

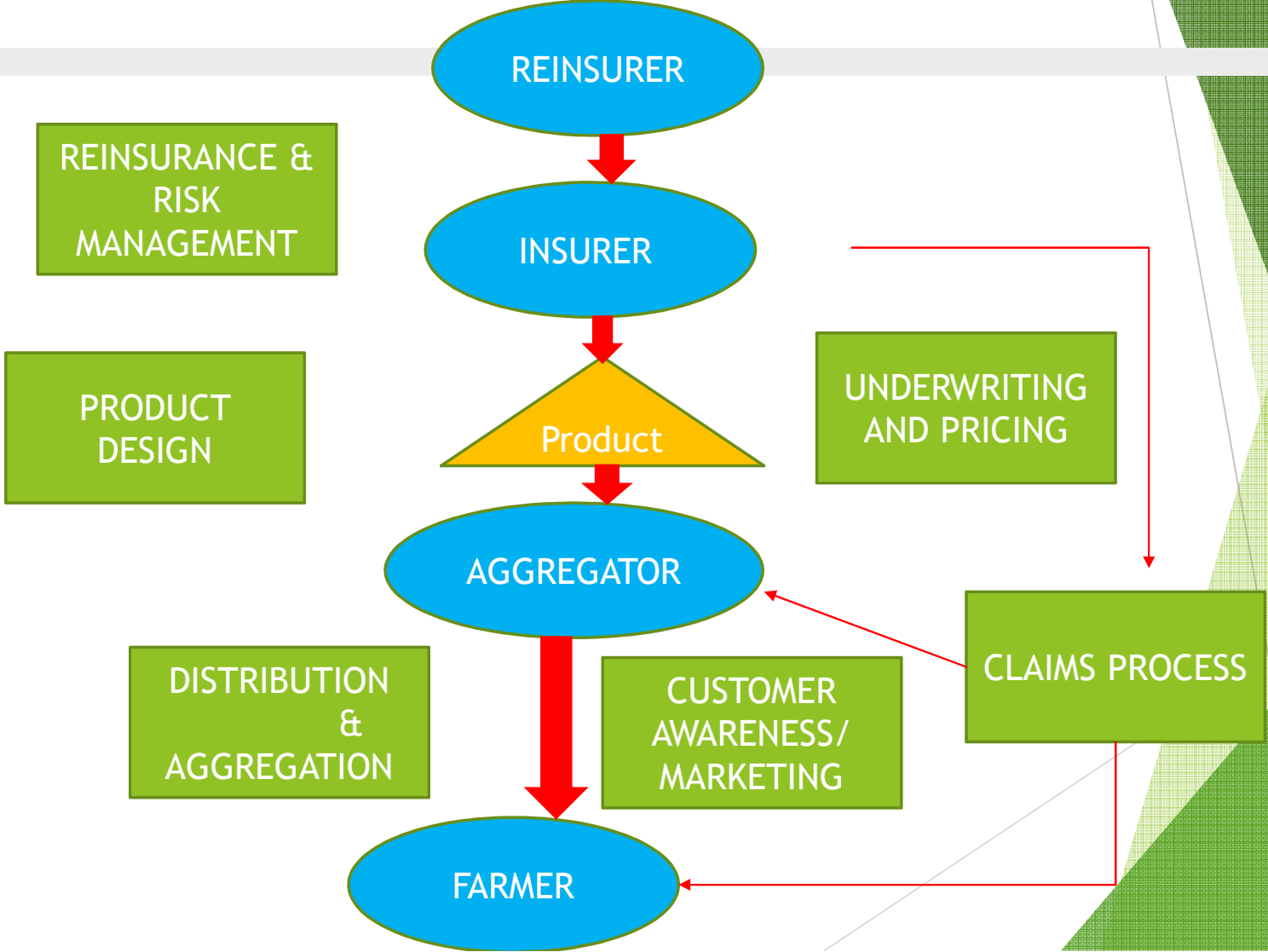


RISKSHIELD

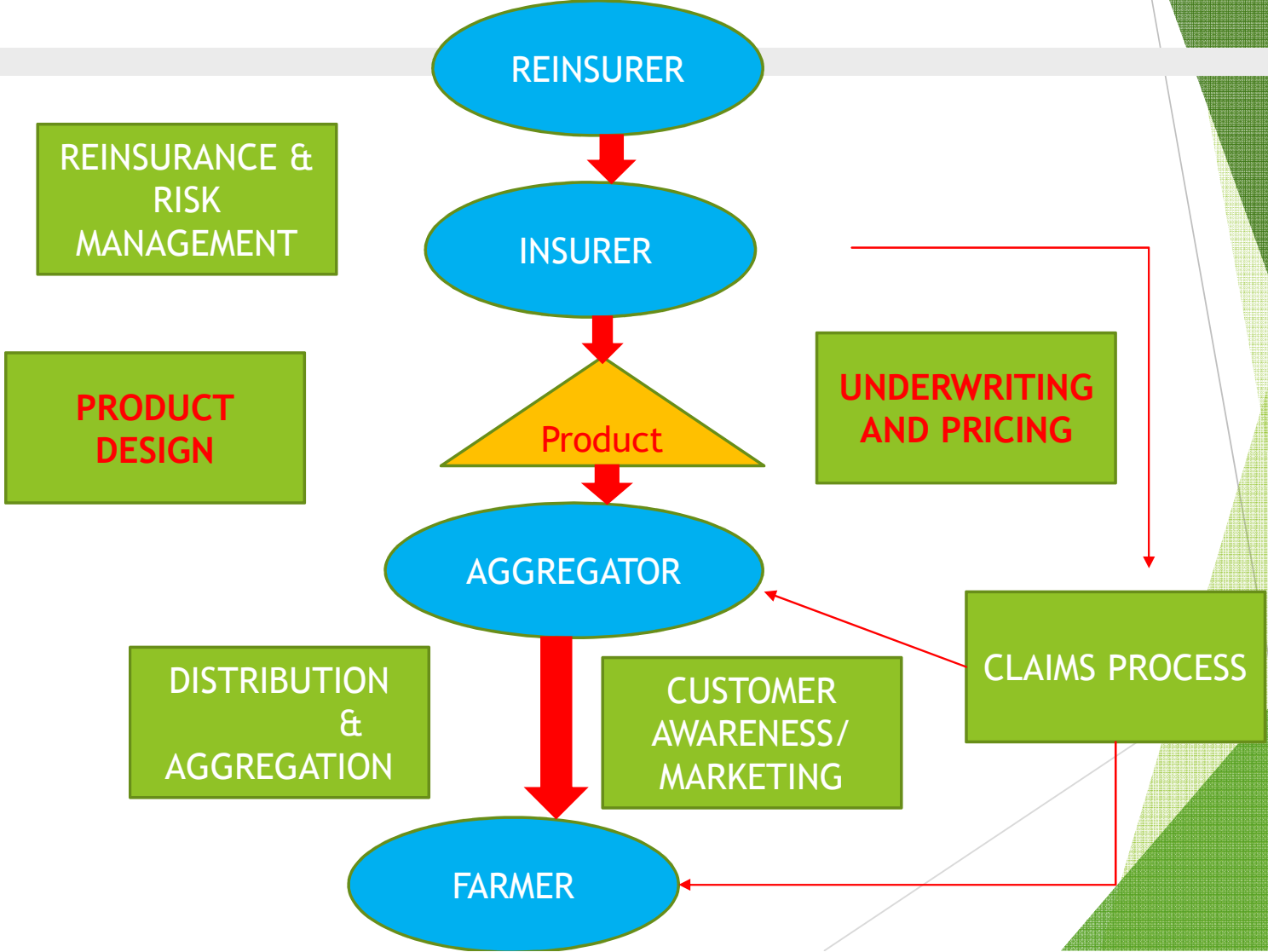
Preparing and assessing an agriculture index insurance product proposal, *Kampala, 25th May, 2017*

