

# **AGRICULTURAL INSURANCE IN NIGERIA: EXPERIANCES AND CHALLENGES**

# **THE NIGERIAN AGRICULTURAL LANDSCAPE**

Nigeria has huge agricultural potential. With over 84 million hectares of arable land, of which 40% is cultivated; a population of 167 million people, making her Africa's largest market; with 230 billion cubic meters of water; the Country has some of the richest natural resources for agricultural production and growth in the world.

Nigeria used to be a major player in the global agricultural market; she was the world's major producer of groundnut and palm oil in the 1960's and the second largest exporter of cocoa. Then, the country was self-sufficient in food production.

- However the over reliance on oil as the main source of foreign exchange, led to the abandonment of agricultural of agriculture which led to the country becoming a net importer of food, spending USD \$11 billion per year importing basic food like wheat, rice, sugar, and fish.
- The global drop in the price of crude oil has greatly reduced the foreign earnings of the Nigerian economy. Agriculture is now the new paradigm to diversify the economy. The goal is to add 30 million metric tonnes of food to the domestic food supply, and create 3.5 million jobs. The focus is on driving import substitution by accelerating the production of local staples, to reduce dependence on food imports and turn Nigeria into a net exporter of food.
- Presently in Nigeria, agriculture is now treated as a business and no longer as a developmental program. The objective is to create wealth through agriculture, not to manage poverty. The Government is providing the needed enabling environment, policies, and incentives for a private sector led agricultural initiative to unlock the potential of Nigeria's agriculture.

# **BACKGROUND OF THE NIGERIAN AGRICULTURAL INSURANCE CORPORATION**

Climate change is a significant risk to agricultural production and development. It thus impacts on food security, poverty reduction and political stability, particularly in Nigeria where agriculture constitutes over 40% GDP and over 70% employment. Nigeria's resilience against climate change related risk is a key priority for economic and social development.

In mitigating climate change related risks, an Agricultural Insurance program was made available to Nigerian farmers by the Federal Government in 1987 through the introduction and operation of the Nigerian Agricultural Insurance scheme.

## The scheme has four main objectives which include:

- i. To provide financial support to farmers on the aftermath of the occurrence of natural hazards attributable to climate change.
- ii. To stimulate the provision of credit by financial institutions to investments in agriculture.
- iii. To promote agricultural production by enhancing investment in agriculture.
- iv. To minimize the need for the provision of ad-hoc assistance by the Federal Government in the event of the occurrence of a natural disasters that may adversely affect investments in Agriculture.

In order to ensure its proper implementation, the Nigerian Agricultural Insurance Corporation, a public sector Corporation, was created by a decree in 1993 as the executing agency of the scheme.

## **FEATURES OF THE NIGERIAN AGRICULTURAL INSURANCE SCHEME AS IMPLEMENTED BY THE NIGERIAN AGRICULTURAL INSURANCE CORPORATION**

- 1) The scheme establishes Agricultural Insurance as being mandatory for all agricultural loans or agricultural projects and programs that are funded from public funds including all direct, on lending and agricultural investment loans disbursed by developmental banks, deposit money banks (commercial banks), micro finance banks and other financial institutions. The Nigerian Agricultural Insurance Corporation has statutory powers to insure these credits.
- 2) Provision of financial support by the Government in the form of 50% premium subsidies for most classes of agricultural insurance.
- 3) Subsidies are provided for food crops, cereals and root crops, but not for commercial plantation crops and cash crops.
- 4) Similarly, premium subsidies are applicable to most classes of livestock, poultry and fisheries, but not for commercial livestock or bloodstock insurance.

- 5.) The subsidy is financed by the Federal and State governments in the ratio of 37.5% and 12.5% respectively.
- 6.) The Nigerian Agricultural Insurance Corporation is the sole insurance company entitled by NAIS to receive agricultural Insurance government support in the form of premium subsidy for the provision of agricultural insurance.
- 7.) The Federal Government accepts the liability for catastrophic losses insured by NAIC in excess of 200% of the premium income.

