



AGRICULTURAL INSURANCE :A FOCUS ON THE SOUTHERN CONE

OBSERVATIONS AND CRITICAL SUCCESS FACTORS

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Agriculture's True Contribution To The Economy

- **Traditional measurements of agriculture's contribution to Gross Domestic Product is generally less than 10% of GDP. These indicators are incorrect.**
- **According to an IICA study the true Agricultural Gross Domestic Product (Ag GDP) of Southern Cone countries is 25% and higher.**
- **The new indicator includes fertilizer, seed, transportation, storage, and food processing. Traditional measures typically capture only production value.**
- **In Uruguay's case when applying a broader definition the output totaled over 34%!**

Agriculture's True Contribution To The Economy

The Table shows The Contribution of Primary Agriculture and “Agriculture and Agrifood” to the Gross Domestic Product.

	GDP (1)	AgGDP ¹ (2)	AgGDP/GDP (3)	Agriculture and Agrifood GDP ² (4)	Agriculture and Agrifood GDP/GDP (5)
Argentina	326	14.9	4.60%	104.9	32.20%
Brazil	789.7	34.0	4.30%	206.9	26.20%
Canada	631.1	11.5	1.80%	96.5	15.30%
Chile	76.1	4.3	5.60%	24.4	32.10%
Colombia	94.6	7.6	8.00%	30.4	32.10%
Mexico	388.8	17.9	4.60%	95.2	24.50%
Peru	64.9	4.3	6.60%	20.6	31.80%
Uruguay	19.1	1.2	6.20%	6.6	34.80%
United States	7,945.2	55.4	0.70%	644.9	8.10%
Venezuela	83.7	3.4	4.00%	17.2	20.50%
Costa Rica ³	22.0	2.5	11.30%	7.2	32.50%

Source: IICA. Based on data from GTAP 5.0 and the SAM of Costa Rica for 1997 (IICA)

1 Includes: agriculture, forestry and fishing (chapters 01 to 04 of the CPC and 05 of the ISIC)

2 Includes: primary sector plus food and manufactured goods derived from this sector (chapters 21 to 25 of the CPC and 17 to 22 of the ISIC)

3 For Costa Rica, the primary sector consists of the first 9 lines of the SAM97; for agriculture and agrifood, 10 through 23 are added.

Data taken from IICA Publication: More Than Food On the Table: Agriculture's True Contribution To The Economy



IICA's Commitment to Agricultural Insurance

- **Resolution 411 issued in 2005 to IICA by the Ministers of Agriculture:**
Horizontal cooperation in the area agricultural insurance

- **Steps Taken to Date Include:**
 1. Organized multiple conferences around the hemisphere
 2. Published various reports
 3. Hired an expert in agricultural insurance
 4. Presentations at various conferences
 5. Publication on the status of agricultural insurance in Latin America
 6. Multiple meetings with the international reinsurance community

- **Steps In Process Include:**
 1. Publication on the status of agricultural insurance in the Hemisphere
 2. Development of a distance learning course
 3. Consultations with various Ministers of Agriculture and other senior government officials
 4. Formalize relationship with ALASA
 5. Preparation of a 5 year project valued at US\$15 million for approval CIDA Canada in Haiti



Key Observations

- Without effective climate risk management poverty reduction will not occur; insurance is an essential risk management tool.
- Disaster assistance is a political tool that has proven to be expensive and poorly administered
- Without insurance banks will not provide sufficient lending. Without lending economic growth in the agriculture sector will be marginal at best
- Funding institutions such as the World Bank or the Inter-American Development Bank respond to country requests. Their agriculture loan portfolios have steadily decreased from approximately 30% in the 80's to around 6% today
- This reflects the incorrect view by many countries that agriculture is not a significant or strategic component to the economy



Key Observations (cont)

