

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS Issues Paper on Index-Based Insurance

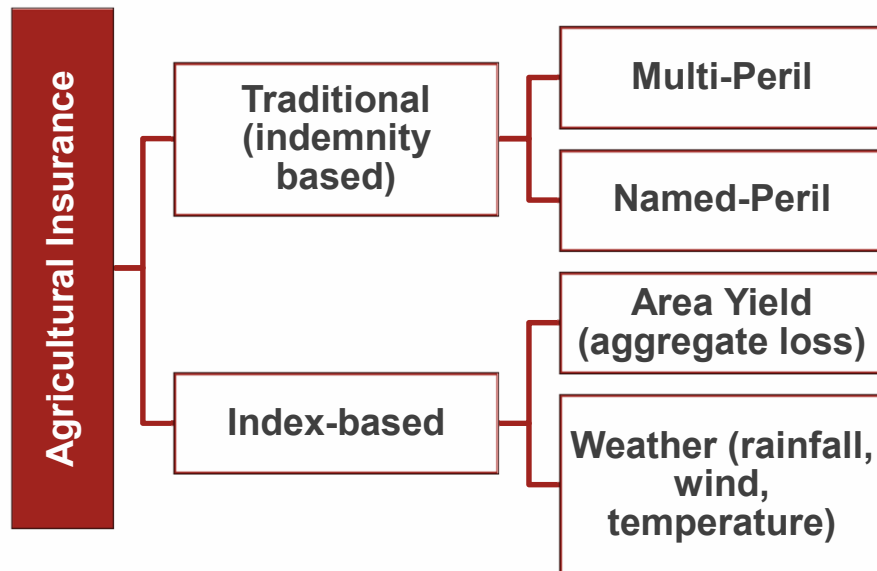
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- IAIS is supportive of promoting access to insurance and inclusive insurance markets
- Index based insurance can help to:
 - Reduce risk of poverty for farmers due to (natural) disasters
 - Contribute to national food security
 - Contribute to disaster risk management (caused by climate change)
- Paper should increase **understanding** and **awareness** of **policymakers** and **supervisors** regarding features and challenges of index based insurance



Two types of agricultural insurance:



- ❖ Claim defined with reference to a predetermined index:
 - Minimises adverse selection
 - Minimises moral hazard
- ❖ Reduces underwriting and claim assessment costs and speeds up claims settlement:
 - Promotes affordability
- ❖ Applicable at different levels: micro, meso and macro
- ❖ Pilots



- Insurance customers
- Insurance supervisors
- Government agencies / Ministries of government
- External stakeholder / NGOs
- Donors / sponsors
- Public-Private Partnerships



Is index-based insurance an Insurance contract?



Preference for formality under insurance law



Should have insurable interest at the inception of the contract.



**Legal
Certainty**



Product development

- Correlation between index and yield
- Steps taken to reduce basis risk
- Relevance of perils insured for targeted farmers
- Level of severity of the events before loss is deemed (“trigger” level)

Financial literacy and product education

- Index insurance products are complex
- The target clients tend to have low financial literacy

Ex-gratia payments

- Because of adverse basis risk
- Creates a precedent



Smart subsidies

- Must be transparent and targeted
- May focus on claims, reinsurance or expenses

Competition

- Initial developments may select a limited number of participants
- In the long term, the process may not open to competition.

Product Security

- Provisions and capital
- Risk management (catastrophic reinsurance protection)



- Many schemes exist as pilot projects.
- Tend to operate in “pilot” phase for a long period.
- Usually involve a number of pilot sponsors.
- Different phases: from initial phase to mature or closure phases.
- Plan for success: plan to transition into maturity and sustainability
- Or contingency: orderly winding up.



Thank you!

The initiative is a partnership between:

