

Drought May Spur Interest in Crop Insurance

By [The Moscow Times](#)

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Swiss Re, the world's second biggest reinsurer, expects the current drought to spur interest in the nascent Russian crop insurance market as farmers re-evaluate the risk of crop failure.

"Nobody knows if the weather pattern that we see at the moment can repeat itself next year or just in 20 years, and I think this helps to raise awareness for financial risk management measures," Swiss Re director Reto J. Schneider said in an interview.

The Zurich-based company estimates that 25 percent of Russian crops are insured, well below the 80 percent level seen in the heavily subsidized U.S. market.

In lieu of insurance, many farmers continue to rely on government bailouts when crops fail, although the market has grown considerably since 2003, when insurance penetration was in the single-digits according to Swiss Re estimates.

Most farmers in the hard-hit Black Earth region say they had never used insurance but would consider it if the drought continues.

The government has sought to encourage the development of the crop insurance sector by providing a 50 percent subsidy on the premium for multi-peril crop insurance since 2003.

"They are promoting it and showing their positive intentions with the subsidy program," Schneider said.

However, farmers questioned in the Swiss Re report viewed insurance negatively, citing high costs and concerns about receiving payments on claims filed to insurers.

Independent and state-owned Russian forecasters have sharply reduced their 2010 wheat and overall grain crop estimates, but Schneider said it was too early to calculate the total losses.

"At this time it's not possible to make any type of clear forecast in terms of expected results because not all of Russia's territory is consumed by the drought," he said.

Swiss Re's 2010 results will only be affected marginally by the drought because reinsuring Russian agricultural insurers makes up only a small part of the company's premiums, which totaled 24.6 billion Swiss francs (\$23.3 billion) last year.

Nonetheless, the company is confident that its business in Russia, as well as neighboring Ukraine and Kazakhstan, will grow as the agricultural sector expands.

Russia was the world's third largest wheat exporter last year, although its goal of remaining a top exporter was put on hold earlier this month when it banned exports until the end of the year.

"We very much believe in this market. This is soon going to be the breadbasket of the world because it's where the land is available," Schneider said.

Swiss Re has been active in the Russian agricultural reinsurance sector since 2005.

The company competes with "a handful" of the world's top-10 reinsurers in Russia, Schneider added.

"It's a challenge because it's a relatively young market," Schneider said. "Structures, processes and strategies must be developed and worked on."

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