

AGRICULTURAL INSURANCE

STATUS AND CONSIDERATIONS

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Advances in Agriculture Insurance

- More interest in the theme as an answer to climate change and storms in general
- World Bank's commitment to insurance
- More interest in sophisticated instruments such as climate indices
- The visibility of the importance of insurance in some parts of the hemisphere
- The use of new information and communication technology (satellite images, GPS, Internet, etc.)
- SystemAgro- Munich RE

Caribbean Region

- Bahamas and Jamaica are actively pursuing Catastrophic Risk Insurance
- Regional program offers great potential
- Agriculture Minister Hilson Baptiste of Antigua and Barbuda heads Regional Risk Management Committee
- Spread of risk is fundamental-regional program is clearly preferred by insurers

Key Observations

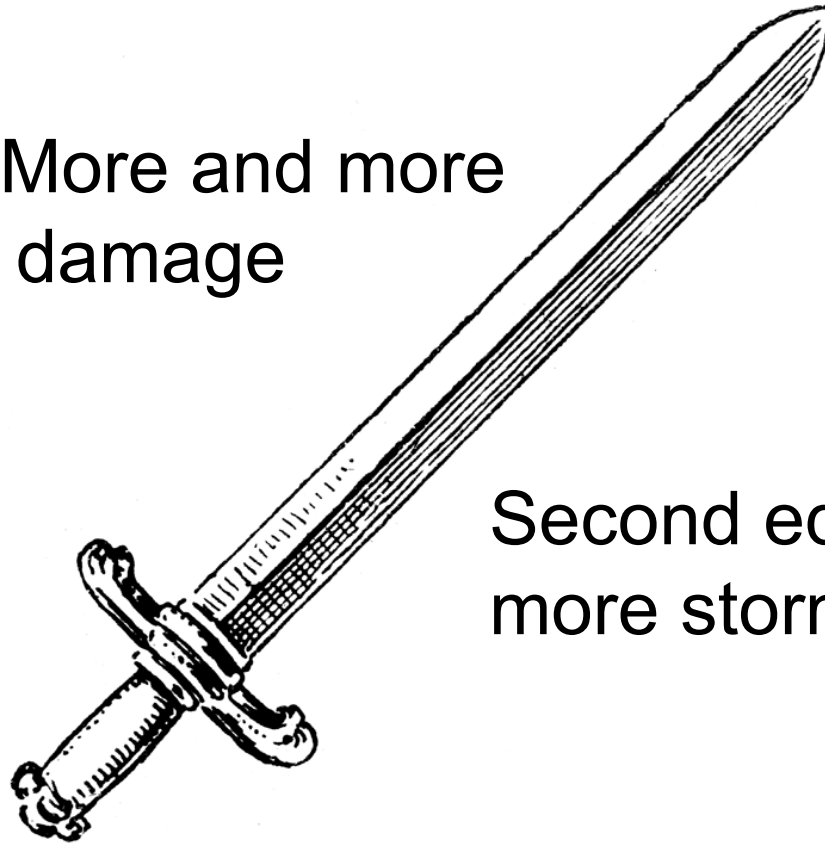
- Without effective risk management poverty reduction will not occur; insurance is an essential risk management tool.
- Disaster assistance is a political tool that has proven to be expensive and poorly administered
- Without insurance banks will not provide sufficient lending. Without lending economic growth in the agriculture sector will be marginal
- 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.

