Index Insurance Training

Underwriting and product design

Weather-index insurance (WII) checklist of underwriting for regulators and insurers

- ☑ Is the agriculture activity rainfall dependent (fully/partially)? This would determine the extent to which rainfall indices are suitable for the WII product.
- ☑ Is the agriculture activity exposed to weather risks (directly/indirectly)? This would determine which weather risks could be covered e.g. variations of temperature, humidity, soil moisture, windspeed etc.
- ☑ Does the underlying weather data suitable for the region and risk? It is important to have an idea about the accuracy of the underlying weather datasets being used for the region and for the weather parameters being insured e.g. skill of satellite data varies by type of satellite data and type of weather parameter, climatology of the region etc.
- ☑ What should be the start of the insurance coverage? This product design feature could be determined by various underlying factors, such as planting practices, timing of the risk period (e.g. typically cyclone/flood season), distribution channel etc.
- ☑ Which types of weather risks are relevant? It is important to understand the nature of the underlying weather risks e.g. how should a ‘drought’/’flood’ event be defined?
- ☑ What are the GPS coordinates / location of reference points? This information is very important in order to obtain the suitable datasets for the product design, pricing as well as for claims settlement.

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- ☑ What estimates can be made of historical losses / risk events? This information is important in order to validate the index insurance product and to optimise the correlation between historical loss events and simulated historical payouts of the index insurance product on an 'as-if' basis.
- ☑ How will the product be distributed to farmers? The distribution modalities have an impact on various aspects of underwriting and product design, such as coverage start/end dates, types of risks covered, level of sum insured, scope for adverse-selection and moral hazard etc.
- ☑ How will the premium be paid and collected by the insurer? This operational factor is important for product design as well from the perspective of potential delays in receiving the premium, scope of increased/reduced adverse-selection and also risk of premium payment defaults etc.
- ☑ How will claims be paid by the insurer and reach the beneficiary? This operational factor could also be considered as part of underwriting to ensure that payouts triggered efficiently reach the beneficiary and that they are aware that the benefits received was due to the insurance product, where this information is appropriate to convey.