

Index Insurance Training

Pricing, reserving, and solvency

Checklist of pricing factors for regulators and insurers

- Source, accuracy of and access to the weather data (weather stations or satellite).
- Summary of underlying data for index (number of years/seasons/gaps/ quality checks/statistics).
- Method used to derive parameters (e.g. trigger levels, payout levels).
- Pricing method used for extreme events (deterministic/stochastic/ blended approach/loading).
- Pricing versus payouts and basis risk for different options.
- Pricing key assumptions (burn cost/ office premium, target claims ratio, expense ratio), catastrophe loading.
- Premium rates compared with production cost, expected yield and farmer's expected margin.
- Access to basic data requirements (e.g. GPS coordinates of reference points, duration of season).
- Different sources of data used (e.g. weather station, satellite, yield, farmers' feedback, etc.).