

Temperature and Rainfall Index Insurance in India

Ayako Matsuda and Takashi Kurosaki*

March 2015

Abstract

Weather index insurance has been attracting much attention from academics and policy makers. This paper investigates the demand for temperature and rainfall index insurance in India using the data from subsidy experiments. We find that price and asset levels influence the demand for both temperature and rainfall insurance. We also show that farmers' response to the discount becomes less price-sensitive as the amount of discount increases. Non-price factors such as age of a respondent and education are important determinants. Purchase decisions are also influenced by an individual prior experience and society experience of insurance.

* Matsuda: Research Fellow of Japan Society for the Promotion of Science and the University of Tokyo; e-mail: aymatsu@e.u-tokyo.ac.jp. Kurosaki: Institute of Economic Research, Hitotsubashi University; e-mail: kurosaki@ier.hit-u.ac.jp. We are grateful to Ethan Ligon, Brian Wright, Pranab Bardhan, Yasuyuki Sawada, and audiences at UC Berkeley Development Workshop and PRIMCED Conference at Hitotsubashi University for their useful comments on earlier versions of this paper. Funding for this project was provided by JSPS Grant-in-Aid for Scientific Research-S (22223003), JSPS Program for Next Generation World-Leading Researchers, the Nakajima Foundation, and the Institute of Business and Economic Research, University of California, Berkeley. The authors are also indebted to IFFCO-Tokio General Insurance Co. Ltd. and Pranam Welfare Society for the survey implementation. We would like to acknowledge especially Shubham Jain for his superb administrative and research support in this regard.