

A Policy Vision for Developing Agricultural Insurance in Vietnam

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Developing Agricultural Insurance in Vietnam

- ▶ **Develop initial framework**
 - ▶ Insurance market development is a process
 - ▶ Learn from doing — Important experience and lessons for policy makers and stakeholders
 - ▶ Look to and avoid mistakes of other countries
- ▶ **Develop clear policy vision and strategies**
 - ▶ Build policy vision Using pilot programs and experiences on experiences
 - ▶ On that policy vision, develop policy strategy
- ▶ **Develop Agricultural Insurance Law *after* policy strategy emerges**
 - ▶ Agricultural Insurance Law should be framed to *enable* the market development process
 - ▶ Agricultural Insurance Law should target limited government resources to support market development

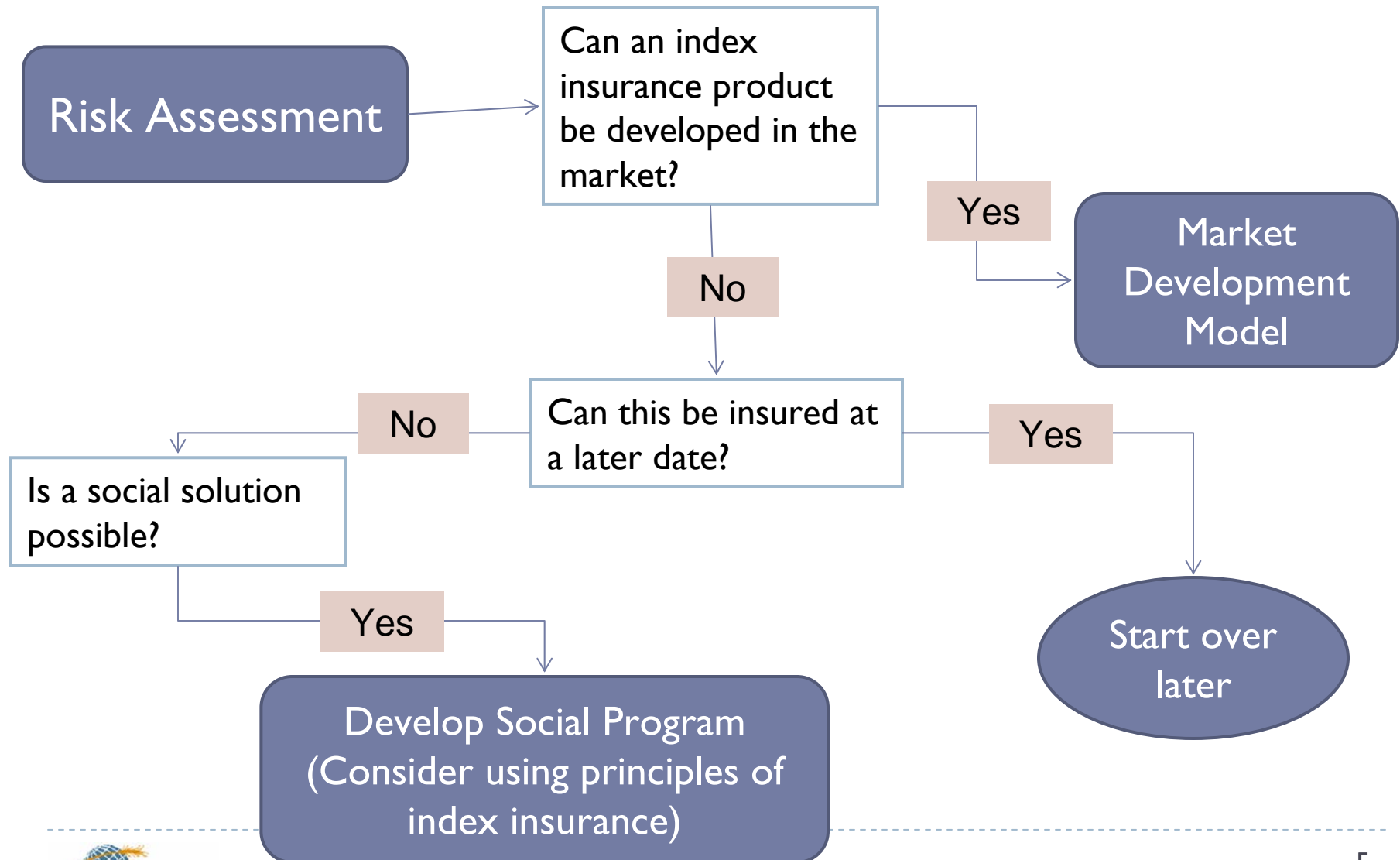
Risk Assessment Informs Policy Choices

- ▶ Risk must be understood in a *local context*
 - ▶ Frequency and severity
 - ▶ Effects of regional characteristics
 - ▶ Effects of farm household characteristics
 - ▶ Effects of current risk management strategies and institutions
- ▶ Solutions must be designed for *specific conditions*
- ▶ Suggested role of central government is to coordinate resources for effective *local solutions*

Effective Risk Management System

- ▶ Government can facilitate insurance market development
