



South African Insurance Association

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Media Release

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Food Security: Sustainability of Multi-Peril Crop Insurance, A Public Private Partnership

Johannesburg - An industry initiative to look into a possible Private Public Partnership (PPP) between the South African government and the insurance industry resulted in a workshop being held on the 22nd of February, 2013, at the Birchwood Hotel Conference Centre, that has widely been hailed as successful by the delegates and stakeholders who attended the informative and educative session.

The workshop, attended by well over 70 delegates, included a delegation from Turkey - a country which has successfully implemented the initiative - probed the possibilities and the mechanics of how the insurance industry could develop crop insurance in partnership with government, the agricultural sector and other stakeholders.

The South African Insurance Association's chief executive Barry Scott kicked off the workshop by welcoming all delegates and speakers, that included Dr Reshma Sheoraj, Director: Insurance at the National Treasury, Ms Tlhapedi Vivian Phadime, Deputy Director of Policy and Programme Development at the Department of Agriculture, Forestry and Fisheries (DAFF), Andries Mahlase, Chairman of the SAIA Agricultural Insurance Committee and Ms Gamze Us, Foreign Relations and Reinsurance Manager at the Agricultural Insurance Pool Management Company (TARSIM) in Turkey.

This objective of the workshop was to afford the insurance industry, government, agricultural associations and other interested stakeholders the opportunity to learn from Turkey's experience in creating their own Public Private Partnership. The high level delegation from Turkey included the country's officials from the Ministry of Finance and Ministry of Agriculture.

Andries Mahlase an Agricultural specialist at Munich RE and Chairperson of SAIA Agricultural Committee, explained South Africa currently has crop, livestock and forestry insurance, and is the only country in the world that offers multi-peril crop insurance without government support. He said South Africa has three insurers that offer hail and multi-peril cover. There are six insurers that cover all risks of mortality and transit for livestock and one specialist insurer covering fire in forestry.

Mahlase pointed out a rapid increase in hail premiums as a result of increases in commodity prices and planted area in the past seven years (2005 to 2012), with multi-peril crop insurance (MPCI) also stabilising at an average of 20 percent of the hail premium per



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*Alternates, + German, ** Irish, *** British

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year over the past four years. He however also noted that MPCl is consistently showing unsustainable loss ratios, due to climate change, resulting in increased frequency and intensity of loss events such as drought, excessive rainfall, and flooding in low-lying areas. "Market penetration of MPCl in South Africa is very low since premiums are expensive due to high weather event volatility - specifically a frequent incidence of drought - as well as high transaction costs of offering the insurance product with a wide distribution of clients in remote areas."

"However, farmers do benefit from risk transfer when insurance assets are protected in the event of a loss and production credit can be accessed through insurance acting as collateral. The market penetration of MPCl is only 17% of the planted surface area in the commercial sector and is negligible in the small-scale sector," he said.

Mahlase's presentation was followed by Dr Reshma Sheoraj's who welcomed the Turkish delegation and expressed the National Treasury's willingness to engage with all relevant stakeholders. She reiterated that the purpose of the workshop was for South Africa to learn from Turkey how they implemented their own agricultural insurance.

Her sentiments were also echoed by Phadime, who said there was a strong need to build a strong and productive public private partnership between government and the private sector. Given the increasing impact of global climate change on food production, food security had become a priority for many governments globally, including South Africa, she said.

"It was against this background that the Department of Agriculture, Forestry and Fisheries, together with the National Treasury is exploring the feasibility of introducing a PPP for agricultural insurance in South Africa."

"Its main objective will be to enable smallholder and commercial farmers, including forestry and fisheries, to cope with production risks caused by natural disasters by insurance products being available with sharing risks between government, the insurance sector and financial institutions."

Ms Gamze Us started her presentation by introducing the insurance lines they were involved in and what these products cover. They include crop, greenhouse, livestock, poultry and aquaculture insurance. The mechanics of the Turkish state-supported agricultural insurance policy were explained.

She explained that the system in Turkey is supported by web-based IT systems, where policies are generated online by agents. TARSIM had 12 330 policies taken up by 2006, that number growing exponentially to 744 093 policies totalling a premium of 499TL million (US\$278m) by the end of 2012.

Insurance penetration, however, remains low. On crop insurance, out of a total 14.7m ha of insurable land, only 1.2m ha (equivalent to 8.2%) are insured and for livestock insurance, only 362 178 of 5.3m dairy cows are insured (equivalent to 6.8%). Us explained that there were challenges in implementing the system, including IT, training of loss adjusters, active marketing and product development.

The SAIA, in conjunction with agricultural underwriters and reinsurers, have completed a research study with proposed options of a PPP for South Africa. Debbie Donaldson, SAIA General Manager: Strategy and Planning says: “Through the process of collaboration with the various stakeholders, it is clear that the issue of food security requires a broader view to be taken.”

“SAIA supports and welcomes the investigation into an insurance agricultural framework for South Africa by the Department of Agriculture, Forestry and Fisheries and the National Treasury. We look forward to providing input through the consultant that is being appointed for this. This initiative is a priority for the South African Insurance Association,” she concluded.

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