# **NAIC'S CROP AND LIVESTOCK INSURANCE PRODUCTS AND PROGRAMS**

NAIC's agricultural insurance activities are divided into three main categories: Crops Insurance, livestock (including poultry and fisheries) and commercial lines. In addition the Corporation has the licence to underwrite non life general insurance



CLASS OF BUSINESS	INSURED PERILS	BASIS OF COMPENSATION	PREMIUM RATES
CROPS	Fire, lightening, windstorm, flood, drought, pests and diseases.	Input costs incurred on crop farm up to the time of loss less any salvage.	4%
LIVESTOCK	Death or injuries to the livestock due to accident, disease, fire, lightning, storm and flood.	Value of the farm animal at inception plus the cost of input invested up to the time of loss.	5%
FARM PRODUCE	Fire and Special Perils, Burglary and Housebreaking, transit risks.	Value of the farm produce in storage or in transit as at the time of loss.	1.5%

# CROPS INSURANCE

1. In the case of crops insurance, NAIC offers a single salvaged-based loss of input cost crop insurance policy that provides multiple peril crops insurance (MPCI) protection against a wide range of natural and biological perils including fire, drought, flood, windstorm and pests and diseases.
2. In the event of a claim, the payouts of the input costs are determined by the difference between the input costs invested in the farm by the insured farmer up to the moment of loss and the value of the actual remainable harvestable production or the salvage obtained by the insured on his farm

# LIVESTOCK INSURANCE

1. Livestock insurance covers the death or injury due to accident, disease, fire, lightening, storm and flood. The sum Insured id defined by the value of the animal at inception plus the input cost invested by the insured in the insured animal during the policy period.

# SUMMARY OF COVERAGE FOR THE PAST 5 YEARS

- Area covered is about 338,000 hectares and 11 million diverse livestock
- Number of farmers is 2.5 million
- Premium generated is ~~₦~~2.7 billion (\$13.5m) Direct collection
- Premium generated with statutory Government Subsidy is ~~₦~~5.2 billion (\$26m)
- Claims Payouts is ~~₦~~801.45 million (\$4m) 2059 crop farmers and 910 livestock farmers
- Government Support/Subsidy paid is ~~₦~~1.03 billion (\$5m)

# CURRENT CHALLENGES

## **Low awareness about insurance products**

- Farmers and agribusiness are generally unaware and have limited understanding of the benefits of Insurance in the management of agricultural risks.
- In addition, cultural and religious beliefs serve as encumbrances to farmers in participating in the scheme

## **Inadequate infrastructure and support services.**

- Infrastructure such as feeder roads and proper communication facilities are required to facilitate the assessment of the losses reported by farmers in order to ensure prompt claims payment.

### **Lack of actuarial data.**

- Inadequacy of basic data for actuary planning and the estimation of premiums and claims variables.
- This results in the inability to calculate the appropriate equitable premium for the various risks exposures.

### **High start-up costs**

- The financial requirements for the administration of agricultural insurance programs are usually high and capital intensive.
- This is attributable to the acquisition of highly skilled manpower in both the field of agriculture and Insurance, acquisition of infrastructural facilities farm monitoring, inspection/ loss surveys.

### **Non- remittance/delay of premium subsidy payments.**

- There are major delays in the receipt of premiums subsidies from the Federal and State Governments.
- The arrears of premium subsidy have severely restricted the Corporation from expanding its underwriting operations.

## **CLAIMS ISSUES**

- dissatisfied customers
- moral Hazard
- Exaggerated claims

## **General perception of the public to insurance**

- The operations of Agricultural insurance were challenged by scepticism and the wrong image that the public has built over time about the Insurance Industry in Nigeria.
- Insurers are seen as always unwilling to pay genuine claims by inserting hidden and ineligible clauses to frustrate the payment of claim

## **Literacy factor**

- Most target farmers for the agricultural insurance program are not literate enough to accept and understand the message and concept of insurance..
- This factor made it difficult for the targeted farmers to understand the guiding principles or the basic idea of such a special product as agricultural insurance.
- When losses occur, it was always difficult to make any compensation or claims acceptable to the farmers no matter the equity and fairness involved in the computation of the indemnity.
- Their belief and expectation would be to have total compensation for the loss, at times with even an anticipation for a margin of profit.

