

IBLIP, Mongolia



INTRODUCTION TO INDEX-BASED LIVESTOCK INSURANCE PROJECT IN MONGOLIA

Knowledge transfer workshop, Ulaanbaatar
November 06, 2007



BACKGROUND:

Livestock sector in Mongolia

- Agricultural sector – 1/3 of national GDP in the Mongolian economy.
- Livestock sector - 87% of agricultural GDP.
- Livestock husbandry supports 1/2 of the population, particularly in rural areas.



BACKGROUND:

Livestock sector in Mongolia



- However, extreme climatic events cause high rates of livestock mortality, jeopardizing rural livelihoods: from 1999 to 2002
 - n frequent droughts and severe winters/springs (known as *dzuds*) caused loss of 1/3 of the national herd,
 - n 81,000 households lost ½ of their livestock,
 - n 12,100 households lost all livestock
 - n GDP growth drop to 1.1%

BACKGROUND:



Situation with Traditional Livestock Insurance

- Very little livestock insurance is being sold today in Mongolia.
- Livestock risks are considered to be uninsurable due to very large risk.
- Herders are dissatisfied of past failures in paying indemnities/low animal values on insurance.
- Lack of local branches to offer insurance in the country side/ poor contracts.





BACKGROUND:

Needs for New Livestock Insurance



- Since 1995 three attempts of the Government to create and implement mandatory livestock insurance have failed due to lack of feasibility and expected high administrative cost and high exposure to major cost during the event.
 - The index-based livestock insurance (IBLI)
 - n is linked to the direct outcome from *dzud* – high livestock mortality
 - n provides incentives to continue to manage herds by herders
 - n low administrative cost for ICs
 - n secure indemnity payments to insured
 - n pays out whenever the mortality rate in the local region (*soum*) exceeds a specific threshold.
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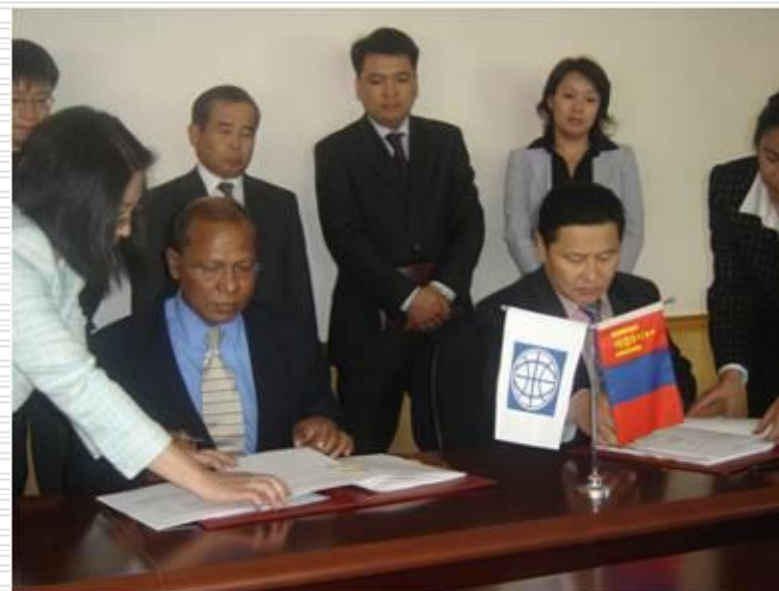
Project's Development Goal

- The development objective of the IBLI project would be *to ascertain the viability of index-based livestock insurance in Mongolia.*

This would be achieved through:

- n Developing and piloting IBLI program in three provinces of Mongolia; and
- n Building institutional capacity and legal framework for the prospective replication and scale-up of IBLI nationwide.

The IBLIP is to be implemented by the Government of Mongolia with financial assistance from IDA, World Bank, Japanese Government and FIRST Initiative from September 2005 to June 2010.





