



## **FOR IMMEDIATE RELEASE**

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### **New Research Program to Develop Markets for Catastrophic Weather Risk in Developing Countries**

*Lexington, Kentucky, — July 1, 2009 —* A new program to support the development and pilot testing of effective and affordable index-based weather insurance products for markets that serve small farmers has been launched by GlobalAgRisk, Inc., of Lexington, working with an arrangement with the University of Kentucky.

The program involves two major activities: in-country work in Peru to develop index insurance against extreme El Niño, which creates catastrophic flooding in the northern regions of Peru; and a global research and outreach program to provide essential information about the potential and the limitations of index-based weather insurance.

Index-based insurance reduces the cost of insuring against some weather-related losses because no claim adjustment is required. Instead, payments are based simply on realized values of specified weather variables that are highly correlated with losses. These weather variables are measured by independent third parties such as government meteorological services.

The arrangement between GlobalAgRisk and UK supports a rigorous academic research agenda, which also includes scholars from Columbia University, Mississippi State University, and the Ohio State University. Complementing these efforts, internationally known specialists and a legal and regulatory advisor on index insurance will contribute to an ambitious research and outreach program. This global effort will inform academics, donors, non-government organizations, and professionals regarding the efficacy of index-based weather insurance for reducing poverty and improving development in lower income countries.

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A grant to GlobalAgRisk from the Bill and Melinda Gates Foundation supports this program as part of the Foundation's efforts to create financial markets to serve the poor. Progress in transferring natural disaster risks to global markets could have a major impact on economic development and poverty reduction in lower income countries.

Natural disasters, such as drought and flooding, can affect large numbers of people simultaneously, and can have a major impact on the rural poor. For example, extreme El Niño events in 1982–83 and 1997–98 created catastrophic flooding in the northern regions of Peru.

“The area we're working in is called Piura,” said Jerry Skees, president of GlobalAgRisk and the H.B. Price Professor of Agricultural Policy and Risk in the Department of Agricultural Economics in the UK College of Agriculture. “They grow bananas, mangos; they can grow anything there. But when El Niño comes, it rains 40 times more than normal, rivers flood, highways break down, bridges are washed away. It creates a massive catastrophe. The last two El Niños were really devastating to the region.”

Natural disasters create a constraint for lenders since a large number of loans are often not paid when natural disasters occur. Being able to transfer these risks into global reinsurance markets should improve financial services by lowering interest rates and increasing access to credit for smallholder farmers and other operators of small and medium enterprises.

GlobalAgRisk, Inc. has worked in Peru since 2005 with support from the United States Agency for International Development (2005–2006) via a subcontract with DAI, Inc. of Bethesda, Maryland. In the last year, GlobalAgRisk and local partners significantly advanced the development of index-based insurance against extreme El Niño risk. The insurance will be sold directly to financial institutions, firms in the value chain, and farmer associations operating in Peru.

“The most unique aspect of this is the payments will actually occur before the catastrophic flooding begins,” Skees said. “That's never happened before. That's potentially revolutionary for these efforts because it gives people cash early enough that they can make the adjustments they need and organize themselves to get ready for the catastrophe that's coming.”



Skees has been a global leader in the development of index-based insurance. His first contribution using index-based insurance was the development of the Group Risk Plan (GRP) for U.S. farmers in 1992. As of 2008, over 28 million acres of crops were insured under the GRP as part of the U.S. federal crop insurance program. He established GlobalAgRisk to focus on the design and development of sustainable, risk management products targeted at improving the livelihoods of the rural poor. GlobalAgRisk has conducted feasibility assessments, product design, and pilot implementation activities in numerous countries around the world, most recently with projects in Mali, Mongolia, Peru, and Vietnam.

**ABOUT GlobalAgRisk** — GlobalAgRisk specializes in developing innovative financial instruments for agricultural and weather risk management. This work includes designing, underwriting, actuarial analysis, and legal and regulatory advising to make new financial instruments viable in lower income countries. GlobalAgRisk has worked with governments, international donor agencies, and the private sector on the design, development, and implementation of risk transfer products with the goal of creating sustainable products that meet the needs of the rural poor.

*Mission — GlobalAgRisk is committed to improving access to financial services for the rural poor through innovative approaches for transferring weather risk.*

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