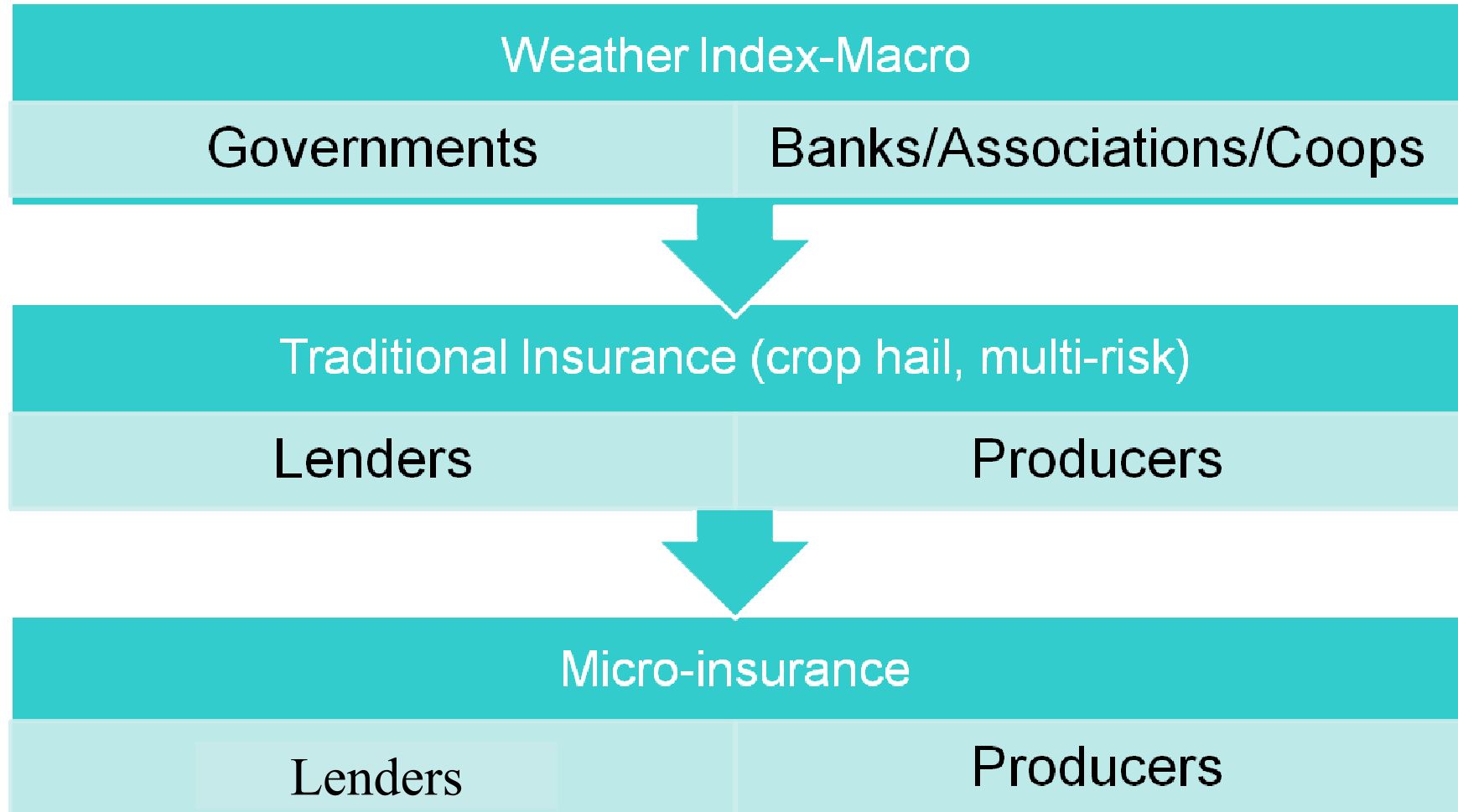
- **The food security crisis has drawn the attention of governments but has been overshadowed by the broader economic downturn...but the crisis continues to expand**
- **The world-wide donor community has been addressing agriculture insurance in a fragmented fashion**
- **The World Bank has taken the lead in developing agricultural insurance programs among the donor community. It identified agricultural insurance as 1 of 10 key initiatives to address the food security crisis.**
- **Governments and the Central Banks must take the first step to attracting the private sector through regulatory changes**



