

Courting Agribusinesses to Uptake Agri-Insurance



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While the conversation about incentivizing smallholder farmers and agri-food entrepreneurs to adopt agricultural insurance has revolved around increasing their awareness of insurance and reducing the cost of agri-insurance, it seems like something even more critical is arguably missing from the discussion. It is not a needs-specific agri-insurance product or cost-effective premium, or even awareness of the concept of insurance itself. It is about trust. While seemingly a minor issue, the deficit of trust in insurance providers, in the insurance process, and in insurance effectiveness significantly contributes to the seemingly insurmountable insurance coverage gap that is considered gaping in the agriculture sector.

Just like in many other industries, trust, not money, is the currency of business in insurance. This was evident during the agro-discuss session, a bi-weekly discussion session curated for Nourishing Africa's 1400 agribusinesses from over 37 African countries where although there was unanimity that agri-insurance is a vital financial product for smallholder farmers and agri-food entrepreneurs, most agribusinesses lacked confidence in insurance providers and their ability to pay out a claim as promised. From the discussion, it was apparent that the lack of trust was not just a surface issue. The agripreneurs highlighted doubts that the agri-insurance products met the incidence of their needs, that the pricing of these insurance products would enable them to get the best value, that in the event of loss, the insurer will honour their part of their bargain and provide a commensurate compensation and that the insurance process would get them back on their feet as quickly as possible.

For the agriculture sector beset by frequent drought, unpredictable rainfall, pests and diseases, and a significant number of other economic and environmental hazards, there are hordes of risks beyond the control of farmers and agribusiness owners. Throwing in climate change, these risks multiply and magnify as its effects on the sector are expected to become more devastating and frequent. Now more than ever, it is imperative that smallholder farmers adopt risk management measures, including a mix of climate-smart agriculture practices and agri-insurance. Yet, the lack of trust in agri-insurance continues to cripple its adoption and proliferation on the continent.

In Africa, only about 3% agri-SMEs and smallholder farmers have an insurance cover compared to a global 20%¹. Worse still, corroborating evidence reveals that even for those farms and agricultural firms that have adopted agri-insurance, most of them are medium and large scale, meaning that the agri-SMEs and smallholder farmers that desperately deserve the umbrella of protection are at the mercy of the brunt of the social, climatic, economic, environmental, and financial shocks that bedevil the sector.



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So, what needs to be done?

The agro-discuss conversation reveals a few interesting insights that create pathways for possible solutions. While agri-insurance serves as a social safety net meant to protect farmers and agribusiness owners in the event of loss, some agripreneurs view agri-insurance as an investment product. As such, they uptake (or have the intention to uptake) agri-insurance to generate wealth and make a profit as opposed to protection meant to get them back on their feet in the occurrence of any unfavourable contingency.

In the discussion, it was also clear that agribusinesses and smallholder farmers see no value in agri-insurance until they have a claim. In their words, the funds to purchase insurance could be put to better use. Given the apparent information gap, it is crucial to ensure that smallholder farmers and agribusiness owners have sufficient understanding and knowledge of how insurance works to debunk myths and eliminate unrealistic expectations that they may have. By working with agribusiness associations and platforms such as Nourishing Africa, which prove to be a trusted source of information for agribusiness stakeholders, insurance providers have at their disposal the appropriate media to improve farmers' awareness and understanding of insurance.

Moreover, given that smallholder farmers and agri-SMEs are price-sensitive, it is crucial that the pricing of agri-insurance products falls within their financial capabilities. The digitization of the insurance process, including farm-level loss assessments and claims settlement, will not only help to reduce the costs and improve the affordability of the agri-insurance products, it will also increase transparency that is a building block in restoring trust in agri-insurance. It is also essential that governments subsidize and/or make insurance policies affordable for agri-businesses to put these products within their reach, especially in times of economic downturns.

Nevertheless, for a sector yet to be entirely disrupted, constant innovation is required to ensure that the available insurance products are needs specific. For example, ingraining insurance in the cost of inputs is touted to incentivize insurance adoption while providing farmers with

168%

The percentage by which
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the confidence to increase investments in their farms as they are guaranteed income and livelihood protection in the case of crop or livestock loss. The bundling of insurance with loans is also a game-changer as it multiplies the value proposition of insurance as opposed to offering it as a stand-alone product. It also provides double protection by presenting itself as both a form of loan protection and an income safety net. In fact, the associated benefits of bundling agricultural services are stupendous as, according to MercyCorp Agrifin Accelerate, bundling agricultural services improves farmer productivity by over 168%².

From all of these, it seems agri-insurance providers have a lot of work cut out for them. However, the proposed solutions will only be effective when a two-way communication, transparency, and an evidence-based relationship is instilled in the insurance process, from structuring the product to the settlement of claims. Only in this way will agriSMEs have confidence in what they are buying, the confidence that their claims will be amicably settled and the assurance that someone is looking after what matters most to them – their agribusiness.

REFERENCES

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