"STRATEGIC AGENDA FOR BROKERS IN AGRICULTURAL INSURANCE SERVICES."

PRESENTATION AT NIRSAL WEBINAR.
THEME: DEEPENING AGRICULTURAL INSURANCE PENETRATION IN NIGERIA: OPPORTUNITIES AND STRATEGIES

Paper presented by:

'Wale Oluwade

June 18, 2020.

NIRSAL Project Consultants

ACL ACCREDITED CONSULTING LIMITED

CORPORATE PROJECTS & RESOURCES LIMITED

Presentation outline:

- Introduction
- Nigeria macro economic facts
- Global insurance statistics
- Nigeria Insurance industry – a snapshot
- Crop Insurance Industry
- Drivers of Increase in Agric Insurance
- Agric insurance products
- Index-based Agric insurance; (what it is, products, benefits & challenges)
- The Role of Insurance Brokers in Agric Value Chain.
- Strategic Agenda for Brokers.

Introduction

Agriculture constitutes a significant proportion of the economy of any nation, even for fully developed economies. For many developing economies, especially in Africa, agriculture contributes an average of 21.5% to GDP, in Chad it 50%. It also represents about 50% of foreign exchange earnings, excluding Nigeria (1.6%).

Agriculture in Africa, represents not only a means for attaining food security but critically, it is an economic tool for reducing import dependence, foreign exchange losses, increasing GDP, creating employment and fostering peace across borders.

It is in this context that the critical role that agricultural insurance plays become really appreciated. If government at all levels, investors (local & foreign) and financial institutions have the confidence that insurance provides, they will be spurred to do a lot more.

This paper, is intended to highlight the best practices in Agric insurance for brokers and provide a strategic agenda going forward.

Nigeria Macro Economic Facts 2018.

- Population - 206m
- GDP (2019) - $410 billion USD (27TH)
- PCI - $2,222 USD
- Agriculture cont. - 21% & 30% of workforce
- Foreign Exch. - $10.4b (2019)
- Sector leader - 83.6% Crude Oil
- Agriculture - 2.5% (cocoa, sesame, sorghum, etc).
- Inflation rate - 13.9%
- Interest rate - 12.5%
- Unemployment rate - 13.4%

Global Insurance – Facts

- GPI (World) $5.0 Trillion USD (2018)
- GPI (Africa) $60.0Billion USD (2016)
- %age Share 1.2% (Swiss Sigma, Swiss RE, IMF).
- Rate of Penetration (world) 6.3%
- Av. rate of penet., Africa 2.8%
- Rate of penet. in S. Africa 17.0%
- Rate of Penet. in Nigeria 0.7%
- S.Africa share of African Mkt. 88.6% or $53.2 billion (17th Global).
- Nigeria share of African Mkt. 2.3% or $1.64 billion (62th Global)

The Nigerian Insurance Industry –

- No of Insurers: 28 General Insurers
  13 Composite Insurers
  14 Life Insurers
- No of approved Brokers: 457 App. brokers
- Industry GPI 2018: N664billion or $1.9b.
- Value of Agric Insur. to GPI ????????
- Value of global Agric Ins. $25b.
- Africa's Agric Insurance $200m. Or (0/7%).

Crop Insurance Today - the Global Picture

The total annual agricultural and forestry insurance premiums, worldwide, in 2016 amounted to some US$25 billion. Of this amount 70 percent is accounted for by crop and forestry products.

Geographically these insurance premiums are concentrated in developed farming and forestry regions, i.e. in North America (55%). Latin America and Asia account for 4% each, Central/Eastern), Western Europe (29%), Australia and New Zealand (3%) and Africa less than 1%.

These figures present a snapshot view of agricultural and crop insurance. A dynamic rather than static view indicates a changing situation. Agricultural insurance is a growth business area. This growth is driven not only by the increasing commercialism of agriculture and the availability of new types of insurance products, but also by international trade policy developments.

Crop Insurance Today - in some Developing Countries

The previous slide makes it clear that crop insurance is primarily a business which involves developed country farmers. However, some 13 percent of global premiums are paid in the developing world.