 - ▶ Not all risks are insurable
- ▶ Government role — social investments and social safety nets
 - ▶ Risk mitigation
 - ▶ Disaster relief
 - ▶ Protecting the chronic poor
- ▶ Government policies should be carefully considered
 - ▶ What incentives do these policies create?
 - ▶ Do they encourage unnecessary risk taking?
 - ▶ Do they encourage insurers to create products that are sustainable?

Decision Tree for Priorities in Market Development



A Framework for Agricultural Insurance Market Development

Market development should be completed in the following order

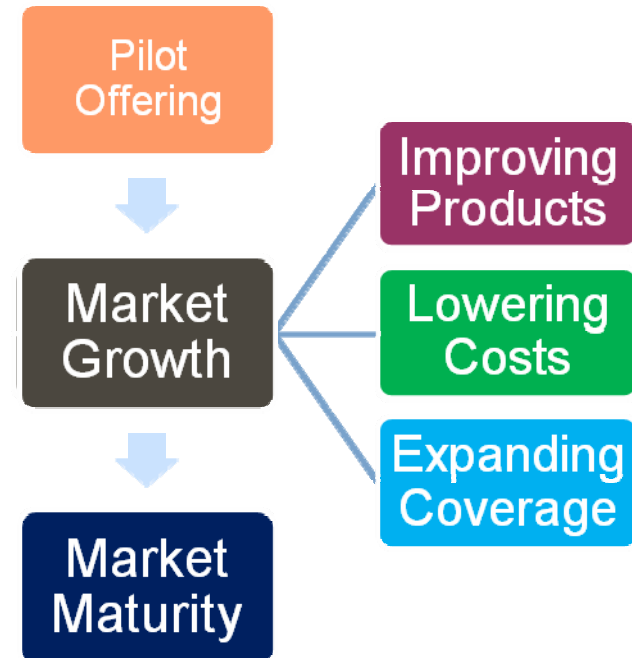
- ▶ First, use index insurance products where feasible
- ▶ Second, move to greater use of index insurance products and introduce named-peril insurance products on a limited basis
- ▶ Finally, consider more advanced products for certain size farms after successful experience with other products

Pilot Program Offers Benefits over Testing a Full-Scale Program

Pilot Program

- ▶ Tests a product in a **limited area**
- ▶ Commits **fewer resources**
- ▶ Begins **education**
- ▶ Allows for **improvements before expansion** by monitoring and evaluating performance

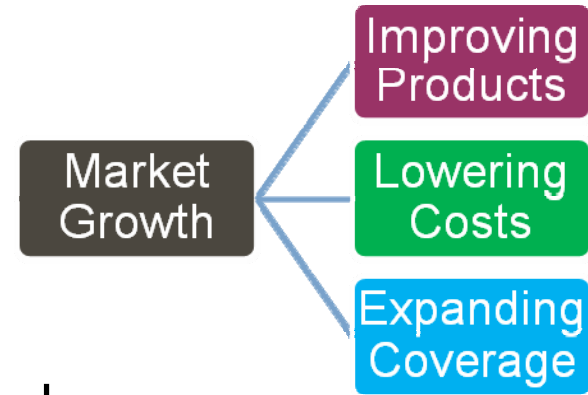
Indemnities	Pros	Cons
High payouts	Households see value of product	Insurer reports losses for year
Low payouts	Insurer reports profits and contributes to reserves	Households may lose interest



