Problems and Challenges of Agricultural Insurance Underwriters

Africa-Asia Conclave on Loss and Damage due to Climate Change

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Rationale for Agricultural Insurance

- Targeted Subsidy Design for Govt.
  - Incentivizes Credit Institutions
  - Risk Coping for Farmers
  - Smoothens Government Fiscal Outlay
  - Single Crop Strategy as risks get passed on
Agricultural Insurance Markets
Themes and Undercurrents

Product Development
- Reinsurer led
  - Or
- Underwriter led

Subsidy Structure
- Premium
  - Or
- Information Dissemination

Product Design
- Indemnity based
  - Or
- Index based

Claims Process Drivers
- Technology + Redress Mechanism
  - Or
- Technology Only

Distribution Channel
- Loan Providers (Involuntary)
  - Or
- Groups (Voluntary)
Product Development – Reinsurer led or Underwriter led

- Ratemaking and Underwriting Skills
  - Currently ‘Exposure-based’
- Transition to ‘Frequency-Severity’
- Reinsurance Cost as proxy
Subsidy – for Premium or Information

- Premium Subsidy doesn’t differentiate between the rich and the poor farmer
- Few subsidy models can meet target e.g. School meal
- Subsidy for information is smart e.g. Jan Dhan in India (120 million policyholders)
- Premium Subsidy risks programme sustainability
Product Design – Indemnity or Index based

- Index triggers not easy to comprehend
- Indemnity based products need ‘prompt and fair’ claims process
- High basis risks when triggers are ‘easy’
- Experience rating i.e. sum insured based on Moving Average of Yield can enhance the Index offering
Claims process, Distribution

- Technology e.g. Smart phones can be used to pay claims faster
- Link claims to the farmer’s bank account
- Lenders as distributors restrict the programme to borrowers only
- Voluntary uptake e.g. Affinity Groups can deliver themes like ‘economies of scale’
Vietnam

- Fully Subsidized Trial Insurance Programme in select provinces
- Area Yield Index Product: Sales process and communication?
- Low uptake after the trial period
- Skills of underwriters and pricing specialists did not develop, mostly reinsurer-driven product supply
- As market didn’t deepen, ditto to tertiary support systems e.g. redress mechanism, experience rating in pricing, capital modeling, etc.
Malawi

- Weather Index Product, driven by ‘need to borrow’
- Pooling of premiums at the ‘Insurance Association of Malawi’ – a body of general insurers
- High willingness of underwriters to insure farmers, but demand is lacking
- Very low loss ratio over 10-year period, so farmers didn’t see value
- Cost of borrowing still remains upward of 40% pa
- In a couple of years, volumes were extremely low – pricing?
- Other products e.g. Mtetezi developed for contract tobacco farmers.
Country Experiences .. Contd.

India

- Substantially (Premium) Subsidized Insurance Programme (Equivalent of USD 2.5 billion of premium in the current year), farmer pays ~2%
- Pricing being exposure based is difficult to replicate across different crops across different regions
- Pricing and underwriting skills as well as data repositories need to develop e.g. EWS at sowing is not rewarded in pricing
- Recent initiatives at product design that combines a) index and b) indemnity, and uses technology to corroborate claims information
- Three year rolling period for underwriting promises to increase interests under the bidding model
- State plays a role in loss assessment. Redress mechanism e.g. agricultural insurance consumer forum needs to develop.