## **Other challenges include:**

- Low market coverage and insurance penetration.
- few underwriters in the market
- Budgetary constraints due to slow and at time non-payment of premium subsidy.
- High overhead costs due to the wide nature of coverage.
- The scheme participation is low due to financial institutions lack of interest in lending to agriculture.
- Agricultural cover is typically limited to the loan amount rather than total production.



**BUILDING A GLOBAL, FAIR, AFFORDABLE AND  
EFFECTIVE AGRICULTURAL INSURANCE MECHANISM TO  
BUILD RESILIENCE OF FARMERS TO EXTREME  
WEATHER EVENTS- SETTING UP OF A GLOBAL RISK  
POOL FOR CATASTROPHIC WEATHER EVENTS**

To build a fair, global, affordable, and effective agricultural insurance mechanism that will build the resilience of farmers against extreme weather events, policy makers must take the following into consideration.

## ❖ **GOVERNMENT SUPPORT**

- Government should adopt the public-private partnership approach in the implementation of agricultural insurance in their countries. The private sector underwriting firms must be encouraged to underwrite agricultural risks as their participation will bring innovation and competition the agricultural insurance landscape.
- Government should integrate agricultural insurance as part of a comprehensive approach to agricultural risk management in all its agricultural programs. Therefore all participants in Government agricultural interventions must compulsorily have agricultural insurance for their various agricultural projects.
- Government should develop a strong legal, regulatory system for agricultural insurance for their countries.

- The application of smart premium subsidies for agricultural insurance products should be implanted, escalated, sustained and supported by governments. This is to leverage on the positive impact of enabling farmers to purchase agricultural insurance policies.
- Government must ensure that agricultural insurance service providers offer insurance products that are affordable and relevant in the mitigation of important weather risks and meeting the farmer's demands and expectations.
- An agricultural insurance reserve fund may be created by countries, to serve as an intervening measure during a major catastrophe or whenever cumulative premium incomes becomes inadequate to meet the cost of claims.
- Government should ensure that the agricultural insurance landscape is populated by credible, cost effective and commercially viable insurers whose claims payments are fast and equitable. The intermediaries that market and package insurance must innovate and be able to package agricultural insurance products with relevant agricultural inputs, agronomic practices and weather information that will make the insurance product more attractive to the farmers.

## ❖ **ADOPTION OF TECHNOLOGY FOR EASY ACCESS AND DISTRIBUTION**

Agricultural Insurance risk underwriters and stakeholders should advocate and support the deployment of ICT platforms in the distribution and sales of agricultural insurance products and services. This is to enable all categories of farmers have access to agricultural insurance wherever they are located in any part of the country.

## ❖ **AGRICULTURAL LENDING**

Agricultural insurance should be made compulsory for all agricultural loan beneficiaries as it is presently done in Nigeria. In effect, Agricultural insurance products and services should continue to be linked to loans and other forms of credit provided by banks and other financial institutions. This will enable farmers have more access to agricultural insurance products and services.

### ❖ **COST EFFECTIVENESS.**

Agricultural insurers should aim for efficient distribution networks and increased use of technology to minimize administrative and claims settlement costs. Recently insurance programs have made use of mobile technology, remote sensing data and automated weather stations for parametric insurance products (index based insurance products) for emerging markets.

### ❖ **CLAIMS PAYMENTS**

The claims payout procedures by the agricultural insurance service providers must be based on objective, transparent, verifiable and understandable criteria and which should reach the farmers as soon as the occurrence of the insured event.

### ❖ **ADEQUATE REINSURANCE ARRANGEMENT**

Agricultural insurance service providers must ensure that adequate reinsurance arrangements are made so as to prevent them from defaulting during the payment of claims in years when large payouts are made

# CONCLUSION

- Extreme weather events such as drought and flood, driven by climate change result in increased risk of hunger and malnutrition in Africa's most vulnerable populations; Nigeria inclusive.
- The systems for responding to these natural disasters must be timely and equitable, and must provide adequate funding if lives and livelihoods are not to be lost, assets depleted and development gains in agricultural development reversed;
- Therefore the feasibility of the creation of a global insurance mechanism to address loss and damage attributable to climate change to serve as a risk disaster pool and a fund disaster must be explored.