Improving Products

Remaining Competitive in the Market

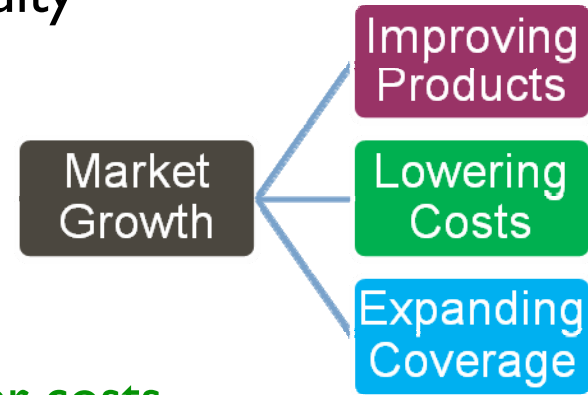
- ▶ Insurers **improve products** to better meet **client demand**
 - ▶ Improving delivery and education
 - ▶ Making contracts more generic
 - ▶ Products to cover additional risks
- ▶ Insurers improve products in ways that may be unpopular but important for **market sustainability**
 - ▶ Set sales closing dates far enough in advance—prevents households forecasting emerging weather
 - ▶ Weather index insurance should include catastrophic risk coverage



Lowering Costs

Improving Administrative Efficiency

- ▶ Insurers cannot lower pure risk and ambiguity loads without new information
- ▶ **Administrative costs** must be reduced to lower the price of the insurance product

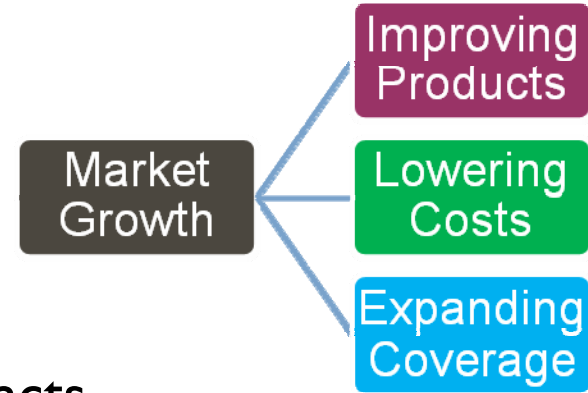


- ▶ **More efficient delivery systems can lower costs**
 - ▶ Linking insurance to other services (e.g., savings)
 - ▶ Using technology (e.g., kiosks)
- ▶ **More efficient contract structures**
 - ▶ Generic contracts have benefits over specific contracts for the insurer

Expanding Coverage

Difficult Regions and Complex Indexes

- ▶ **Need for more variety in weather indexes**
 - ▶ Rainfall is used to start
 - ▶ Some areas need temperature, wind, river levels, or a combination
- ▶ **Low-cost automated weather stations will likely increase access for rainfall contracts**
- ▶ **Satellite imagery provides a possible data source**
 - ▶ Satellites can provide better coverage
 - ▶ Systems to support using satellites may not be in place
 - ▶ Farmer receptivity to insurance based on satellites is untested



As the insurance market matures, geographic coverage and new product offerings are likely to increase

Market Development

1. Develop Index Insurance Markets

- ▶ Insurance markets transfer risk that debilitates economic growth and causes welfare losses
 - ▶ Agricultural insurance is complex and requires coordination among many stakeholders
 - ▶ Priorities
 - ▶ Address most debilitating risks
 - ▶ Use structures appropriate for majority of farms/firms
 - ▶ Develop coordination and expertise among stakeholders
 - ▶ Index insurance — effective mechanism for these goals in Vietnam
 - ▶ Good mechanism to address big risk
 - ▶ Can be well-suited for smallholders
 - ▶ Builds capacity in insurance market
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Market Development

2. Expand Insurance Markets

- ▶ As markets develop, government agencies (legal and regulatory, data, extension), insurers, and delivery agents build capacity
- ▶ Current priorities
 - ▶ Expand use of index insurance where applicable to address big risk and build capacity
 - ▶ Consider alternative delivery models to reach farms/firms more effectively
- ▶ Expanding index insurance markets
 - ▶ Additional delivery models to reach more farms
 - ▶ New products to address big risk in new regions
 - ▶ New products to address other important risks in same region
- ▶ Consider developing named-peril insurance products

