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MEDIA INFORMATION

AFRICA'S AGRICULTURAL INSURANCE IS KEY TO ADVANCING FOOD SECURITY

Zurich, 30 May 2023 - Africa's agricultural insurance markets have grown in recent years, but with a share of only 1.6% of total non-life insurance premiums in Africa, there is a large untapped potential, according to the latest edition of the Africa Insurance Pulse on food security and agricultural insurance, launched today at the 49th Conference and General Assembly of the African Insurance Organisation (AIO) in Algiers, Algeria.

Jean Baptiste Ntukamazina, Secretary General of the AIO, said: "Agricultural insurance is critical to promoting food security in Africa. It acts as a safety net for farmers and food producers by transferring the financial risk of production or distribution to the insurance sector. This stabilises food production and increases resilience to disasters. In addition, insurance provides incentives for sustainable practices such as conservation agriculture and crop diversification, thereby improving food security. Insurance also helps facilitate investment in new technologies and infrastructure, ultimately increasing agricultural productivity."

The global market for agricultural insurance is growing, including in Africa

The global agricultural insurance market has grown significantly due to the increasing need for risk management tools in agriculture. According to Swiss Re, the global agricultural insurance market will be valued at USD 46 billion in 2020 and is expected to reach USD 80 billion by 2030, growing at a compound annual growth rate (CAGR) of 5.7%. The largest markets for agricultural insurance premiums today are the United States and China, with annual premium volumes of USD 15 billion and USD 12 billion respectively, which together account for more than 50% of the global market.

Despite the economic importance of the agricultural sector to many African countries, the agricultural insurance market in Africa is underdeveloped, with low penetration and a limited range of products. However, the market has been growing in recent years, driven by increased demand from farmers for risk management solutions and the development of new technologies and risk models. In 2020, African agricultural insurance premiums were estimated at USD 320

million, representing 1.6% of total African non-life insurance premiums of USD 19,730 million. Despite being slightly higher than the global share of 1.3%, there is a large untapped potential.

African smallholder farmers are largely uninsured

Agricultural insurance coverage in Africa varies widely from country to country. Today, the majority of agricultural insurance premiums are generated in just a few African markets. In particular, markets in southern Africa are more developed, partly because of the different structure of the agricultural sector, which includes large commercial farms. With an estimated premium volume of over USD 100 million, South Africa is by far the largest agricultural insurance market on the continent, followed by Morocco and Botswana, whose markets generate between USD 20 million and USD 40 million in premiums. The only other two markets with premium volumes in excess of USD 10 million are likely to be Nigeria and Zambia.

However, most African markets are characterised by subsistence or smallholder farmers. For them, agricultural insurance secures livelihoods and primarily offsets the risks associated with weather variability. This risk mitigation improves farmers' access to credit and thus to agricultural inputs such as seeds, fertiliser or labour, which can potentially increase productivity. It also gives farmers the security they need to invest their earnings and enter into contracts with buyers and processors. Compared to other emerging markets, agricultural insurance coverage among smallholder farmers in Africa is very low. Only 1% of smallholder farmers in Africa were insured in 2016/2017, compared to more than 15% in Latin America and nearly 50% in Asia.

African re/insurance has a key role to play in improving food security

The African re/insurance sector has an important role to play in addressing food security in Africa and should be seen as an integral part of the agricultural system. Agricultural insurance, in particular, is a viable option for reducing agricultural production risks caused by weather events, pests and market price fluctuations, and is critical to improving food security in Africa by providing a safety net for farmers in the event of crop failure or disaster, reducing vulnerability to climate change, increasing investment in agriculture, improving access to credit and encouraging the adoption of new technologies and practices. In recent years, agricultural insurance has benefited from innovation in both products and processes.

To further improve food security in Africa, African governments should provide financial support for the development of agricultural insurance markets in emerging economies. In addition to premium subsidies, governments can support the sector by improving the accuracy of data on the sector, enhancing financial education or providing catastrophe reinsurance.



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Besides the government, other institutions, such as banks, input suppliers or community organisations may serve as aggregators or enablers of agricultural insurance by providing agricultural extension services, including training, credit, distribution of seeds, fertiliser or herbicides, organising cash crop exports or facilitating access to finance.

Another important factor in promoting the sustainable development of agricultural insurance is the need for a regulatory framework that encourages growth and innovation in the sector. Such a framework should promote flexible product design, capacity building and public awareness, risk-based pricing, clarity and consistency in regulation, and cooperation among stakeholders to support the growth and sustainability of the sector.

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ABOUT AFRICAN INSURANCE ORGANISATION

Established in 1972 in Mauritius, the African Insurance Organisation (AIO) is a non-governmental organisation recognised by many African governments. Following the headquarters' agreement with the Government of Cameroon, the Permanent Secretariat of the AIO was set up in Douala. The AIO aims to develop a healthy insurance and reinsurance industry in Africa and promote inter-African co-operation in insurance. The AIO has currently 354 members from 48 countries in Africa and 16 international associate members from overseas.

For more information on African Insurance Organisation, please visit african-insurance.org.