



Safety Security : Food Water

Crop Insurance: Saving for a Rainy Day

It takes a financially stable agricultural sector to guarantee food security. Leonid Golovanov explains how Allianz Rosno protects farmers and food supplies in Russia with a new breed of crop insurance.



Leonid Golovanov, Head of Agricultural Insurance, Rosno

"If rainfall or temperatures deviate from the average farmers receive a specific sum of money to cover their losses." (Photo: Rosno)

What is crop insurance and why is it something new?

Crop insurance is not a new type of insurance. Losses due to drought, hail, and excessive rainfall have been insured for quite a while. However, crop insurance is constantly developing. We are starting to work with the weather index model now and this gives us a better understanding of weather risks. If rainfall or temperatures deviate from the average farmers receive a specific sum of money to cover their losses. These income insurances are becoming more popular worldwide because they cover yield decreases and also price fluctuations.

We started with agriculture, but weather index-based insurance can be interesting for other industries too. Energy companies, or beverage and ice cream producers, also depend on weather conditions. Higher temperatures, for example, can be good for the beverage industry because people drink more, but bad for farmers because plants need more water.

How can you cover such extreme risks as drought, flooding and storms?

Geographical diversification and reinsurance are the key factors. The huge size of Russia, the biggest country in the world, enables insurers to distribute risks among separate agroclimatic zones. At the same time, Rosno's portfolio is protected by reinsurance, and we are developing a system that allows us to hedge insured risks in international financial markets.

Whis crop insurance an attractive product for Rosno?

Historically Russia has been an agrarian country. The majority of the Russian population still lives in the countryside and works in agriculture. At the same time agricultural insurance is one of the least developed lines of insurance in Russia. Consequently, development of this line of insurance enables us to address a large and promising market.



Picture Gallery (click on the image to start)

See the ten staple crops that feed the world (Photo: Reuters)

With climate change Russia will become warmer. Do you calculate this as well?

Climate change will have different effects in different parts of Russia. On the one hand, it is expected that conditions for growing crops will be more favorable in northern areas because the warm period will be prolonged and winter temperatures will be less cold. On the other hand, an increase in frequency and intensity of droughts is expected in the southern areas. All the above-mentioned changes are going to have an effect on the insured natural risks.

So, when assessing risks we use climate models from the World Meteorological Organization that allow us to understand these changes better. Though the frequency and intensity of climatic extremes is predicted to increase, this kind of insurance can remain profitable provided that our risk assessments are accurate.

There have always been natural disasters. Do farmers really need such a safety net?

Weather risks can cause huge one-time losses that can result in farmers going bankrupt. If farmers want to protect themselves without insurance they have to put a lot of resources aside, which is bad for their business because they have less money to invest in better crops or a new tractor. Mutual insurance is no solution either, because weather events can damage large territories at the same time, affecting everyone. Only specialized commercial insurance can redistribute and cover such risks and make protection cheaper.

How do farmers react to the offer?

Farmers are interested, but for a lot of them crop insurance is something new. They need more information to understand what they can gain from it and why they should invest quite a lot of money in this product. The government now subsidizes half of the premiums because they see that insurance helps the farmers. But some farmers find it hard to raise the money even if subsidies are increasing every year.

If there is drought in a certain region, many farmers will be affected and make claims on Rosno. How do you protect against that?

This interdependence of risks and the possibility of claim accumulation is one of the most important problems in crop insurance. The best solution for this problem is hedging risks. Working with the financial markets, however, is only possible if we structure the risks clearly. Weather index insurance programs would make this easier.

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Crop insurance helps the farmer, but how does it improve wider food security?

It is actually quite simple, crop insurance provides farmers with financial stability and a safe longterm perspective. They don't have to save as much money as before to prepare for bad yields or losses. They can spend their money on new tools and seeds and this improves yields and that, in the end, food supplies and food security as well.

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