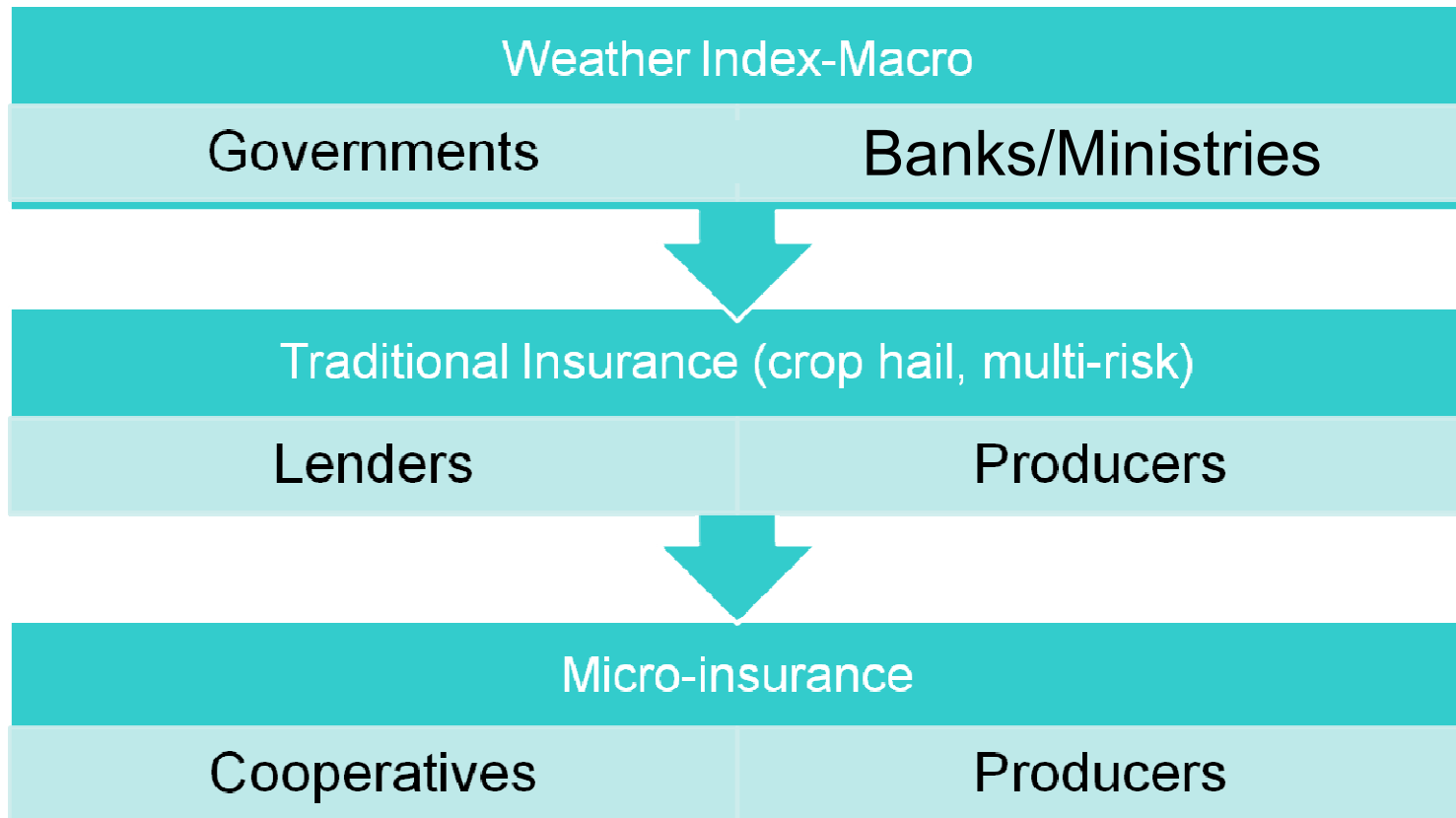
Double-edged Sword: Climate Change

First edge: More and more storms and damage



Second edge: More and more storms and damage

No Single Insurance Solution



A Closer Look at Agricultural Insurance

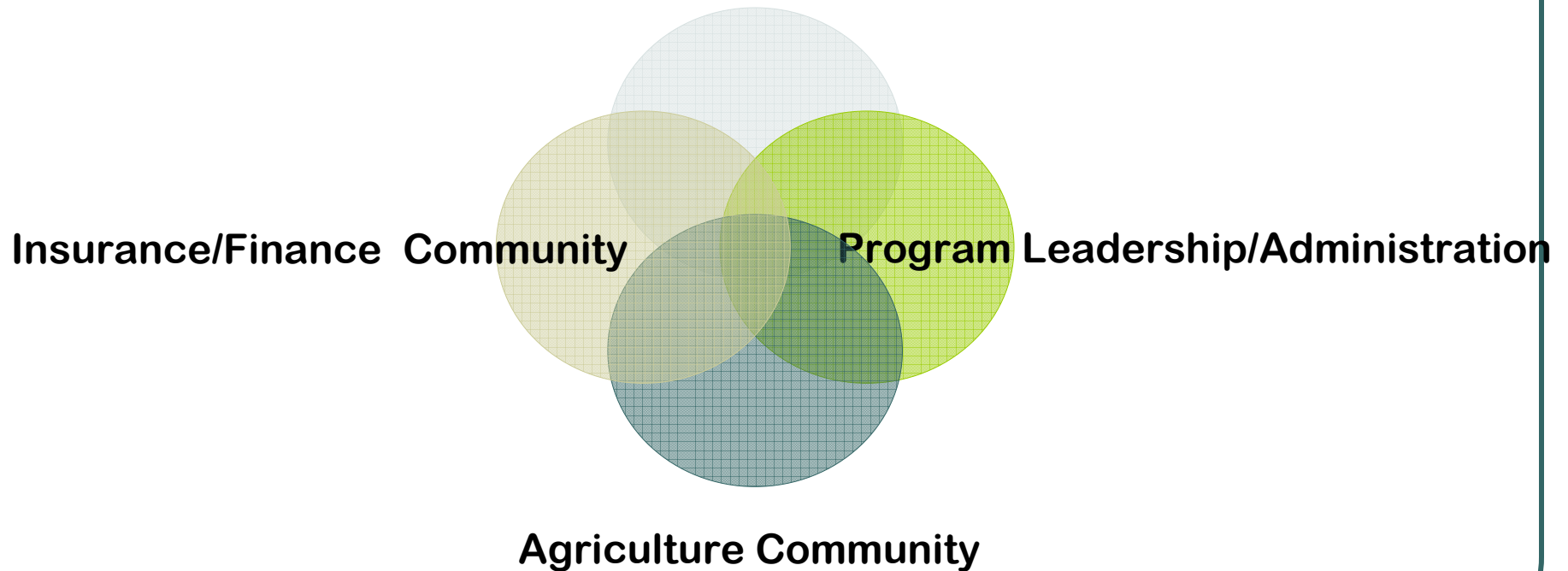
- It is the most complex form of insurance
- Insurance is segmented into four major areas: hail, multi-risk, weather index, and micro-insurance
- This type of insurance must be supported by sound science and be actuarially sound.
