
Weather Insurance Policy Wordings

The need for risk mitigation in agriculture has been long felt. Agriculture contributes 24% of the GDP and any change has a multiplier effect on the economy as a whole. The target of 7-8% economic growth depends significantly on agricultural growth. Weather insurance is an indemnity for losses that may arise due to abnormal weather conditions. These abnormal weather conditions can be events such as excess of rainfall, shortfall in rainfall or variations in temperature, wind speeds and humidity.

Key Benefits

The benefits that weather insurance offers are:

- It is transparent and thus leads to high level of client comfort.
- It is easy to administer and thus leads to low management expenses.
- It is scientifically developed and objective.

Weather insurance has multiplier effect on the economy as it enables access to factors of production. Adequate protection offered through the weather insurance product enhances the risk taking capacity of the farmers, banks, micro-finance lenders and agro-based industries. This in turn would result in boosting the entire rural economy.

Further, as the product is developed on the foundation of universally acceptable parameters, it is easier to transfer the risk to international financial markets through reinsurance. This allows for global pooling of risk and thereby more competitive “portfolio adjusted” pricing for the insurer and ultimately for the farmers.

Product Structure

Peril Identification: Peril identification involves appreciation of agronomic properties of the crops or nature of the economic activity. Detailed correlation analysis is carried out to ascertain the way weather impacts yields of the crops/ output of other economic activities.

- **Index Setting:** In weather insurance, the claim is settled on the basis of a transparent index. The index is created by assigning weights to critical time periods of crop growth. The past weather data is mapped on to this index to arrive at a normal threshold index. The actual weather data is then mapped to the index to arrive at the actual index level. In case there is a material deviation between the normal index and the actual index, compensation is paid out to the insured on the basis of a pre-agreed formula.
- **Back testing for payouts:** In order to ensure the robustness of the structure, the normal index is extensively tested based on historical data to ascertain if the payouts made on the basis of the chosen indices would have adequately indemnified the loss in the past or not.
- **Pricing:** Pricing is determined based on components of expected loss, volatility of historical losses and management expenses.
- **Monitoring:** This entails collection of weather data during the policy period and concurrent assessment of the ground conditions.
- **Claims Settlement:** The claim settlement is a hassle-free process, as the beneficiary is not required to file a claim for loss to receive a payout. Instead ICICI Lombard will compensate the beneficiary at the end of the crop season for any deviations from the normal conditions on the basis of the data collected from an independent source accessible to all, like a local weather station, thus removing the need for carrying out field surveys.

Deals Initiated

- **Oranges in Jhalawar, Rajasthan:** Orange crop suffers yield losses in case adequate rainfall is not available for flowering or if there is a dry spell subsequent to flowering. 782 farmers (7% of all the Orange cultivators in the district) were provided a cover for 613 acres for a sum insured of Rs. 18.3 mn.
- **Various crops in Andhra Pradesh:** Weather Insurance was offered to the farmers of AP for groundnut, castor and cotton crops. A unique distribution model through the Micro-finance institutions and Self Help Groups was followed to reach out to the farmers in the remote areas. The product provided cover against losses due to deficit rainfall. In this kharif season about 800 farmers covering 1100 acres purchased it. Sum Insured for these covers was Rs. 5.7 mn.
- **Weather insurance for crop loan portfolio:** Repayments of crop loans given to farmers is a function of the revenue from agriculture. This revenue is in turn dependent on the rainfall in the area as good rains give good yields. Keeping this correlation in view Weather Linked Loan Portfolio Insurance was offered to a NBFC lending agricultural loans. The claim payouts from this cover would compensate the loss of repayments. Sum Insured for this cover was Rs. 7.5 mn.