

AGRICULTURAL INSURANCE IN NIGERIA - THE MYTHS, TRUTH AND MISCONCEPTIONS
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(www.naic.gov.ng)

INTRODUCTION

- The Nigerian Agricultural Insurance Corporation (NAIC) is the executing agency of the Nigerian Agricultural Insurance Scheme (NAIS). The Scheme was established in 1987 to address the issue of risks facing farmers as a result of incidences of natural hazards such as drought, flood, pests, diseases, etc
- The legal instrument is the NAIC Act Cap. N89, Laws of the Federation of Nigeria, 2004

OBJECTIVES OF THE SCHEME

The general objective of the scheme is to protect the Nigerian farmer from the effects of natural hazards by introducing measures that shall ensure an indemnity sufficient to keep the farmer in business. The specific objectives are: To provide financial support to farmers where the loss to crops or livestock arises from natural hazards; to induce the provision of credit by financial institutions to farmers; to promote agricultural production, and to minimize or eliminate the need for Government to provide ad hoc assistance to farmers during agricultural disasters.

ESSENTIAL FEATURES OF THE NIGERIAN AGRICULTURAL INSURANCE SCHEME

- Mandatory cover for all agricultural projects and programs that are funded from public funds including all direct, on-lending, and agricultural investment loans disbursed by the Bank of Agriculture, commercial banks, microfinance banks, and other financial institutions.
- Provision of financial support by the Government in the form of 50% premium subsidies for most classes of agricultural insurance in crops and livestock which is to be reimbursed to NAIC by the Federal and State governments in the ratio of 37.5% and 12.5% respectively.
- The Corporation maintains Zonal offices across the six geopolitical zones of the country with a branch in every state capital. The zonal offices supervise varying numbers of branch offices.

PERILS COVERED UNDER THE SCHEME

CROPS

- **Covered:** fire, lightning, windstorm, flood, drought, pests/diseases, and invasion of the farm by wild animals.
- **Not Covered:** Losses caused by negligence or willful damage, political risks, social risks like riot, mutiny, revolution

LIVESTOCK

- **Covered:** death or injury caused by accident, disease, fire, lightning, storm, and flood.
- **Not Covered:**
Losses resulting from malicious, willful injury, neglect, unskilled treatment, theft, and malicious disappearance

The insured under the scheme is required to meet such conditions relating to good husbandry as may be laid down from time to time by the Nigerian Agricultural Insurance Corporation.

MAJOR AGRICULTURAL INSURANCE PRODUCTS

Insurance policies are deployed through the Multi-peril and Area Yield Index covers. Moreover, policies have been developed across the agricultural value chain starting from primary production to consumption.

COMPENSATION UNDER THE SCHEME

To qualify for indemnity under the NAIS, the following conditions must be met.

- ✓ The insurance coverage must have been obtained before the loss occurred.
- ✓ The farmer has a valid insurance cover at the time of loss or damage
- ✓ The farmer has followed laid-down practices for crop and livestock production
- ✓ The cause of damage or loss was one of the risks covered by the insurance policy
- ✓ The notification of the damage or loss was one of the risks covered by the insurance policy
- ✓ The notification of the damage or loss was made within the stipulated time
- ✓ The farmer has satisfied necessary conditions as may be specified in the policy document

BENEFITS OF AGRICULTURAL INSURANCE

- Peace of mind
- Premium subsidy of 50%
- Business continuity
- Diverse insurance products
- Provision of sound and improved management guidance
- Adoption of improved production techniques without fear
- Farmer's income stabilization

MYTHS, MISCONCEPTIONS, AND THE TRUTH

Some of the myths and Misconceptions are hereby presented below with the facts:

1. Crop insurance discourages farmers from using other risk management tools such as market hedging, crop rotation, and off-farm income. The use of these other risk management tools without crop insurance would be enough risk Management for farmers.
Fact: Farming is a risky business, so farmers utilize a multitude of risk management strategies to manage the hazards they face continually. However, insurance is the only risk management tool that farmers can literally take to the bank to prove their ability to pay back annual operating loans required to keep them in business.
2. Disaster assistance would be better and cheaper than agricultural insurance.
Fact: Agricultural Insurance provides a certainty to farmers (and their lenders) that ad-hoc disaster assistance can never provide. Insurance payments are also timely and commensurate with the degree of loss while disaster payments are not and may certainly not reach all.
3. Agricultural Insurance premium is an extra cost and is only for big farmers
Fact: Agricultural Insurance is to be seen as an input to the agro-project just like fertilizers, pesticides, etc to ensure bumper harvest without disasters. Moreover, the rate is 4% for crops and 5% for livestock and subsidized such that farmers pay 2% and 2.5% respectively. Furthermore, agricultural insurance is available for all categories of farmers and these policies also serve as collateral to lenders when farmers seek improved operating capital.
4. Agricultural Insurance should not (does not) require a farmer to have a loss (Political view). Payments should be made to all farmers
Fact: Agricultural insurance is a business and runs along sound insurance principles, consequently, only insured projects are catered for whenever risks crystallize
5. All losses are covered by Agricultural Insurance
Fact: Crop insurance requires deductibles to be met before a payment is made. Losses are verified before payments are made.
6. Agricultural Insurance requires too much paperwork and its processes of acquisition is too tedious.
Fact: Most of the paperwork is in the favour of the insured and they are advised to go through with them to ensure that their claims are not tampered with should a loss occur.
7. Agricultural Insurance does not pay claims:
Fact: The claims payment by NAIC in the last three years is about ~~4~~2 billion. Genuine claims are investigated, adjusted, and settled. Claims payment could be made within 72 hours of the signing of the discharge voucher.
8. I need a total loss to qualify for compensation
Fact: Barring the deductibles, genuine claims over set thresholds are settled. It should be recalled that insurance places one in the same position prior to the occurrence of the loss. There are many states of settlement of claims in

agricultural insurance. Once a stage has been attained, the template for that stage is employed in the settlement of the claims.

9. Once the agricultural insurance contract is consummated, the insured can go to sleep

Fact: Insured are expected to behave as if they have no insurance and carry out their management activities properly. Should there be a loss, the insured should try as much as possible to mitigate the loss (where possible and without danger to their person or any other person).

10. Premium should be returned/shared when there is no loss

Fact: This is not practicable under conventional insurance principles which also apply to agriculture. Premiums are paid to constitute a pool out of which the adversely affected insured are compensated. And risks vary with time. Insurers may make a profit in one year and a loss in another. All these are catered for from these premiums and the income from their investments.

11. All Farms are insurable

Fact: The bankers would always classify some projects as bankable and non-bankable. The same goes for insurance. Some risks are not insurable, because of their certainty of occurrence. For instance, a fish pond located along a river course is a sure risk to happen, if all the necessary dykes are not fully installed to forestall incursion of flood/erosion.

Conclusion

Agricultural projects being proposed for insurance should follow sound management principles with sound bookkeeping to enable effective traction.