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Ploughing into agricultural insurance

As Kenya unveils its National Agricultural Insurance Policy to boost uptake of agricultural underwriting in a country where the cover accounts for less than 1% of the total insurance premiums, we asked key players from across the continent and beyond for their views on the state of the African agricultural insurance market. In a roundtable, we explored the challenges presented by agricultural insurance across Africa and found plenty of opportunity for the insurance market, as Continental Re, together with *Africa Ahead: the Sustainability Challenge*, reports...

Has the take-up of agricultural insurance suffered as a result of the pandemic?

While the expectation across Africa had been that the Covid-19 pandemic would impact negatively on insurance and the drive to improve penetration rates across Africa, a group of insurers specialising in agricultural insurance found some surprising changes in their market.

Rose Goslinga, co-founder and co-CEO of Pula Advisors, explained: "What we have seen has been governments refocusing on agriculture and investing in in the sector. So in fact, it has been a very good year in terms of countries in which governments have invested and where insurance became part of that."

However, not everything was that straightforward. Lovemore Forichi, senior underwriter agriculture Africa region at Allianz Re, warned: "The pandemic has had a negative impact on the protection side of things.

"There was disruption because people could not work their fields in time because of lockdowns etc. It forced us to ramp up the use of technology. As an insurer, we are using drones and satellite images rather than relying on physical visits." Overall, he said there have been positives and negatives.

The beauty of Africa is that many insurance policies rely heavily of technology, said Rom Aviv, head of insurance at Agritask, adding that Covid-19 was one example where remote tools could be really helpful to the agricultural insurance industry.

Richard Leftley, CEO of Micro Insurance, explained: "With Covid, we noticed a significant uptick in demand for health insurance, as people become more aware of the costs associated with being hospitalised.

"As a result, we saw a steady increase in sales for our very basic health cover, including among policyholders from the agricultural sector."

While he said that was no surprise, he had not expected the trend that then emerged. "Those working in the agricultural sector were among the best when it came to payments," he said.

As insurers, Mr Leftley said, there is always recognition that it one thing to sell insurance but another thing to get paid from the low-income sector.

"What we saw was an urban-sector spike in health insurance purchases but we failed to collect the premiums. In fact, the payment collection success rate was significantly lower than pre-lockdown, because people were losing their jobs and were worried about their finances.

"In contrast, in the rural sector, farmers continued to make payments because they were less affected by lockdowns and they were able to maintain their incomes."

What are the barriers to change?

Insurance is a combination of many barriers, said Siani Malama, APA Insurance. Available finance is one of those, he explained, along with a lack of understanding and not enough awareness and education among farmers.

"Often in agriculture we just think of the crop production, but there are so many other risks that the farmer faces on a daily basis," he said.

He suggested that winning farmers over to the concept of insurance through something like hospital payments could be a way forward.

Paul Fatona of Leadway agreed, saying: "On our side, most of the farmers believe insurance is another cost for financing their farms, but access to finance is difficult. Given a choice of paying a premium or buying fertiliser, the farmer will buy fertiliser. They will look to the risks that face them or their families daily."

Lesley Ndlovu, CEO of Africa Risk Capacity, suggested: "Farmers across Africa are only too well aware of the challenges ahead of them in terms of managing their crops through to a successful harvest, and insurers have long looked to support them in achieving that objective.

"However, for smallholder farmers the cost and access to insurance has often been a challenge too far, meaning that those who perhaps need the greater support are those who are left behind by the financial system."

He said many insurers across the continent are keen to address this mismatch and offer various forms of microinsurance, including parametric cover which operates on a range of triggers.

However, this in turn is not without challenges. Many insurance players are writing business in one country alone, which results in a high concentration of risk.

Evance Rabong'o

"The way we overcome this challenge is to increase the number of farmers signed up," Mr Ndlovu suggested. "The more who sign up, the greater the diversification that exists within a portfolio. This means the cost of insurance can be lowered, attracting more farmers to sign up. We need to be working to achieve this virtuous circle.

"For those of us in parametric insurance, we are often faced with a scenario in which there are losses that sit below the attachment point and are therefore retained by the farmer rather than being picked up by insurance. As a result, there is some degree of disappointment about what insurers can do.

"Technology will allow more positive access to the farmers and can also allow the banking of value-added services, such as advice, which more holistically meet the needs of farmers than pure insurance," concluded Mr Ndlovu.

How can agricultural insurers capitalise on the surge of interest in insurance?

Capitalising on the surge of interest in insurance among rural communities will not be straightforward, as Evance Rabong'o of Continental Re explained. There are difficulties in persuading farmers, for example, to buy insurance for longer-term risks, such as crop protection.