- The insurance community is very interested in expanding agricultural 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

Critical Concepts

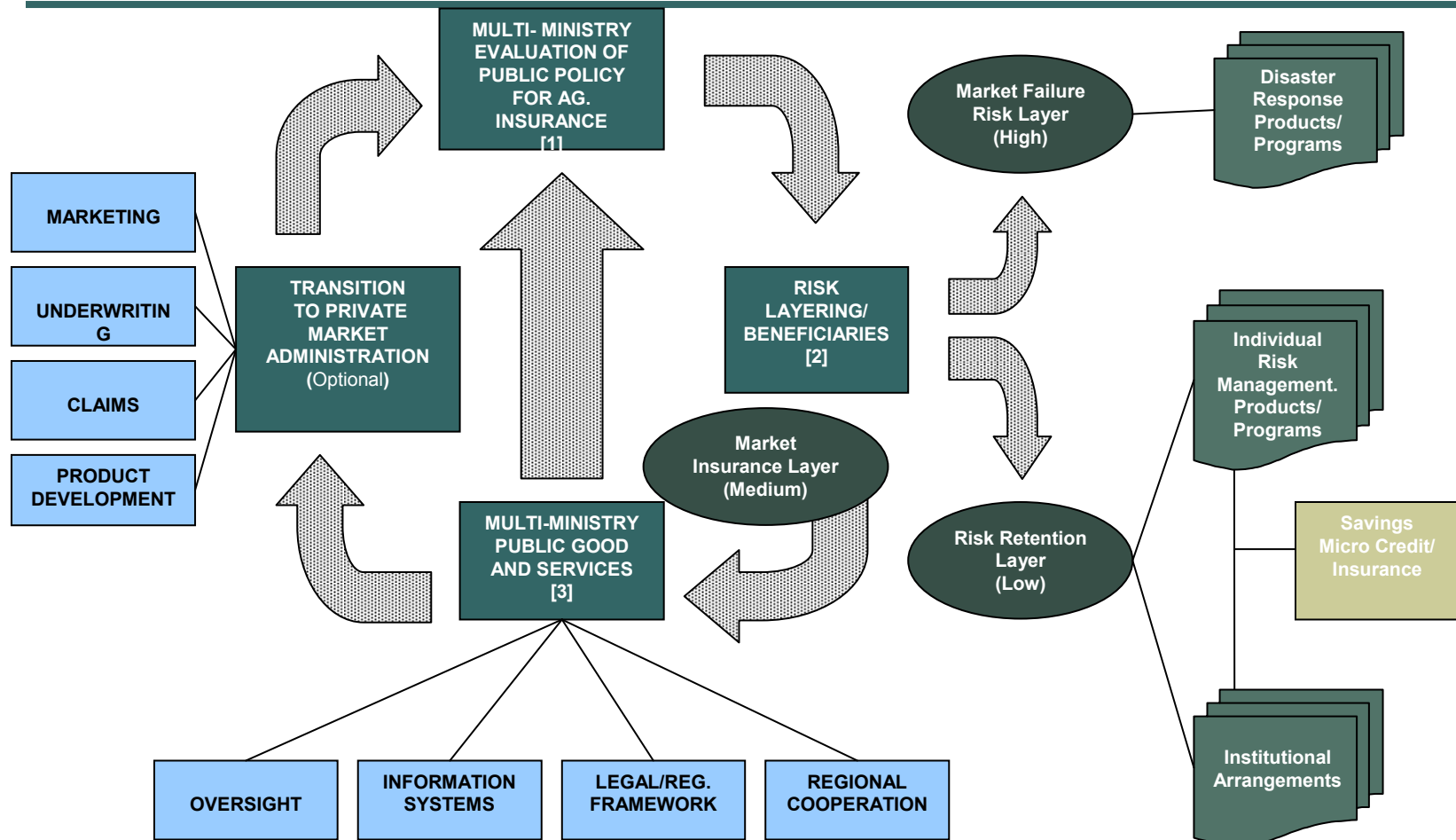
- Risk Management Can Help Break the Poverty Cycle
- Insurance + Lending = Economic Growth
- Disaster Assistance is Not the Solution
- The Private - Public Sector Model is Best
- There is No Single Insurance Solution
- The Government Must Take the First Step
- Agricultural Insurance is an economic tool 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