Argentina

This country has many of the features of developed agriculture, so it is not surprising that some 25 percent of the total crop area is insured - mostly just against hail damage, though a start has been made to introduce multi-peril policies. The crops concerned include soybean, wheat, sunflower and maize (corn). Insurance on grapevines and other fruits is also important.

Cyprus

The Agricultural Insurance Organization of Cyprus (OGA) was established under an Act in 1977, following earlier attempts to structure relief payments for farmers affected by adverse climatic events.

India

The crop insurance scene in India is old and has undergone numerous reforms. A recent development is that private sector banking/insurance interests, with some advisory assistance from the World Bank, now offer index insurance, an insurance product covering non-irrigated farmers against the risk of insufficient rainfall during key parts of the cropping season.

Nigeria –
Agriculture insurance was introduced to Nigeria in 1987 through the Nigerian Agric Insurance Scheme, which later became a public sector funded corporation, NAIC in 1993. the corporation began writing a portfolio of crop, forestry, livestock, poultry, and aquaculture insurance.

The NAIC has since requested the technical assistance of the World Bank to develop capacity for index-based crop insurance products to complement its portfolio of indemnity based loss of investment cost , LIC, policies. Currently, a few other players in the industry have entered into the Agric insurance business to deepen penetration.

Regardless, the performance of the entire insurance sector is still extremely poor and this impacts on Agric insurance.

What is the Way Forward?

- So how does Africa increase our overall performance in in general and agriculture insurance in particular.
- What is the role of brokers in the insurance value chain as well as the agriculture sector?
- How can insurance penetration in Nigeria be significantly deepened?
- What lessons can be learnt from East African agriculture insurance market?
- What are the innovative ideas adopted in other jurisdictions?
- What are the push and pull factors in agriculture insurance in Nigeria?

DRIVERS OF INCREASE IN AGRIC. INSURANCE.

1. Climate Change catastrophic losses due to unforseen adverse weather conditions.

2. Investor/farmers who have a substantial interest in the success of a given crop are likely to have borrowed from a bank in order to make the necessary investment.

3.The WTO, AFDB and other development institutions requirements and/or regulations, generally forbid governments from subsidizing agriculture directly; however, they permit the subsidization of agricultural insurance premiums. For those countries wanting and able to effect transfer payments into their farming sectors, insurance provides a convenient channel for doing so.

4. Increase in Contract farming Schemes -

In contract farming both the grower and the buyer expect to benefit financially from a crop which is up to normal expectations in terms of both quantity and quality. Both therefore have an “insurable interest”. This means that an insurance product could be structured so that each party receives an indemnity in the event of an insured loss.

Some examples of contract farming arrangements in developing countries:

- Many thousands of out-growers produce tea under contract to the Kenya tea industry;
- 2,200 farmers from 164 villages in India grow maize and soybeans for a major poultry producer;
- 30,000 farmers in Northern Thailand grow vegetables for local exporting firms to export to Japan;
- Banana production by smallholders in Central America is very commonly arranged under contract with major fruit corporations;
- Hundreds of cocoa farmers grow and export to multi-natinational food & beverages corporations both locally and foreign;

- Fast food chains in the Philippines and elsewhere frequently contract with local farmers for supplies of potatoes for French fries, and also for salad vegetables;
- 44 growers in Northern India grow tomatoes for paste under contract to Hindustan Lever.
- Over 1000 small-holders rice growers in Nigeria participating under the ‘rice revolution’, pushing annual production to 3.7% in 2019 though still less than the total annual consumption of 7%.
- In many of these cases insurance protection could be arranged against major weather perils as part of the contractual arrangement.

Drivers of Agric Insurance in Nigeria.

- The FGN has made Agriculture a focal point of its economic diversification strategy. This has informed the inception of several innovative ideas;
- Anchor Borrowers Scheme, is a CBN agriculture funding program aimed at empowering 225,000 farmers, (5,000 across the 36 states and FCT)
- The program is implemented by the Nigerian Incentive-Based Risk Sharing System for Agriculture.
- The key objective is to make agriculture more attractive to investors by de-risking the entire value chain in agric-business.
- NIRSAL has deployed innovative-nationwide structure to support the ABS. The structure is known as Project Monitoring and Remediation Office (PMRO).