He believes now is the time for the insurance sector to be creative and to look at not just designing fit-for-purpose products but also to look at the way in which insurance is sold. For example, he said, it is hard to access finance to buy insurance policies but if insurers were prepared to reassess when they collected premiums, the products might become easier to sell.

"This could involve, for example, collecting premiums at harvest time, when the farmer has greater spending power. It could also involve working more closely with banks to realign available finance with insurance protections or working with governments to allow government and policyholders to share the burden of the cost of insurance. As we emerge from the pandemic, the need and also the opportunity for innovation has never been greater."

Bronwyn Clare, CEO at Climatewise, added: "I think Covid-19 has raised awareness and the need to be resilient. People are looking at what data is needed and what package do they need for recovery. I think it has raised peoples' consciousness about what information they need to respond to an emergency."

How do you persuade farmers to pay for insurance?

There are cost savings around the margin from using technology but the greatest thing for parametric insurers is the likelihood of a loss, warned Mr Leftley.

"If you want to insure a one-in-ten-year loss, you don't need to be an actuary to work out that the price needs to be 10% or more, plus distribution costs of the value of insurance. If you will be paying out $100, then you need the farmer to pay $10 a year, plus distribution costs.

"What we have seen is that the farmers are not willing to pay that $10, so the fundamental issue that we all dance around is that farmers aren't willing to pay for it."

However, Ms Goslinga pointed to a recent university study in which they explored when to offer insurance. "They found that if you offer 100 farmers crop insurance at the start of the season, just five will sign up. If you offer the same product with a 30% discount, then six will sign up. Instead, they said, you don't have to pay for it now, but at the end of the season and we will deduct it from the harvest that you deliver. All of a sudden, 70 signed up."

She suggested: "It is very much about timing. We all need to think creatively about how to structure sales.

"The challenge is to step out of the comfort zone, forget about actuarial results and ratings and think about that. If anybody pushes that boundary further, that is where the real change will come from."

Mr Forichi suggested one of the problems is who owns the land. "Small-scale farmers generally work land owned by the government, which means they can't get loans from the banks. Commercial farmers can generally buy insurance and have access to finance because they own the land. If you can collateralise the land, then you can get money from the banks and the farmers can afford the insurance.

"When you buy a house, the bank will give you the mortgage but will require life insurance. If we can engage the financial institutions in the same way and have insurance built in, because we are covering the climate change or weather risk that will disrupt the farmers' ability to repay the loans. There is a lot more work to be done to drive penetration of this kind of insurance."

And Mr Aviv warned crop insurance is expensive globally, not just in Africa, compared to other natural peril insurances. "I think technology could support a reduction in those costs," he said, adding that government support would be a significant factor in the context of crop insurance. "I don't think penetration will increase without a government framework," he feared.

Does the insurance sector need government help on this?

Mr Ndluvo stressed: “It is really about creating value for the farmers more than it is about just pushing an insurance product. It is thinking about what is most relevant to the farmers. It is about payment patterns in terms of access to credit and then about carving a product that is around the needs of the farmers.