Immediate Objectives of the Pilot

- To learn if herders are willing to pay premiums at commercial rates for IBLI.
 - To learn if insurance companies are willing to take risk and have the capacity to organize sales of IBLI.
 - To gauge the interest of the international reinsurance community in sharing the risk during the pilot program.
 - To aid in capacity building in the insurance sector, both with private companies and with regulators.
 - To develop a new approach for responding to catastrophic risk inside the Government of Mongolia: how to use this new approach in a broader context of disaster assistance both from government and from the donor community.
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Pilot Aimags

- Implementation is on going in 3 provinces: Bayankhongor, Khentii and Uvs.
- Provinces were chosen considering geographical dispersion (different types of climate and terrain), agro-climatic variation and relative risk (low correlation of livestock losses).





IBLI Products

n 2 different products offered under the IBLI

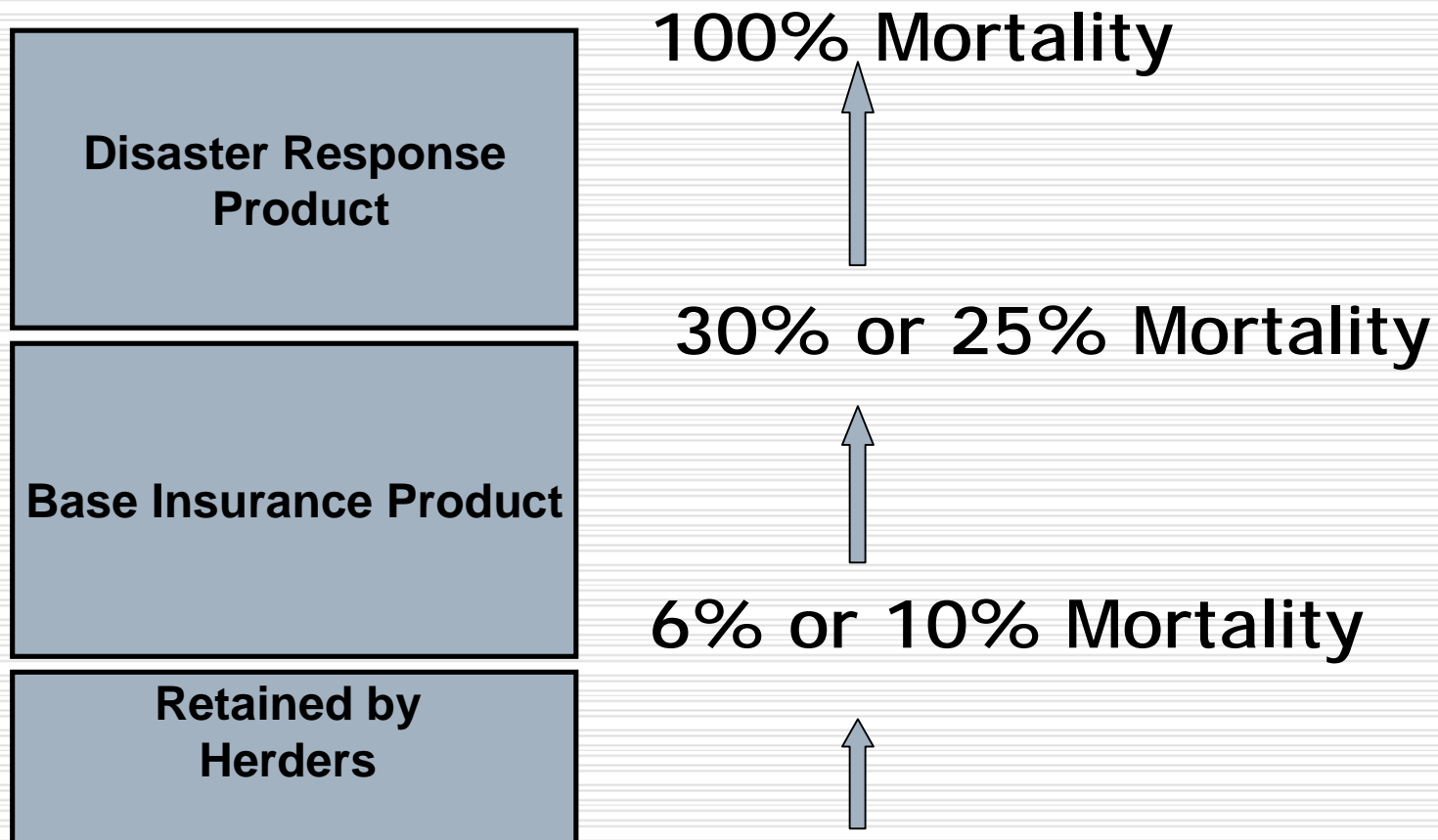
1. BIP-Base Insurance Product
2. DRP-Disaster Response Product

n IBLI product

Indemnity payment will be paid to insured herders based only on the soum level livestock mortality rate regardless of his individual losses