Agric Insurance products: Traditional, New & Exotic

1. **Multi-Peril Crop Insurance (MPCI)**
2. **Yield-based Products**, e.g. Multi-peril Crop Insurance (MPCI) after a defined loss event.
3. **Crop-Revenue Insurance Products**
4. **Index-based Insurance Products.**
5. **Accidental Introduction of Pests and Diseases, (Pandemics) -**

Index-based Insurance Products

- In a classic crop insurance policy, evidence of damage to the actual crop on the farm, or in the area of the farm, is needed before an indemnity is paid. But verifying that such damage has occurred is expensive, and making an accurate measurement of the loss on each individual insured farm is even more costly.

- An index (also known as 'coupon') policy operates differently. With an index policy a meteorological measurement is used as the trigger for indemnity payments. These damaging weather events might be:

- a certain minimum temperature for a minimum period of time;
- a certain amount of rainfall in a certain time period - this can be used for excess rain and also for lack of rain (drought) cover;
- attainment of a certain wind speed - for hurricane insurance.

- The standard insurance policy is replaced with a simple coupon. Instead of the usual policy wording, which would give the indemnity, or range of indemnity levels, on say a per hectare basis for a given crop, for losses from specific causes, the coupon merely gives a monetary sum which becomes payable on certification that the named weather event, of specified severity, has occurred.

- The face value of the coupon may be standard, to be triggered once the weather event has taken place for the area covered. Alternatively it could be graduated, with the value of the coupon then being proportional to the severity of the event.

Why Index-based Agric Insurance?

- Agriculture is considered the lifeblood of African economies. More than half a billion Africans depend on smallholder farms for their livelihoods and source of income.
- Agriculture represents 21% of total GDP on average (ranging from 3% in Botswana & South Africa to more than 50% in Chad) and 50% of the total value of exports.
- Nigeria's Agriculture contribution to GDP is 21.2% while export earnings is 1.6%. (2018).
- Lack of access to inputs, services, credit and markets make smallholder farmers highly vulnerable to risks, which have been increasing due to extreme weather events, such as drought, heat stress and flooding.

Index-based crop insurance products

Insurance pay-out is based on an index measurement

- **Area-yield insurance** bases pay-out on the shortfall in realized yield of an area relative to the expected yield, which can be the average historical yield. The area can be defined as a group of villages or districts that are homogenous in crop production and yield.
- **Weather insurance** products are based on one or more independently measured weather indices such as rainfall or temperature. Ideally, the index is closely correlated with the actual loss experience of the farmer. The insurance pay-out is often defined as a fixed amount, which is a function of the deviation of the actual weather parameter from the one previously agreed on.
- **Index insurance** products for crop protection use remotely sensed data on crop health, energy absorption of the vegetation or soil moisture content. To build an accurate insurance protection, the index insurance products need to correlate strongly with the crop yield. In cooperation with the Dutch specialist company VanderSat, we offer drought insurance solutions based on remotely sensed soil moisture data.

Why Index-based Agric Insurance…?

- The impact of small shifts in temperature and rainfall has been found to be disproportionate, greatly reducing crop and livestock yields and productivity. For example, in Cameroon a 14% reduction in rainfall is estimated to have caused around USD 4.65 billion in economic losses.
- The impact of climate in the North east of Nigeria, the chad basin, affecting agriculture and responsible for economic losses for cattle breeders, etc.
- The federal government is proposing to fight pest infestation with $32.5M (N13billion) in the NE. That seems a potential loss of revenues to the insurance sector.

Why Index-based Insurance…..?

- Index-based insurance is considered a promising tool to enhance farmers' resilience and protect their production risks.
- 96% of the products that are available in the agricultural insurance market are indemnity-based. Indemnity-based agricultural insurance provide valuable support in many countries.
- However, they are susceptible to adverse selection (less efficient farmers are more likely to purchase insurance), moral hazard (farmers may exaggerate yield loss) and high costs of loss assessment, linked to the fact that farm visits are needed to determine the cover limits and assess the loss when a claim has been made.