A Closer Look at Agricultural Insurance

- It is the most complex form of insurance
- Insurance is segmented into three major areas: traditional, weather index, and micro-insurance
- This type of insurance must be supported by sound science and be actuarially sound.
- The insurance community is very interested in expanding agricultural insurance. It is evaluating the preparatory work of each country in developing a sound foundation before entering into the market.
- Agricultural insurance requires the full support of the Finance Ministry and the Central Bank

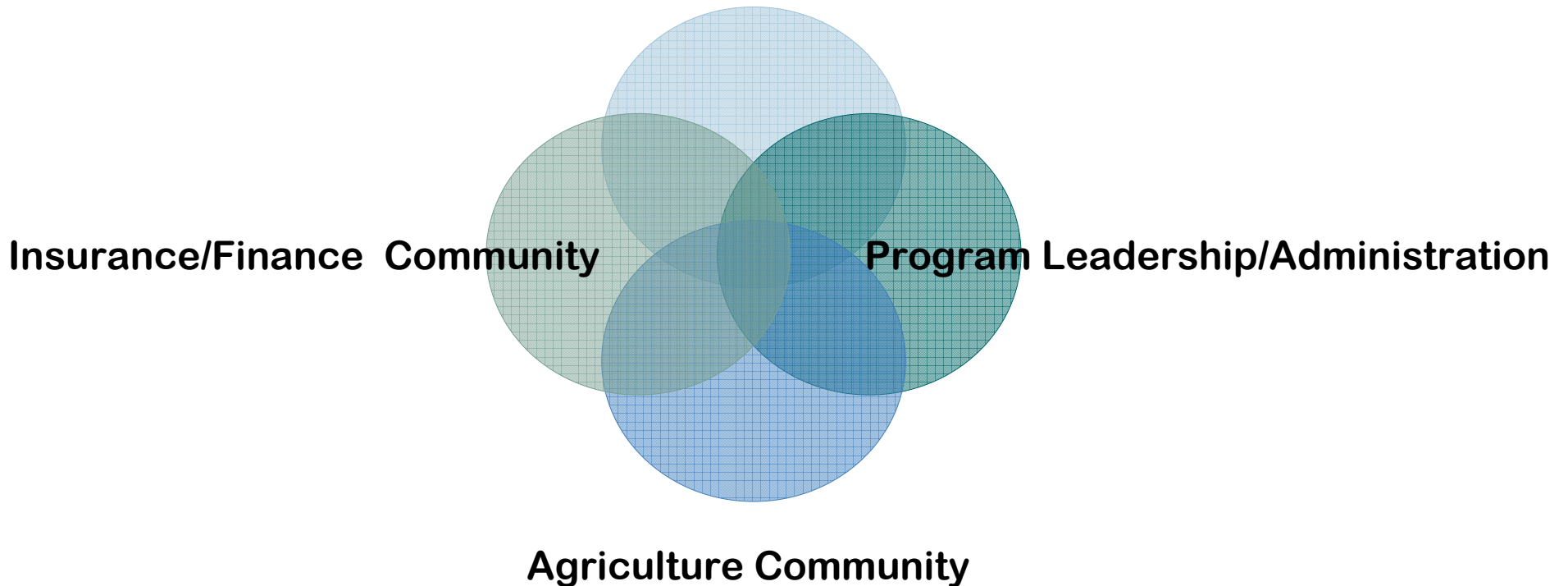
No Single Insurance Solution





Preferred Insurance Model: A True Public-Private Sector Partnership

Government Legislation and Finance





Taking the First Step: Essential Government Actions

- **Enduring conviction at the ministerial and central bank level that agricultural insurance is fundamental to economic prosperity and poverty reduction**
- **Effective cooperation between the agriculture and finance ministers will be essential**
- **Create regulatory framework to address such issues as: tax treatment, cooperatives, government oversight, subsidies, immigration/residency provisions for selected professions, and long term program stability**
- **Create a comprehensive risk management model with risk profile to include weather data, climate maps, crop damages, risk maps**