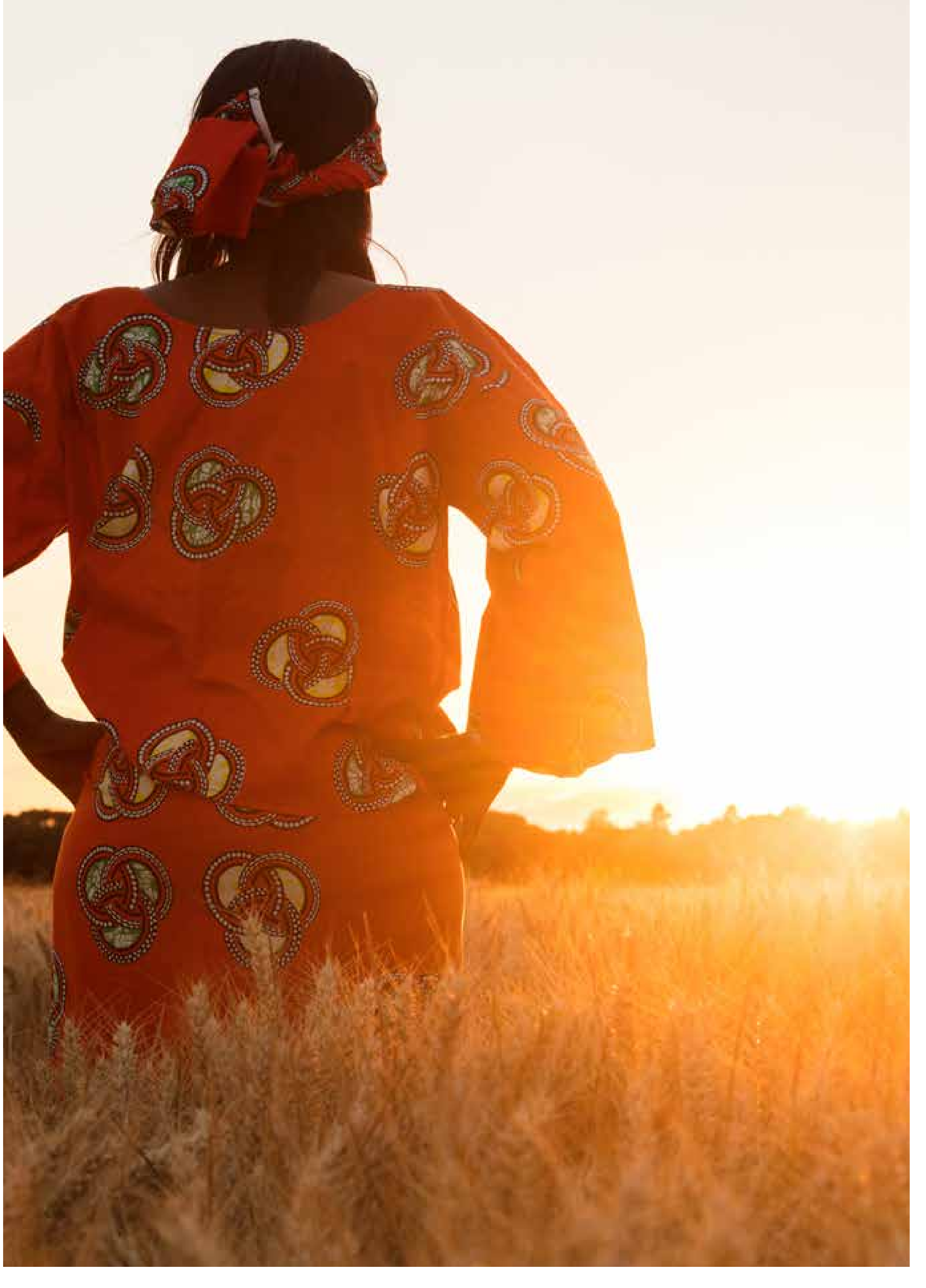
“Secondly, government has a big role to play in shaping the agricultural insurance market. What is really interesting is that when a government takes an insurance policy, the beneficiary is very often the small- to medium-scale farmers, so government can encourage greater private sector participation for other players, ensuring the amount the government spends is really targeted at the very vulnerable section of the population.

“This approach would ensure more people in Africa would be covered.”

He also pointed to a recent announcement by the president of the African Development Bank, who said there would be $25bn invested in agriculture in the next five years. Just like any other investment, it has to be accompanied by insurance, said Mr Ndlovu.

Mr Malama added: “From an underwriting perspective, we know food security is a priority and insurance have a key role to play. But it does come with risk – it goes back to how can we be a bit more creative and innovative to ensure that we provide more value to our policyholders. If they can see better value, it will help break down the barriers to uptake that we see.”

He added: “We need to be looking at the barriers from a customer perspective and design solutions that address day-to-day needs. Farmers work daily with risk and they need insurance that speaks to them daily too.”



Ms Clare stressed the need to understand underlying behaviours and drivers of what the insurance should provide and recognise the important points about how and when to pay for cover and the financial implications of that for the policyholder.

"But ultimately it is looking about people's ability to have food at the end of the day. It is about food security and a sense of trust in the insurance sector, so that they know insurance will be there for them and catch them when needed," she said.

Looking back at his experience in Malawi in 2004, Mr Leftley said: "In partnership with World Bank and Swiss Re, we were a pioneer in crop insurance. In 2009, we started working with mobile phone companies, offering really basic insurance, and we reached about 60 million customers that way.

"We found agriculture insurance was the one where we couldn't get the scale. Consistently we heard the farmers weren't willing to pay the actuarial price. In the UK, the US and even in India products are subsidised by government – in India there is a 75% subsidy. So, why are we surprised that low-income farmers in Africa aren't able to pay the commercial price for these products? Insurance is the hardest financial product to sell and agriculture insurance is the hardest of those to sell."


Richard Leftley

The impact that insurance and unlocking finance can have was so visible

He stressed: "The reason why this is so important is that in Malawi I could see the height of the harvest for farmers who could not get loans and then there were farmers next door who had got a $100 loan and you could see their maize was twice as high. The impact that insurance and unlocking finance can have was so visible."