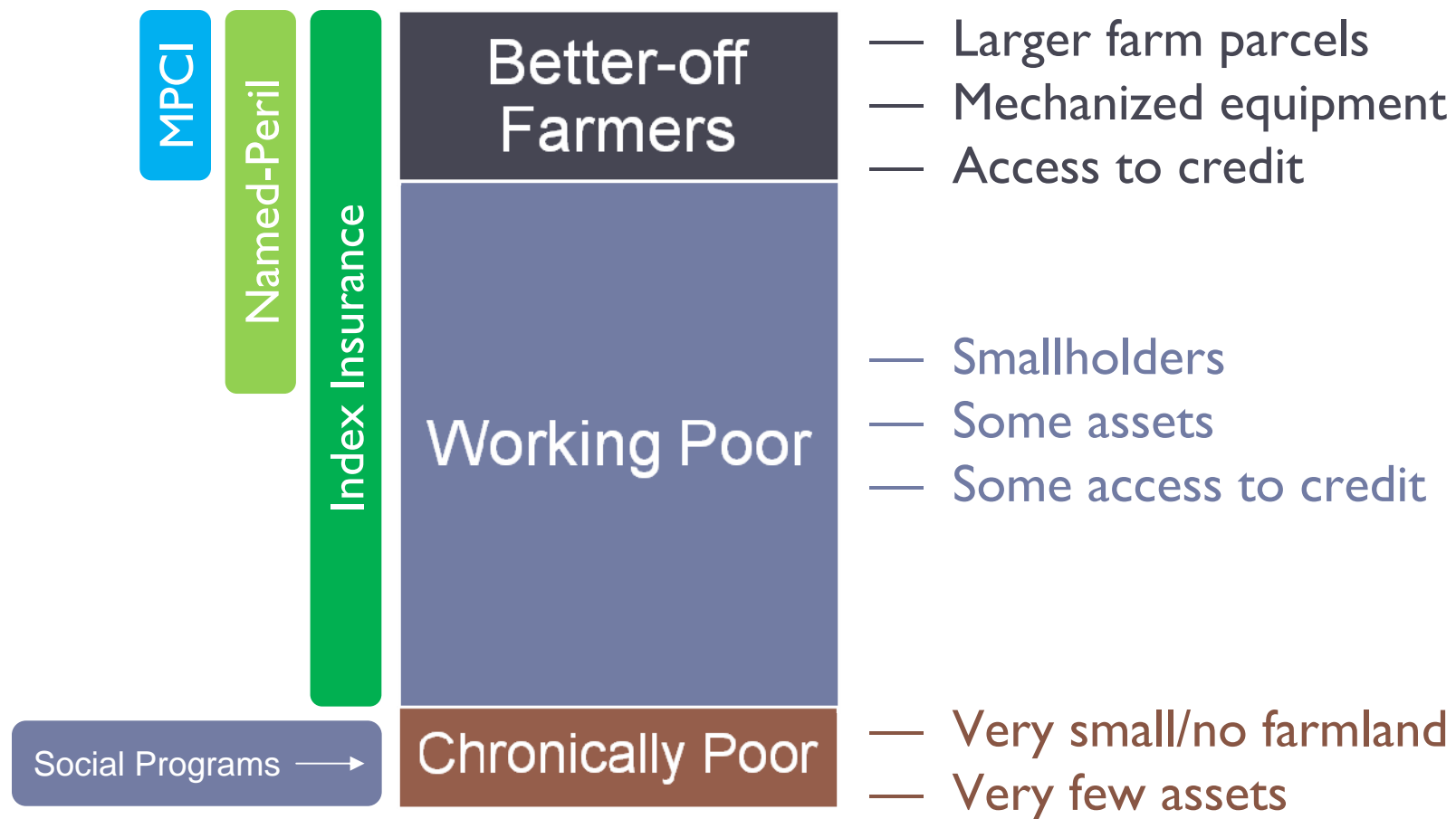
Market Development

3. Specialize Insurance Markets

- ▶ When effective insurance markets can transfer the big risks, opportunities for specialized products emerge
- ▶ Important lessons learned on insurance demand in Vietnam
- ▶ Current priorities — Specialize market
 - ▶ Addressing the big risk allows for effective risk transfer of other risks important to farms and firms
 - ▶ Leverage new national expertise for new insurance product development among commercial and government experts
- ▶ Specializing markets
 - ▶ Farms/firms could rely on index insurance to transfer many risks
 - ▶ Expand named-peril products
 - ▶ MPCl may be possible for the largest farms