Layers of the Risk



IBLI Scheme



- Risk Management - Base Insurance Product (BIP)
 - n Voluntary participation;
 - n Sold by approved commercial insurance providers;
 - n Participating insurance companies pool their risk
 - n Index insurance based on animal mortality rates in each *soum* (smaller province);
 - n Government of Mongolia sells re-insurance to participating insurance companies.



IBLI Scheme



- Social Solution - Disaster Response Product (DRP)
 - n Offered by the Government of Mongolia;
 - n Voluntary participation;
 - n Herders pay small fee to register their animals;
 - n Provides monetary compensation to herders when soum losses reach catastrophic level;



IBLI Sales in 2006/2007



- Sales season ran through April 1–July 10, 06' and 07'
- n 3 to 4 insurance companies were selling in all 56 soums of 3 pilot aimags;
- n 144 certified agents;
- n Joint insurance fund – Livestock Insurance Indemnity Pool
- n IBLI Software with Portfolio Risk Assessment and MIS components

IBLI Sales 2006/2007



2006 Sales Result

Total insured herders: 2412

Bayankhongor aimag: 949 herders
(8.3%)

Uvs aimag: 1184 herders (12%)

Khentii aimag: 279 herders (4.2%)

Total livestock insured: 292000
heads (5.5%)

Total premium collected: 85.5
million MNT (about USD 74 thousand)

Mongol Daatgal: 47.3%

Tushig Daatgal: 35.3%

Prime Daatgal: 17.4%

BIP risk loaded premium: 83.3 million

DRP administrative fee: 2.2 million

2007 Sales Result

Total insured herders: 3705

Bayankhongor aimag: 1708 herders
(14.7%)

Uvs aimag: 1431 herders (14.2%)

Khentii aimag: 566 herders (7.9%)

Total livestock insured: 589000
heads (9.5%)

Total premium collected: 129.1
million MNT (about USD 110 thousand)

Mongol Insurance: 38.5%

Tushig Daatgal: 34.8%

Prime Daatgal: 12%

Bodi Insurance: 14.6%

BIP risk loaded premium: 121.1 million

DRP administrative fee: 7.9 million



Role of Government

- Set national framework for managing agricultural shocks
 - n Institutional framework
 - n Assessment of national risk profile
 - n Ex ante planning for natural disaster
 - n Education/public awareness
 - Promote insurance sector
 - n Legal and regulatory framework
 - n Promotion of services in rural areas
 - Financial management
 - n Reinsurance capacity for domestic insurers
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How this project complements other risk mitigation activities



- Regarded as potential way of insurance on livestock market;
 - Shares default risk of lending to the herder regionally;
 - Builds reserve funds for the future needs;
 - One version of systematic approach to assess disaster risk exposure
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How IBLIP contributes to the reduction of vulnerability of poor herders



- Protection against regional devastation and loss of income source;
 - Increased access to micro-finance service;
 - Covers most risky time and causes;
 - Alternatives to choose IBLI (products, species, thresholds and value)
 - Low transaction cost for per herder to determine indemnity;
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Difficulties

- Stakeholders usually treats to get somehow cash and/or other property from the projects
 - Low capacity of insurance companies
 - Insurance regulations have not finalized
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Comments and proposals

- Ready to cooperate with any other projects and organizations for constant and nationwide implementation of IBLI
 - If herders used to insure their livestock constantly, impacts from disaster will be reduced
 - Therefore incentives and discount systems are very useful and required
 - It is very important to prevent in advance instead of looking someone's assistance after the risk
 - It will be useful to offer more chances on markets, more methods of preventing from risks and other social services to herders instead of giving cash and products
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Thank you for your attention!

For more information please visit our website at
www.iblip.mn

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