

Development, Implementation and Evaluation of Index-Based Insurance Schemes for Optimal Risk Management in Agriculture

Fact Sheet

Project Information

AGINSURANCE

Funded under
FP7-PEOPLE

Grant agreement ID: 247723


Overall budget
€ 100 000

Status
Closed project

EU contribution
€ 100 000

Start date
1 October 2009

End date
30 September 2013

Coordinated by
MIDDLE EAST TECHNICAL
UNIVERSITY
 Turkey

Objective

It is well-known that agriculture is a risky business. In addition to the catastrophic events, farmers face double-risk by involving in production, namely output and price risks. Naturally, traditional insurance systems are developed to cover these risks: yield insurance covers the output risk and price insurance covers fluctuations in prices. Currently, as the European Union commission reports suggest, European countries offer mostly classical insurance systems. However, none of these systems offer enough coverage regarding farmers' revenues. As a result, the cost of uninsured risk keeps farmers dependent on the government subsidies by shying them away from possibly higher-return but risky activities. This project aims to develop, implement, and evaluate an optimal index-based revenue insurance mechanism which will allow the agricultural households to manage and minimize

their risks. The index developed will not be affected by households or the insurance agency, thereby eliminating the possibility of adverse selection and moral hazard. Unlike the current insurance schemes, the suggested innovative system will be market-based, self-sustainable, and easily scalable to the entire EU Region and the Associates. It will address both of the major risks faced by farmers while minimizing the need for government involvement in the market. Successful establishment of the proposed insurance mechanism will provide European farmers with the tools necessary to compete in the world markets. Soon after developing a feasible model, a particular emphasis will be put on outreach and education of farmers to make them familiar with basics of risk management and insurance. While the proposed scheme can easily be implemented by insurance agents, complex index-based contracts might stand as a potential barrier to create effective demand. An innovative financial education technique based on repeated games will be employed to familiarize agricultural households with financial concepts.

Field of science

/social sciences/economics and business/business and management/commerce

/social sciences/sociology/governance/crisis management

/social sciences/economics and business

/agricultural sciences/agriculture, forestry, and fisheries

/agricultural sciences/agriculture, forestry, and fisheries/agriculture

Programme(s)

Topic(s)

Call for proposal

FP7-PEOPLE-2009-RG

Funding Scheme

MC-IRG - International Re-integration Grants (IRG)

Coordinator



MIDDLE EAST TECHNICAL UNIVERSITY

Address

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Activity type

Higher or Secondary

EU contribution

€ 100 000

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Education Establishments

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