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KEY STAKEHOLDERS AND PROCESSES IN AGRICULTURE INSURANCE



PRODUCT DESIGN & PRICING



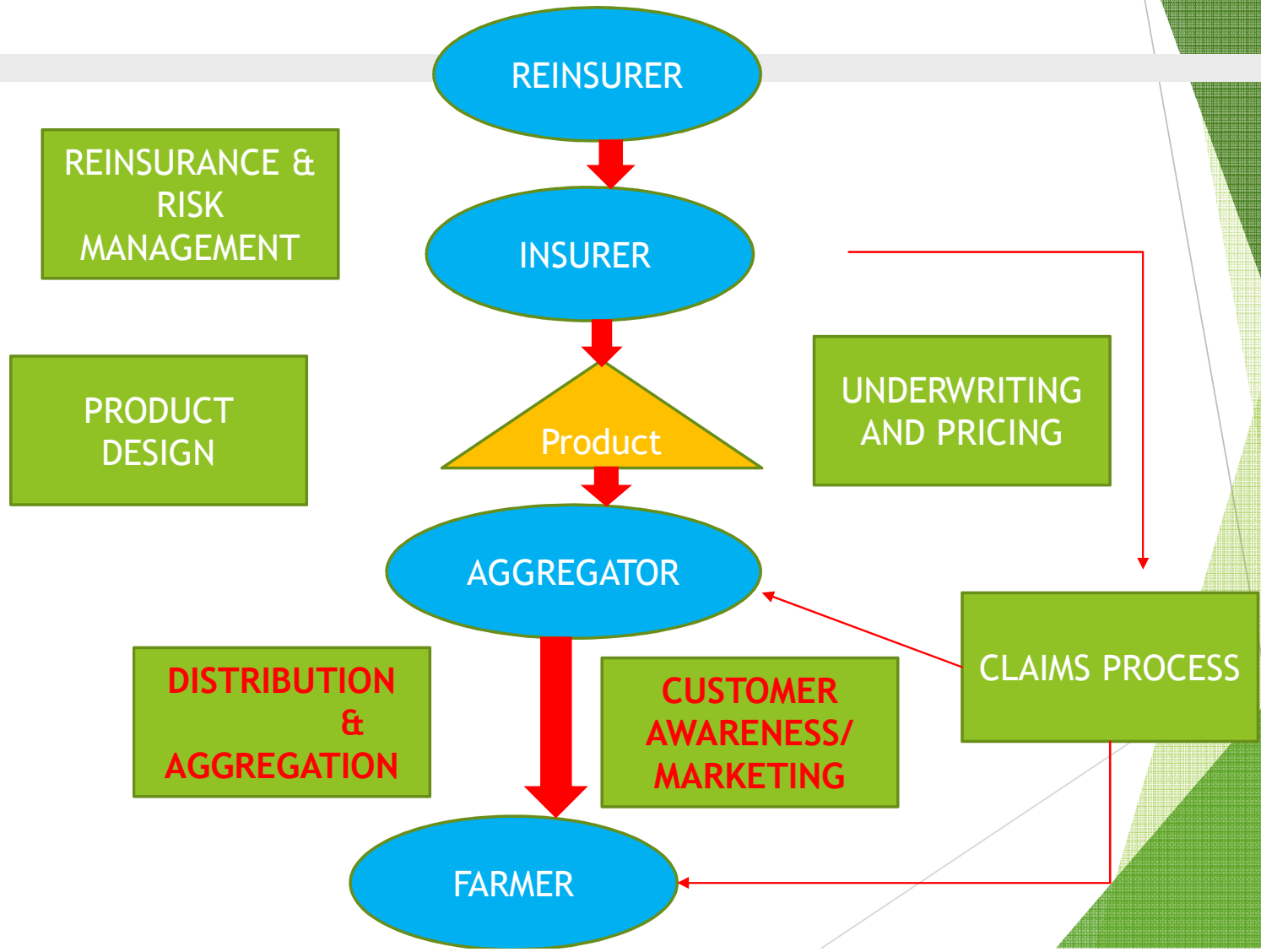
A) PRODUCT FEATURES

- a) Suitability of product for targeted farmers/crops/value-chain;
- b) Relevance of perils insured for targeted farmers/crops/value-chain;
- c) Steps taken to reduce basis risk and any measurement of underlying basis risk and reasons;
- d) Correlation between historical payouts and losses incurred by farmers (yield/ground-truthing);
- e) Payout structure- partial payouts/binary/ step-wise/ linear/min-max payout/rate of payout;
- f) Basis of Sum Insured e.g. Loan amount, Cost of Production, Expected Yield, Fixed Cash Amt etc;
- g) Hybrid structures- compatibility with other types of cover e.g. WII + Indemnity/ WII + AYII;
- h) Use of deductibles/ excess vis a vis use of triggers;
- i) Rationale for coverage dates, waiting period, exclusions etc.

B) UNDERWRITING AND PRICING

- a) Source, accuracy and access to the weather data- weather stations or satellite;
- b) Summary of underlying data for index- number of years/seasons/gaps/quality checks/statistics;
- c) Method used to derive parameters e.g. trigger levels, payout levels;
- d) Pricing method used- deterministic/ stochastic/ blended approach/loading for extreme events;
- e) Pricing vs Payouts and Basis Risk for different options;
- f) Pricing key assumptions (Burn Cost/Office Premium; Target Claims Ratio; Expense Ratio), CAT Loading;
- g) Premium Rates compared to production cost, expected yield and farmer's expected margin;
- h) Access to basic data requirements e.g. GPS coordinates of reference points, duration of season;
- i) Different sources of data used e.g. weather station, satellite, yield, farmer's feedback etc.

