Profiling Global Agricultural Insurance

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The 2017 global agricultural insurance premiums total about US$ 30 to 35 billion. Around 45% of this or US$ 15 billion is from North America; 38% or around US$ 12 billion is from the Asia-Pacific region; 10% or US$ 3 billion is from Europe; 7% or US$ 2 billion from South America; and less than 1% or about US$ 200 million from Africa. Roughly two-thirds of the global premium can be traced to only three countries: the United States with 35% or US$ 11.7 billion; China with 20% or US$ 6.7 billion; India with 12% or US$ 3.8 billion. The rest of the world holds 33% or US$ 10.8 billion.

Agricultural insurance covers crops, livestock, forestry, fishfarms, and even greenhouses. Crops may be grains, cereals, and other crops as well as fruit and vegetables. Livestock involves dairy cattle, hogs, and beef. Forestry would include commercial forests for wood production such as eucalyptus and coniferous. Fishfarm would include seabass, tuna, salmon, and others. Note that crop insurance is but a segment of agricultural insurance. Crop insurance is the most developed sub-line of business of agricultural insurance, accounting for almost 90 percent of the total premium written worldwide.

One example of a peril sought to be insured against for crop insurance is hail. Hail are pellets of frozen rain that fall in showers from cumulonimbus clouds. Hail can completely obliterate part of a field while leaving the rest virtually untouched, it is difficult to predict, and it occurs suddenly. Most hailstorms last three to five minutes. In the United States, hail usually accounts for about 6 percent of all crop losses in any given year. This occurs mostly in temperate climates (as opposed to tropical climates). Temperate climates span between the tropics and the polar regions of the earth. Indeed, there are different perils for different parts of the world.

Owing to different perils than can occur, one insurance coverage that was introduced in the 1980s is the Multi-Peril Crop Insurance (MPCI) in the United States. MPCI protects against crop yield losses by allowing participating producers to insure a certain percentage of historical crop production. It covers yield shortfall due to the peril insured. A single policy protects crops against all natural perils including adverse weather, fire, insects, disease, wildlife, earthquake, volcanic eruption and failure of irrigation water due to unavoidable causes.

Due to the government's paramount interest in food production, insurance premiums are generally subsidized in different countries. Other forms of support are also extended by governments. In China, for example, subsidies can go up to at least 80% of the premium. Other countries with direct premium subsidies include the U.S., Canada, Japan, Italy, Turkey, Mexico, and Brazil. On the other hand, there are countries were no subsidies are given. These include Germany, Argentina, South Africa, Australia, New Zealand, and Sweden.

One model worth looking into is the Thailand Model. In Thailand, sixteen insurers participate in an agricultural insurance program. It is made compulsory for loan borrowers, and it is distributed through the Bank for Agriculture and agriculture cooperatives. The program is managed by the Thai General Insurance Association. Premiums are also subsidized. In Spain, a private insurance pool, called *Agroseguro*, was launched in 1978.

Due to the scope of the coverage, agricultural insurance usually veers away from indemnity-based policies. These are insurance products that pay claims based on the actual loss incurred by the policy holder. Instead, index-based insurance products are preferred. Index-based agricultural insurance products pay out based on the value of an "index", not on losses measured in the field. The index is a variable that is highly correlated with losses and that cannot be influenced by the insured. Indexes can include rainfall, temperature, regional yield, river levels etc. For example, for regional yield for a particular crop, an index is created based on the expected regional yield. A threshold is created which is less than the index. The insurer indemnifies the insured party where the regional average yield is less than the threshold.

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