



WRMA's Mumbai Meeting Highlights Potential for Indian Weather Risk Market

Attendees to the Weather Risk Management Association's (WRMA) first meeting in India learned about the potential and the challenges facing the country's weather risk market. The meeting -- which drew 57 attendees from banking, research, agriculture, insurance, and the government -- was held in Mumbai on February 26.

In 2004, the Indian market began utilizing weather risk management instruments to help agriculture and other industries manage weather risk, which, in India, is dominated by variations in rainfall. The market has operated to date on the basis of index-based insurance policies, which are sold to those bearing natural weather risk. The greatest number of such policies are sold to farmers with small holdings, through various programs of micro-insurance and in conjunction with micro-finance initiatives, so hundreds of thousands of such policies have been issued. In certain cases, reinsurers have supported this activity.

In the near future it is expected that India's financial regulators will approve the introduction of weather futures and weather index trading on the Multi Commodity Exchange of India and the National Commodity and Derivatives Exchange of India. With such developments and the resolution of data issues -- including questions of data access and the density of weather instrumentation -- India's weather market can be expected to grow further, changing its size, shape and dimension.

Observers who have followed the growth of the weather market since its inception in the US in the late 1990's drew a parallel with the development of the European market. The first WRMA meetings held in Europe highlighted similar obstacles to growth, namely difficult access to data and a restrictive regulatory environment. Eventually those obstacles were overcome in Europe, which paved the way for the market to flourish there.

The situation in India, however, presents a couple of important differences. First, it is dominated by one peril, the monsoon, which as a single variable is far more critical to the Indian economy than is any single variable to the economy of Europe or North America. Secondly, the Indian government's resources by themselves are less able to shield the population and the economy from agricultural losses stemming from unfavorable weather than those of European or North American governments. All this indicates that there is a body of risk which provides the foundation for the sustainable development of the weather market in India.



Arabian Sea offshore of Mumbai

Data issues are another challenge facing the India weather risk market. The Indian Meteorological Department (IMD) is updating its weather stations and increasing their number, which will provide more data of higher quality. However, existing quality control procedures slow the release of data, and there can be a time lag of three months or more from the time the data is recorded at the station until it is released by the IMD. The IMD greatly restricts the distribution of data, selling to each individual user company by company. It does not permit the reselling of data, although one Indian company, SkyMet, is trying to change these strictures so that it can gain access to the data for resale.

The great focus of India's weather market to date has been in the agriculture sector. Rainfall-based insurance policies are being well received as they offer a means of supplementing traditional crop insurance and providing swifter settlement of cash to farmers in the event adverse precipitation conditions prevail. These are the policies sold to large numbers of individual farmers. Farmers understand the general benefits of such index-based weather policies but have questioned settlements based on weather stations not in their immediate vicinity. To meet this problem there are plans to install rain gauges every 5 to 10 kilometers in farming areas, increasing the density of instrumentation recording weather and thereby reducing this source of basis risk.

WRMA would like to thank Professor K. Krishna Kumar of the Indian Institute for Tropical Meteorology for giving the opening address. The Association expresses its thanks to all the informative panelists and the moderators – Brian O’Hearne of Swiss Re, Vivek Pawale of Galileo Weather Risk Management Ltd., Valter Stoiani of ABN AMRO, Warren Isom of Willis Re, Anuj Kumbhat of Weather Risk Management Services, and Sonu Agarwal on behalf of Ingen Technologies. Special thanks go to the sponsors of the India Meeting – ABN AMRO, Galileo Weather Risk Management Ltd., and Swiss Re – for supporting this event, and to Willis Re for sponsoring the address by Professor Kumar. ●



Downtown Mumbai

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