company, explain to us what insurance is and what it does so we can have more knowledge about it because now we don’t have any knowledge.”
Not understanding the conditions of when you should, and should not receive a pay-out, likely fosters the confusion and distrust reported by farmers about not receiving a pay-out. The importance of explanation in building trust in insurance is supported by the fact that farmers were more likely to want insurance if they understood it. In one experiment, farmers who could correctly answer a comprehension question about insurance (62% of our sample) were willing to pay 3% more for inputs with insurance than inputs alone. However, farmers who could not answer the comprehension question correctly were willing to pay 14% LESS for inputs with insurance.

**What organisations do farmers trust?**

We sought to supplement farmers’ needs for explanation about insurance, with information about who was more likely to be successful in delivering this information. We were interested to know how much farmers trust different organisations that might be associated with agricultural insurance. We provided farmers with a virtual pot of money and asked them to verbally allocate money to the government, local farming associations, private farming companies, private banks and the Bank of Agriculture.

The farmers were informed that each organisation had pledged that they would double however much was given to them and pay it to the farmer. They ranked the organisations from that which they would give the most to, to that which they would give the least to.

### Allocation of money to organizations

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<tr>
<th></th>
<th>Most</th>
<th>Least</th>
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<tbody>
<tr>
<td>Private Business</td>
<td>22%</td>
<td>6%</td>
</tr>
<tr>
<td>Local Farming Association</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>Government</td>
<td>4%</td>
<td>25%</td>
</tr>
<tr>
<td>General Bank</td>
<td>55%</td>
<td>6%</td>
</tr>
<tr>
<td>Bank of Agriculture</td>
<td>4%</td>
<td>0%</td>
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Farmers trusted farming associations the most with their money: 55% of respondents chose to give the most money to farming associations. Accordingly, in another experiment, we tested the impact of endorsement by a farming association on farmers’ attitude towards insurance. Consistent with the first experiment, we found that male farmers were more likely to recommend insurance to a friend if it was endorsed by a farming association: 73% would recommend endorsed insurance as compared to 55% if the insurance was not explicitly endorsed by anyone. However, endorsement made female farmers less likely to recommend it (53% compared to 69%). We did not find gender differences in the first experiment (females were as likely as males to allocate the most money to farming associations), so it would seem that, although female farmers trust farming associations more than the other organisations, this is relative, and not absolute. Farming associations may therefore not be the best channel for fostering trust in insurance amongst female farmers.

So how might we improve insurance uptake?

Farmers reported that they would trust insurance if there was clear communication as to what the product is and who is offering it. We also found that farmers trust farming associations on the whole more than a range of other potential institutional providers. Using farming associations to communicate the process of acquiring insurance and making claims may therefore improve trust and increase uptake of the product. This may, however, only apply to male farmers. For female farmers, more research needs to be done as to trusted organisations, to ensure a targeted communication approach which builds trust amongst this segment.