

Opportunities for Introduction of Index-Based Insurance in Moldova, Ukraine and Russian Federation

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Essential factors for the demand for index insurance

Importance of agricultural sector

Risk exposure - per regions, per crop, per type of producer

Availability and effectiveness of risk instruments for managing
systemic risks

Cost of Index Products compared to traditional insurance

Knowledge of Index Insurance concept and legal framework

Willingness of insurance companies to introduce new solutions

Major pre-requisites for testing IBI

Weather infrastructure

Weather and Yield data available (over 20 years) and cost of this data

Insurance legislation and regulation – recognition of index insurance concept

Deficiencies of traditional insurance products – certain regions and crops

Human resources – actuaries and product designers

Access to reinsurance market to manage systemic risks

Government understanding of risk management in agricultural sector

Common features – Moldova, Ukraine, Russia

Agriculture is important for the national economies (Moldova – 15,1% of GDP, Ukraine – 8%, Russia – 5%)

Good quality weather data and sufficient crop yield data is available (30 yrs+)

Weather data is **EXPENSIVE** in all countries surveyed

Lack of automatic weather stations and other weather registration equipment

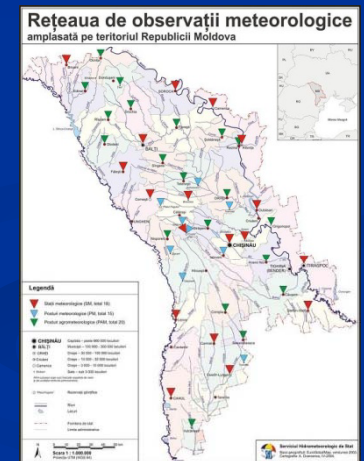
MPCI is a dominant crop insurance program subsidized by the national governments

High impact of classical insurance problems – asymmetry of information, adverse selection, cost of administration

Regular occurrence of systemic risks

Moldova – specific factors

- Limited opportunities to diversify agricultural risk portfolio due to small territory
- High impact of systemic risks (CAT events – 2000, 2003, 2006, 2007, 2008)
- Small size of agricultural insurance portfolio – insurance market is underdeveloped, farmers lack understanding of insurance
- No access to the international reinsurance markets



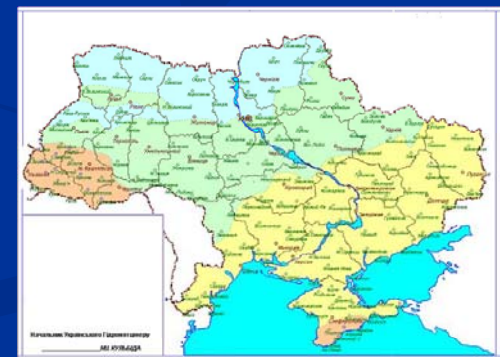
Excellent weather infrastructure – 82 weather data collection locations

Government is interested in systemic risk management instruments

Insurance companies have qualified manpower and interest but lack specific knowledge to design index products for agricultural sector

Ukraine – specific factors

- Index concept is recognized and practiced already (!!!);
- Regular systemic risks (CAT events – 2003, 2006, 2007, 2008);
- Insurers have good opportunities for portfolio diversification;
- Very expensive weather and crop yield data (6500 USD per 30 yrs data-set per station);
- Moderate density of weather stations (189) – high basis risk, lots of micro-climatic zones;
- Government is unclear in agricultural insurance policy;
- Some insurance companies are interested in indexes for high-value crops, loss of quality insurance and catastrophic-related structures for drought and freeze insurance



Russia – specific factors

- Lack of understanding of index concept within the insurance sector;
- Heavy reliance on subsidized MPCCI program;
- High volumes of formal insurance (subsidy-minded);
- Disintegrated weather data system, data should be purchased from the regional weather authorities, high cost;
- Insufficient density of weather stations (1627) – extremely high basis risk;
- Government is interested in testing weather indexes for CAT assistance;
- Excellent human resources;
- Insurers are looking for new solutions to minimize administration costs and moral hazard;
- Pilots are requested for several regions to mitigate drought and freeze risks

Main findings

Moldova – IBI is interesting to insurance companies and national government. Index insurance can help to mitigate systemic risks (country level) and to solve certain insurance problem (sector level) like access to the reinsurance, small-farms insurance, portfolio diversification.

Ukraine – weaker overall interest in IBI. Unclear government strategy. Some insurance companies want IBI for high-value crop and quality insurance, drought and spring freeze mitigation at the south of Ukraine.

Russia – IBI application is challenging due to weaker density of weather stations. Government is interested in applying IBI for CAT assistance program. Insurance companies require instruments to manage classical insurance problems like adverse selection, asymmetry of information, cost of program administration.

Possible strategies

Moldova – Overall assistance including guidelines, technology transfer, overall training to insurance companies, finance institutions and government bodies. Modernization of weather infrastructure.

Ukraine – technology transfer, client and government training . Modernization of weather infrastructure. Training to insurance providers and potential clients.

Russia – training to insurance companies. Concept training to government bodies, assistance to market players (insurance companies, stock market)

Thank you for attention!!!

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