Preferred Insurance Model: A True Public-Private Sector Partnership

Government Legislation and Finance



Public Policy Sequencing Framework for Developing the Market for Agricultural Insurance



The Private Sector: Some Considerations and Realities

- Necessary for a successful insurance program
- Understands the competitive nature of insurance and business growth
- Proven expertise in measuring risk and valuing risk
- Reinsurance is essential to country insurers
- Profit motive is key
- Many years there will be more premiums paid than reimbursements provided.
- Most of the profits may go to shareholders outside the country
- Clearly defined roles will create efficiencies
- Trust but verify

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
- Implement regulatory legal 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

- 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

Obstacles or Why it Hasn't Grown

- There are still many countries that don't sufficiently value the importance of agriculture
- Missing policies, laws, instruments, credit, and investment
- Lack of confidence or coordination between the state government, the private insurance sector, and farmer organizations
- Lack of instruments, available information, and effectiveness for the design and management of disaster coverage

Obstacles or Why it Hasn't Grown (cont)

- There isn't sufficient knowledge of the heads of state on the importance of agriculture and insurance, nor coordination between the Ministers.
- There are difficulties and challenges within insurance such as moral hazard, claims management, agricultural science and how to measure risk with adequate and affordable premiums
- Once in awhile there are governments that prefer to guard the power rather than share authority with others like the private sector

Lessons Learned

- The necessity for funds and emergency laws to facilitate insurance related actions
- Supply constraints and inefficient performance of the government as an insurer or monopolistic firms
- The need to analyze and measure the risk profile of the country
- Implement insurance rates according to the risk profile of the country
- Need to have a specific and long-term legal framework
- State participation as a reinsurer that could reverse some of the risk to the international reinsurance market
- The model of co-participation of the public and private sectors with a design of roles, coverage and overall risk management
- The need to define responsibilities of government, the private sector, farmers, and banks

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

“The Topic of Insurance is not a Political Football”



IICA



Thank You!

David C. Hatch
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Annex 1: 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.
- The new indicator includes fertilizer, seed, transportation, storage, and food processing. Traditional measures typically capture only production value.

Annex 2: Northern Region



Categorías:

- Ningún tipo de seguros en el país
- Un tipo de seguros en el país
- Dos tipos de seguros en el país
- Tres tipos de seguros en el país
- Cuatro tipos de seguros en el país

Annex 2: Central Region



Categorías:

- Ningún tipo de seguros en el país
- Un tipo de seguros en el país
- Dos tipos de seguros en el país
- Tres tipos de seguros en el país
- Cuatro tipos de seguros en el país

Annex 2: Andean Region



Categorías:

- Ningún tipo de seguros en el país
- Un tipo de seguros en el país
- Dos tipos de seguros en el país
- Tres tipos de seguros en el país
- Cuatro tipos de seguros en el país

Annex 2: Southern Region



Categorías:

- Ningún tipo de seguros en el país
- Un tipo de seguros en el país
- Dos tipos de seguros en el país
- Tres tipos de seguros en el país
- Cuatro tipos de seguros en el país

Annex 3: IICA's Commitment to Agriculture 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. Strategize 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