Kenya Agricultural index insurance program

- One example of an agricultural index insurance program is the government-sponsored Kenya Livestock Insurance Program (KLIP) which is scaling up across the region.
- In this program, the government purchases drought insurance from private insurance companies on behalf of vulnerable pastoralists. Satellite data is used to estimate the availability of pasture on the ground and triggers pay-outs to pastoralists when availability falls.
- However, index based insurance also introduces a new set of challenges and, despite the existence of several pilots, has yet to reach scale.
- The KLIP is a model/policy that can be adopted to stem the incessant crises of pastoralists and farmers/cattle rustlers in Nigeria.*****

Benefits of index-based insurance have three aspects:

- It increases access to finance and productivity for smallholder farmers;
- It increases food security; and
- It increases finances to government for post-disaster relief responses.” *****

Challenges with Index Insurance – East African Experience

These Issues include:

- ✓ Inadequate infrastructure ad support services,
- ✓ Adverse selection - only those farmers more at risk will buy cover;
- ✓ Moral hazard - the insured farmer may not do everything possible to avoid or minimize a loss;
- ✓ Transactions costs - the huge costs of marketing individual insurance policies, coupled with the administrative costs involved in calculating and collecting individual premiums and paying claims;
- ✓ Loss assessment expenses - if loss assessment is done on an individual farm basis the costs can be very large in comparison to the premium paid.

Key Perils/Risks

- A listing of key perils and risks for agriculture across the world would be long. For the present purposes it is useful to focus on those which are of major concern to developing countries. Further, they can be clustered into a number of groups. One such clustering would produce a list as follows:
- ✓ Production risks;
- ✓ Natural resource risks;
- ✓ Financial risks;
- ✓ Marketing and price risks

1. **Production Risk Perils**

This is the main category of insurable risks. Both quantity and quality losses can result. Perils included are:

- Adverse climate conditions: drought, excessive rain, flood, windstorm, frost, hail, sunburn, snow;
- pest and disease attack;
- fire.

2. **Natural Resource Risks**

These include:

- Adverse soil conditions, e.g. salinity, erosion of topsoil and loss of soil nutrients;
- deterioration in water quality e.g. due to pollution of the water table or natural water courses;
- lack of water from the irrigation source.
- Lack of quality feed for cattle and other livestock

Which Crops are Insured?

1. Benefit/cost issues

2. Annual field crops

Wheat, maize, rice, soybeans, sorghums, cotton, beans etc. are all insured in various parts of the world. As annuals, any loss or damage is just to one season's crop - unlike for perennial crops and forests. This simplifies loss assessment, in contrast with the situation of Perennial Crops, taken up below.

3. Perennial crops

4. Glasshouse crops

Crops grown under glass, plastic or other coverings generally fall into the “high value input - high value output” category. As such, risk management planning is very important, since loss of the crop and/or the structures can mean a heavy financial blow. In fact in those countries where glasshouse and plastic house cultivation is important, insurance is usually an integral part of the production financial plan, and the potential liability for insurers is very substantial.

The Role of the Broker:

The insurance broker or agent is the critical factor in deepening market penetration. Until brokers assume their traditional role and confront the challenges frontally, our industry will remain an underperformer.

1. Risk Assessment (from a risk management frame of mind).
2. Determination of appropriate cover(s)
3. Process Insured's claims
4. New Product Development
5. Marketing existing products
6. Engage in R&D with Industry players
7. The use of technology – innovation.
8. Data Management System.
9. Training & development.

The skills of the Broker

For the brokers to perform their traditional roles optimally and efficiently, they require a combination of technical and people skills.

Sadly, I see that the bane of Nigeria's insurance sector is primarily due to the lack of eminently capable and highly skilled human resources.

A cursory comparison between other professionals in the banking & pensions industries will expose the embarrassing gaps in levels of embedded capacity & competence.

This major deficiency can be remedied by a robust investment in training and retraining of the human resources of insurance industry.

Strategies to Bridging the Gaps

1. Recruitment & selection of persons with high IQ & EQ, especially those with quantitative mindset or background.
2. Investment in personal development by insurance brokers.
3. Deliberate allocation of expenditure for training & human capacity development by boards & Mgt.
4. The creation of R&D units by insurance companies in collaboration with brokers.
5. NAICOM to ensure training and HCD is a regulatory or compliance issue with strict penalties for breaches.

Q & As

Thank you for listening.