DISTRIBUTION & MARKETING



C) DISTRIBUTION AND AGGREGATION

- a) Insurable interest for aggregator and use of product as insurance instead of derivative;
- b) Roles and responsibilities between insurer/aggregators/brokers/loss-adjustors etc;
- c) Method used to enroll farmers for other business and for insurance;
- d) Compatibility with other regulations e.g. mobile regulator/ Ministry of Agriculture;
- e) Policy wording used for Group Policy and compatibility with any individual policy certificate;
- f) Business case for aggregator e.g. reducing credit exposure, farmer incentive, marketing tool;
- g) Method used to pay premium- pre-financing/ collection from farmers/subsidy;
- h) Incentives used for enrolling policies- commission, administrative fee, profit-share etc;
- i) Scope for delegation of claim payment with aggregators.



D) CUSTOMER AWARENESS/MARKETING



- a) Methods used to raise awareness of product- farmer meetings, posters, training of trainers;
- b) Content of any training of trainers done and qualifications of trainers;
- c) Sample of marketing literature/poster/leaflet used;
- d) General key messages on product and clarification that product insures specific index only;
- e) Plan on raising awareness during season and at point of claim payouts;
- f) Monitoring process in place to monitor effectiveness of trainings implemented;
- g) Process in place to answer farmers' and aggregators' (including field staff) questions and complaints;
- h) Calendar and duration over which awareness raising has occurred and accessibility for farmers etc.

HOW DOES DROUGHT INSURANCE WORK?

1. WHAT IS COVERED?



2. WHAT IS THE COST AND POSSIBLE BENEFIT?

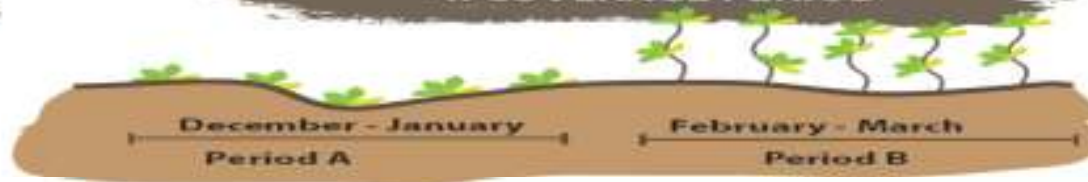
COST (PREMIUM)

MAXIMUM POSSIBLE PAYOUT

3. EVENTS COVERED



4. COVERAGE PERIOD



5. WHEN AND HOW DOES IT PAY?



As weather conditions are different in different areas, triggers vary.



How much will the payout for location B be?
 1mm of rain below trigger = K 1.50
 Observed rainfall was 40 mm below trigger = 60mm - 20mm = 40 mm
 40mm X K1.50 = K60

WHAT ARE THE TRIGGERS IN MY LOCATION?