Building the Correct Foundation: Survey the landscape-Cultivate the field

- **Secure *long term commitment* with key financial institutions**
- **Develop a comprehensive data base the guaranties integrity and permits sound analysis**
- **Create the correct legal, regulatory and financial environment**
- **Introduce global reinsurers early**
- **Determine a country-wide risk retention strategy based upon a risk profile of the country**
- **Learn from the experiences of other countries continually**
- **Secure buy in from the agricultural sector-begin with education**

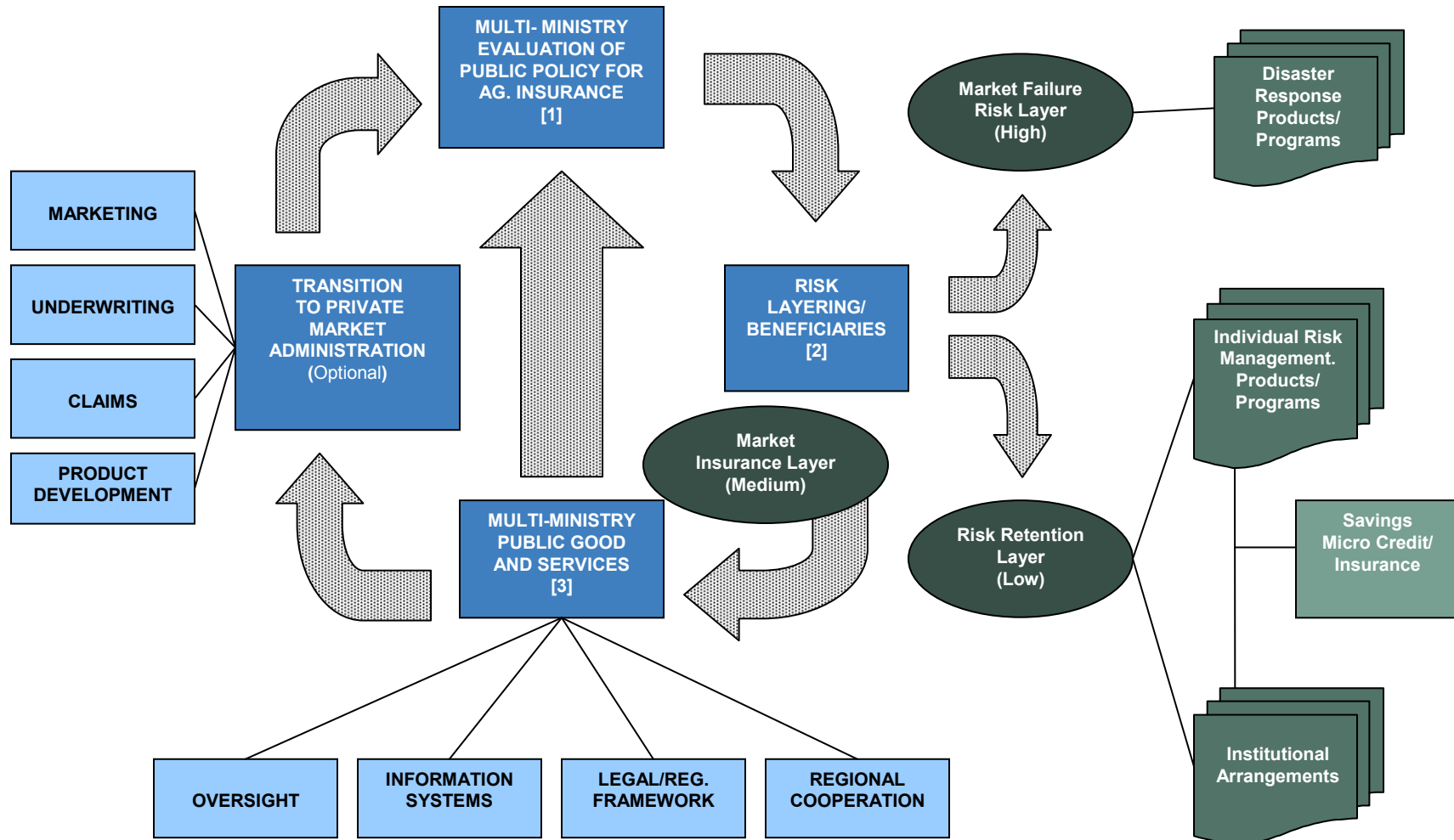


Building the Correct Foundation:

