



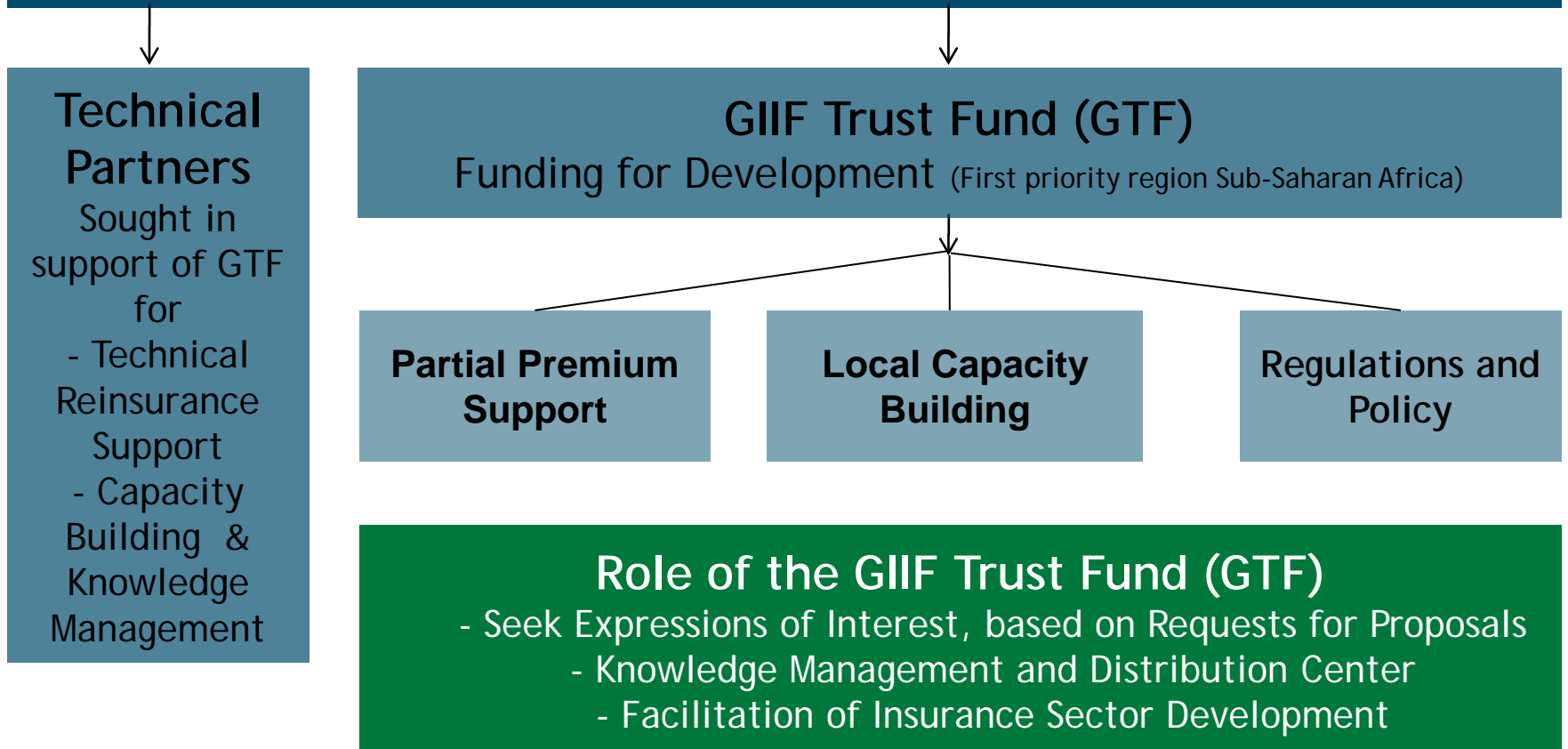
**International
Finance Corporation**
World Bank Group

Index-Based Insurance Products - Maximum Protection for Minimum Risk

Global Insurance Index Facility (GIIF)

Facility Structure

Global Index Insurance Facility (GIIF)



Traditional vs. Index-based Insurance

Traditional Crop Insurance

Farmer insures crop for loss (i.e. if 20% of crop yield is damaged, insurance company pays damages)

- Problems
 - Moral Hazard
 - Claims have to be individually checked for actual yield loss
 - High transaction cost - premiums often subsidized
 - Cause of yield loss is difficult to identify
 - Results are poor

Index-Based Insurance

- Problems
- Reduced moral hazard, exogenous determination
- Lower administrative costs
- Ability to transfer CAT exposures efficiently into international markets
- Versatility: Potential to bundle with other financial services
- Flexibility to target diverse level of risk aggregation (dev. organizations, governments, institutions, end-users)
- Simplified Risk Assessment: Does not require broad exposure data that is often unavailable.

Global Index Insurance Facility (GIIF)

- Ultimate objectives
 - Help develop parametric/cat and weather risk insurance in developing countries
 - Develop sustainable local markets
 - Develop local capacity
 - Promote specialized financial and technical capacity for emerging markets
 - Mobilize private sector / global players
 - Establish regional knowledge management and exchange leadership platforms; first in Africa, other regions to follow later

Local Commercial Capacity Building

- A key objective is to assist local financial institutions by providing and facilitating access to required technology and the development of domestic markets through:
 - Provide access to train staff and to enhance delivery mechanisms for indexed/parametric products as well as underwriting, product development and sophisticated risk control tools.
 - Launch of local risk transfer markets by bundling risks for the international reinsurance market, assist to develop contracts, regulatory filings and developing customized technologies for the support of local markets.
 - Regional seminars and training opportunities for a broader set of market players to enhance retail capacity.

Regulatory Policy and Capacity Building

- The GTF will support development work carried out, in collaboration with IBRD where applicable.
- Activities will involve the following:
 - Developing the regulatory environment for index and parametric insurance products
 - Educating public officials
 - Training financial sector supervisory staff
 - Ensuring that the relevant financial management systems are adequate
 - Advising sovereign and sub-sovereign entities in the transfer of catastrophe and weather insurance risks through index and parametric instruments.
 - Capacity Building at the Industry Level

Premium Support

- The current dependence on ex-post aid discourages mitigation measures, resulting in firms and individuals failing to take action.
- The cost of insuring against these risks may present an additional financial burden.
- Premium support can be provided, subject to stringent conditions and for transitional periods.
- Premium support requires either an effective market tender process or from the application of prescribed premium bases.
- The insured will make a meaningful contribution to the cost of the premiums.
- In certain circumstances, the premium support may be tied to a particular insurer.