Trigger Period A

Trigger Period B

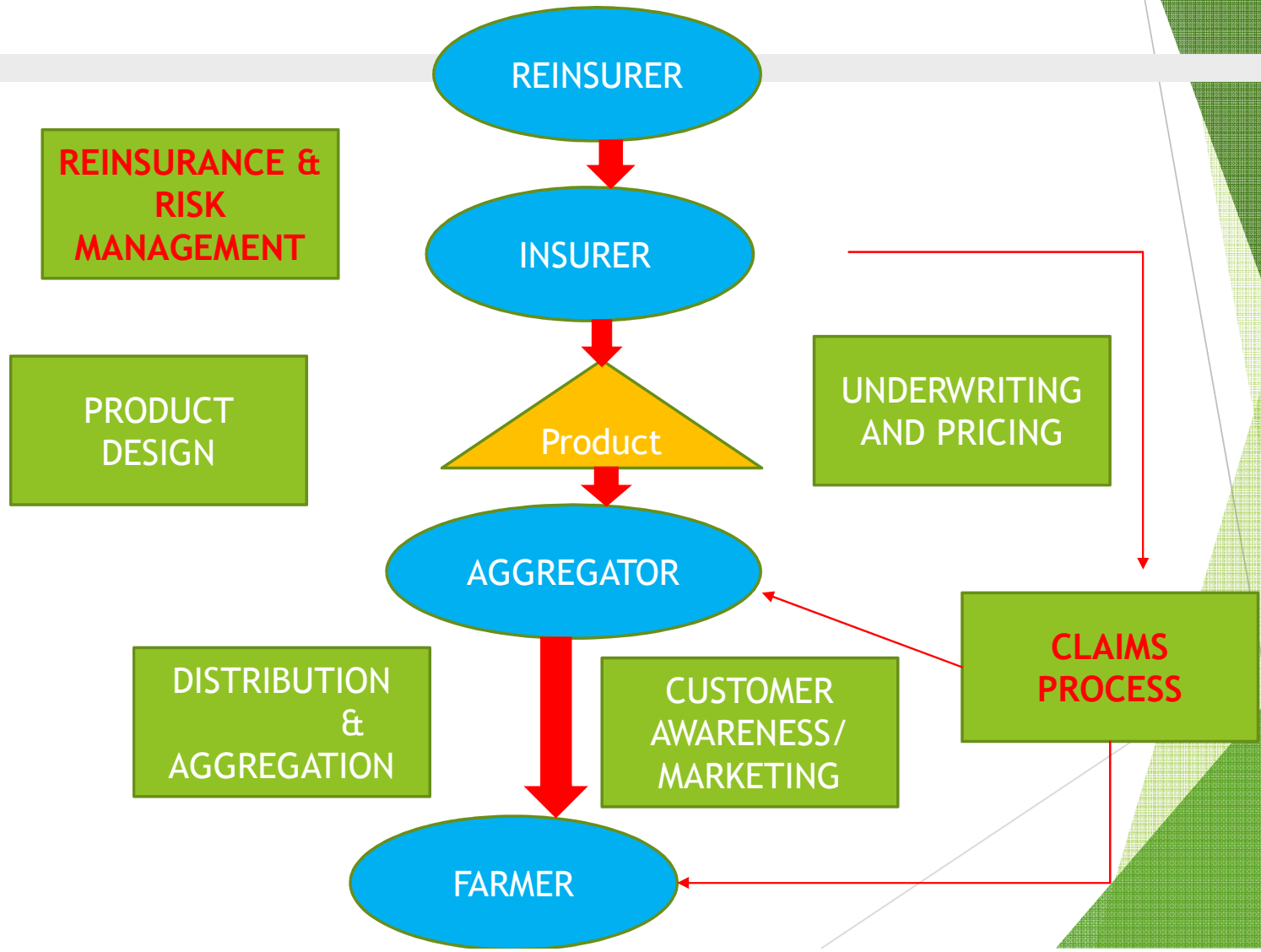
6. QUESTIONS AND COMPLAINTS



FIELD CONTACT

INSURANCE COMPANY

REINSURANCE, RISK MANAGEMENT AND CLAIMS PROCESS



E) CLAIMS PROCESS

- a) Frequency, process and reliability of weather reports;
- b) Time taken to obtain underlying data e.g. weather, yield data;
- c) Method used to derive yield estimates e.g. Crop Cutting Experiments, Survey, through aggregators
- d) Basis of claims payment- First Loss, Lowest, Highest or Average Payout in case of multiple events;
- e) Contingency plan for dealing with significant basis risk events e.g. 2nd trigger, field inspection;
- f) Process followed to explain claim payouts to aggregators and farmers;
- g) Sharing of claim information with aggregators and farmers and potential conflicts of interest;
- h) Methods in place to ensure claim payouts via aggregators are paid/reflected for farmers.



F) REINSURANCE AND RISK MANAGEMENT



- a) Expertise of reinsurer with index insurance products and sharing of technical knowledge;
- b) Type of reinsurance- Quota Share/ Aggregate XoL and rationale behind type used;
- c) Method used for payment of reinsurance claims e.g. claim payments or adjust with future payments;
- d) Reinsurance premium compared to insurer's own calculations on burn cost/risk premium rates;
- e) Details on reinsurance treaty e.g. duration of coverage, renewal clause, dispute resolution;
- f) Reinsurers' existing exposures in same country and region and exposure to systemic risks;
- g) Contingency plan if exceeding reinsurance cover- other types of reinsurance, ceding to government;
- h) Investment strategy employed by insurer and rationale behind investments.

FEATURES OF A BEST-PRACTICE INDEX INSURANCE PRODUCT