Survey the landscape-Cultivate the field

- **Promote cooperatives and other farmer associations**
- **Carefully evaluate the adequacy of local insurance companies**
- **Carefully craft the wording of each insurance policy**
- **Create an independent fraud detection department**
- **Establish an organizational structure and staff expertise with significant relevant experience**
- **Start slowly and carefully with limited covers (e.g. hail and then selected multi-peril)**
- **Integrate technical organizations and resources to promote good farming practices-provide easy access**

Public Policy Sequencing Framework for Developing the Market for Agricultural Insurance



Adapted with permission from Inter-American Development Bank (Arias and Covarrubias-2006)



Critical Concepts

- Risk Management Can Help Break the Poverty Cycle
- Insurance + Lending = Economic Growth
- Disaster Assistance is Not the Solution
- The Private - Public Sector Model is Best
- There is No Single Insurance Solution
- The Government Must Take the First Step
- Agricultural Insurance is an economic tool and not a political football-it has no political party
- Sound underwriting Information (e.g. production, losses: weather data) are essential to an actuarially sound program



Agricultural Insurance in the Southern Cone

- Approximately 13,000 hectares are insured, representing less than 2% of total farmland
- Brazil has approximately 3% insured, Argentina and Chile around 2% insured with Uruguay and Paraguay at less than 1%.
- Chile represents the newest entry and is growing steadily
- Argentina has the oldest program with the vast majority of premiums dedicated to crop hail coverage
- Protection provided traditional coverage- crop hail or multi-risk
- The number of insurers participating range from 28 in Argentina to 3 in Chile and Uruguay
- The programs involved a combination of public/private partnerships or private only
- Premium subsidies exist in Brazil, Chile and Uruguay. Argentina does not offer subsidies and Paraguay is unknown
- There remains great potential to grow. In so doing there is great potential to strengthen the agriculture, reduce poverty, reduce hunger and expand the economy!



A Challenge to Each Country

- **Argentina: Expand multi-risk insurance so it becomes the primary form of insurance rather than crop hail**
- **Brazil: Create mechanisms to facilitate more uniform coverage throughout the country rather than by state**
- **Chile: Conduct a thorough review of your program to assure soundness at every level-e.g. actuarial, product development, government/private insurer coordination**
- **Paraguay: Design/develop a program based upon the experiences of other countries-retain the right experts**
- **Uruguay: Take full advantage of the investment made to date with Spain-e.g. regulatory environment, attract global reinsurers**



Defining Moment

- Truly a unique and pivotal time for agriculture
- Promote agriculture's direct and significant role in a country's economy; far more than is commonly understood
- Promote effective agriculture risk management (good farming practices and insurance) as a fundamental means to reduce poverty and expand the economy
- Promote the linkage of insurance/risk management to food security
- Promote technology and innovation to Latin America now; expands agriculture base, strengthens economies, reduces poverty and helps address global crisis in the shorter term



Defining Moment (cont)

Why Latin America?

- **Latin America's natural resources are more plentiful and easier to harness, and existing infrastructure are far more advanced than Africa's**
- **Africa requires 3-5 generations of intense investment compared to 1-2 generations in Latin America with far less investment**
- **The Southern Cone can lead the south-south transfer of products, technology and knowledge to Africa and Asia**



“The coming years will see more emerging *economies* being able to benefit from an expanding global market for their farm output as a result of ongoing trade liberalization and increasing focus on rural development. To take advantage of these opportunities, however, they will have to strengthen their agricultural sectors in terms of both *risk management* and *commercial incentives*” *Swiss Re 2007*