

Facilitator Notes

Livestock Insurance in Mongolia

Session title:

Which Livestock Insurance is Right for Mongolia? – Examining livestock insurance options in the case of Mongolia

Time:

60 min.

Materials:

Case study write-up on Livestock Insurance in Mongolia

Process:

Step 1: Introduce the case, the objectives and explain the procedure. Divide the participants into groups of five or six. Assign participants/students to read and familiarize themselves with the case (10 min)

Step 2: Put up the list of questions below on a flipchart and ask the participants to discuss the case and prepare their responses to the questions as a group. (25 min)

Questions for participants:

Imagine you are hired as technical advisors in the place of Ganbold and Willem.

1. Which alternative do you think is more appropriate for Mongolia? Why? Please pay attention to the process, not just the potential approach. Below is a table that is intended to help you in rating the above three types of insurance based on key performance criteria:

<i>Rate as “low-med-high”</i>	<i>Traditional insurance</i>	<i>Weather index insurance</i>	<i>Livestock mortality rate index insurance</i>
The insurance should not reward poor managers.			
The insurance must be affordable by a large number of herders and others at risk when major livestock losses occur.			
The insurance must be sustainable and profitable for emerging private insurance companies.			
The first products should focus on the			

most significant covariant risk.			
A proper role for government should be to foster development of risk sharing markets without imposing large social cost.			
The insurance should work in harmony with other initiatives, including the vast array of development aid and emergency assistance that is provided.			

2. What possible challenges do you think may arise in the case of the option that you recommend? For example, the issues of inaccurate and incomplete data gathering system would be a challenge if you were to recommend the index insurance.

3. What would you recommend to respond to those challenges? What needs to be done?

4. What are the possible risks for each of the following stakeholders?

- a. For herders
- b. For insurance companies
- c. For government

Step 3 (20 min): Groups present their solutions focusing on the pros and cons. Most important is to pay attention to the implications and challenges of each option and ways to address those challenges.

Note on the pros and cons of mortality rate index insurance:

The advantages of the mortality rate index insurance are: it addresses the problems of adverse selection and moral hazard; it is relatively easier to administer with lower administrative costs; and it encourages good herders. The herders who increase their efforts during a major event (*dzud*) would likely be compensated for their effort even though they do not lose livestock, since this insurance would pay all herders in the same *soum* at the same rate. Bankers who were presented with the idea of insuring based on mortality losses within the *soum* expressed a keen interest in this alternative insurance.

Several challenges exist. The current system of collecting data on mortality and adult livestock numbers for *soum* is flawed, and data on mortality and adult livestock numbers is not complete for all species or for all *soums*. Since mortality rate insurance is a rather new concept (never tested on livestock), information about it is limited. Finally, the risk varies at the *bag* level, hence needing different thresholds at the *bag* level.

Step 4: Review/wrap up/questions (5 min).

Recommendation/Solution

Explain to the participants that the consulting team recommended a pilot testing with index insurance in three *aymags*. Currently, the plan is under review with the Parliament and awaiting approval from the World Bank for funding. Some of the issues listed above for the participants to discuss have not been resolved and are still begging for solutions. So, participants' suggestions would be useful for the project unit housed at the Ministry of Finance. Bring out these issues and solicit participants' suggestions.

Issues that need to be addressed:

- Challenges in monitoring the quality of data collection due to wide-spread herder households.
- Sampling method for livestock census, to avoid having to monitor the census at each *bag* level, which has proven to be impossible
- Possible risks and challenges for the herders, insurance companies and government
- Herders have little or no cash but are willing to pay in kind. Is there a strategy for addressing this challenge?

It is important to note that these solutions may not be applicable in every situation. MFIs should assess their own context when they identify solutions