Proper Expectations for a New Insurance Market

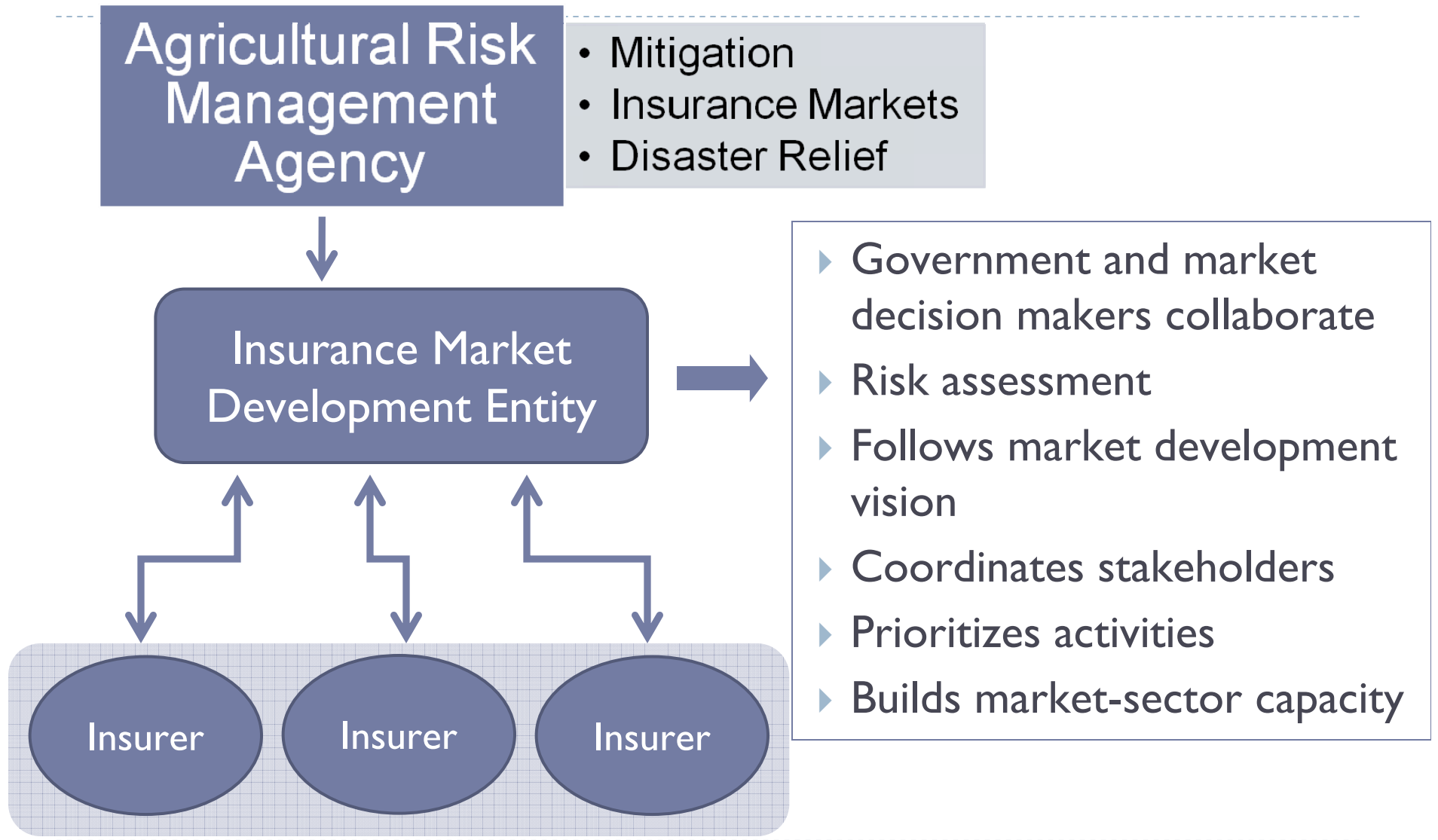
Farm characteristics likely to limit access to certain products in long term

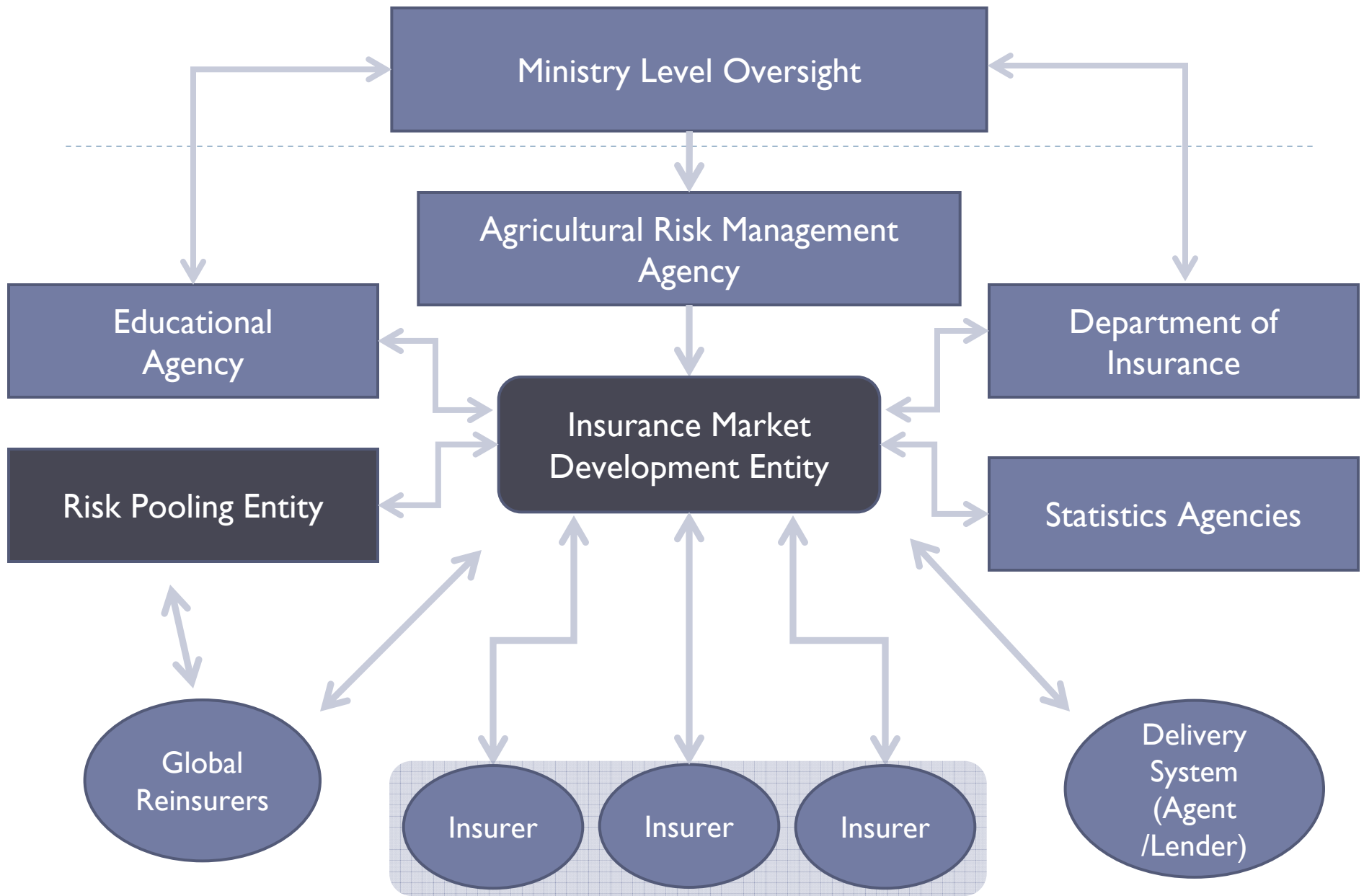


Government Support Can be Important for Market Development

- ▶ Legal and Regulatory Framework — Department of Insurance
 - ▶ Laws to enable regulation of insurers
 - ▶ Laws to govern contracts between the two parties
- ▶ Enhancing Data and Information Systems — General Statistics Office, others
 - ▶ Data on weather variables, crop yields, and losses from natural disasters
- ▶ Education and Capacity Building — Extension Office and *Market Development Entity* (MDE)
 - ▶ Fostering organized agricultural insurance expertise that can share technical experience, mistakes, and success stories
- ▶ Supporting Product Development — MDE
 - ▶ Encouraging innovative insurance products appropriate to risk
- ▶ Financing for Catastrophic Losses — *Risk Pooling Entity*
 - ▶ Opportunities to pool risk are possible for properly designed index insurance products

Early Thinking about Institutional Structure

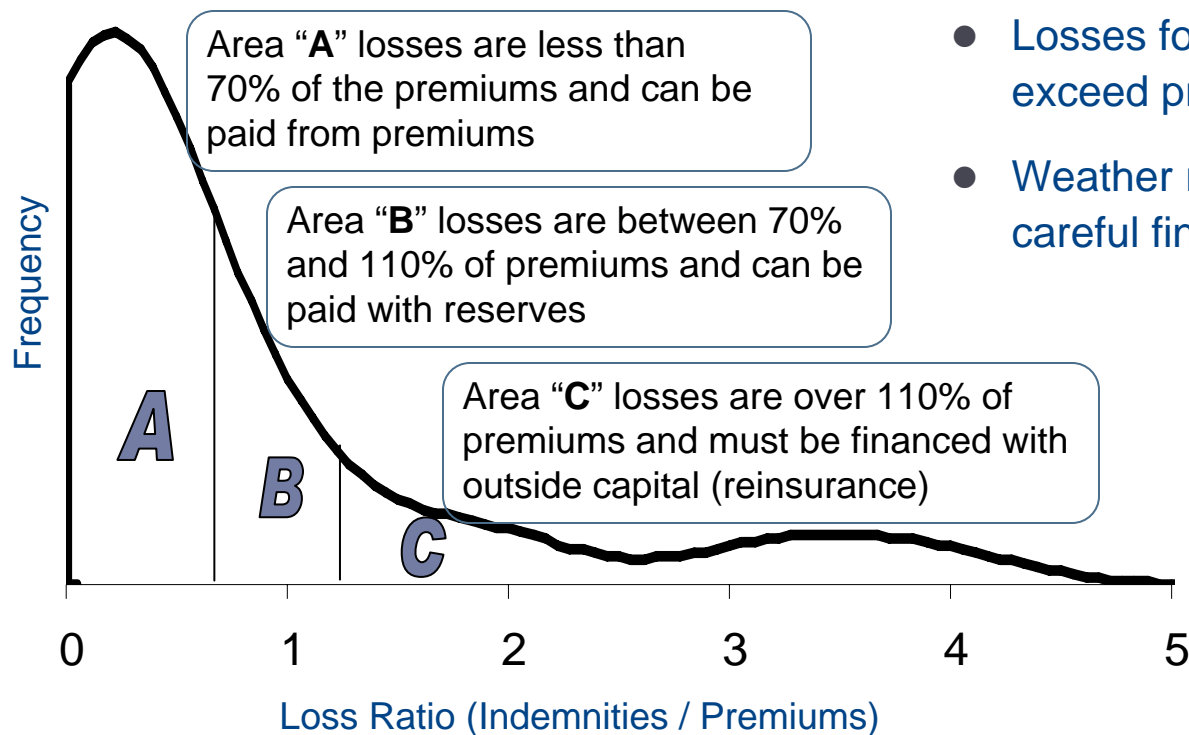




Risk Financing

Layering the Risk to Cover Losses

Example Distribution of Losses of Insurer Portfolio in Mongolia



- Losses for index insurance may exceed premiums in some years
- Weather risk coverage requires careful financing considerations

Conclusion
