Avian Influenza

Insurance/Indemnification:
The Canadian Experience & Its Application to Developing Regions

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Key Messages

1. Your problem is not unique
2. You need to consider alternative risk transfer mechanisms
3. Focus on a Strategic (4 Step) Process – replace regulation with self discipline by motivating appropriate behavior
Objectives

1. Relate Canadian Experience – *Nature of interaction between public and private sector stakeholders*

2. Discuss Typical Issues Faced When Developing Indemnification Tools For AI

3. Identify Actions Taken in Canada That Are Relevant To Other Parts of the World
Problem Context

1. Rapid disease reporting by primary producers is the key element in any disease control strategy.
2. Current compensation for poultry producers does not provide the necessary motivation to report.
3. Individual producers are not capable of developing/participating in private insurance schemes.
4. This lack of indemnification presents a serious risk to other producers and industry stakeholders.
The Results

AI and What Canada Learned

- Level of Preparedness – Industry & Public Agencies
- Interdependence of Stakeholders
- The Need for Strategic Approach – Structure, Agreements, Process
Root of Problem

• Disease costs are concentrated while benefits of control are not! - *How to motivate individual producers to act when they incur all costs and share the benefits?*
Obvious Conclusion

Current approach taken to address AI is not the most efficient nor effective way to go

• Reactive

• Does not motivate appropriate behavior
The Response

Formalized the Link Among National Feather Agencies: (AI Project Coordinator)

• Emergency Management
• Biosecurity
• Surveillance
• Disposal
• Compensation
Results Achieved

• Every province has an Emerg. Plan
• CFIA has a AI Hazard Specific Plan
• NPG has a separate Emergency Plan
• Biosecurity – added to OFFS
• Active Surveillance in 2008
• Culling and disposal process
• C&D process revised
The Impacts/Benefits

• Fraser Valley 2004 - $380 million
• Yarrow 2005 - .2 million
• Regina Beach 2007 – limited to one farm 3 premises
• Abbotsford 2009 - ???
Lingering Problems

- Public Compensation Levels Inadequate
  - Long cycle vs. shorter cycle
  - C&D costs

- Initial Concerns re: Private Insurance
  - Little interest
  - Little/No understanding
The Need for Alternatives

1. There are no traditional risk transfer mechanisms that are relevant to the developing world
2. If risk cannot be avoided individually then mitigate it collectively
3. Collective mitigation can involve industry stakeholders of different sizes, operating realities, and financial means
4. There is a definite role for public involvement in the area of collective mitigation
5. Bottom Line - There can be 100% retention but not 100% re-insurance, and we are searching for a logical balance
Alternative Risk Transfer – Principles

- Compensation is more than just disease recovery – *Strategic*
- Focus on the development of prevention based disease/farm management – biosecurity
- Tie levels of exposure and producer management to risk - surveillance
ART – the challenges

1. Creating a programme that uses multiple capital sources - tied directly to conditions
2. Initiate a culture of risk management that does not currently exist
3. Develop the foundations of ‘prevention based’ disease risk management
4. Establishing a process for tying exposure and producer management criteria to risk
Insurance & Risk

“the premiums of the many pay for the losses of the few”

Dealing with Risk:
1. Avoid it - move
2. Accept it – self insure or ignore
3. Reduce it - biosecurity
4. Transfer it - insurance
Strategic Risk Management

Using Insurance Principles

- Risk Assessment
- Perils Identified
- Risk Control Process
- Data Collection
- Data Analysis
- Refinement of Option(s)
- Consultation with Financial Services Industry, Producers & Public Agencies
- Private Sector Negotiations
- Develop Business Case
- Confirm Option(s) with Producers
- Launch Solution

Serecon
Step 1: Perils & Coverage Categories

1: Depopulation & Initial Movement Control
   • Market value loss – diff between market and compensation
   • C&D, PPE, & additional machinery
   • Overtime
   • Productivity

2: Dormant Period
   • Fixed Costs – building and equipment depreciation
   • Breech of Contract
   • Salary Maintenance
   • Composting

3: Repopulation Activities
   • Market and price loss
   • Replacement stock issues
   • Administrative losses
Step 2: Data Collection – Potential for Infection

- Individual Farm Assessment Data
- Risk Assessment Process
- Macro Industry Risk Assessment Score
- Core Disease Spread Model
- Estimated Extent of MPL Outbreak
Step 2 (cont’d): Possible Loss Scenarios

- Specific Model Parameters (Industry Efficiency Measures)
- Industry Financial Structure (Basic Demographic Info)
- Base Impact Model (Weekly for up to 36 Weeks)
- Distribution of Loss Model (By Sector Within Incident Area)
- Summary Model (By Category and Sector)
Step 2 (cont’d): Actuarial Analysis

- Estimated Extent of MPL Outbreak
- Summary Model (By Category and Sector)
- Actuarial Analysis And Premium Establishment
- Specific Policy Wording:
  1) Peril definition
  2) Coverage options
  3) Minimum Requirements
  4) Limitations
  5) Exclusions
- Administration Format
- Policy Structure
- Premium Payment/Pricing Structure
- Individual Policies
Step 3: Assess Options

**Compensation Plan**: an agreement between parties where one provides support to the other under specifically defined situations.

**Farmer levy Funding**: On-going cash set aside in the event of a pre-defined situation.

**Bank Guarantee Funding**: Obtaining a line of credit (vs. an actual pool) to be paid out in the event of a problem. Generally paid back to the guarantor over a specified period of time.

**Reciprocal**: a contractual agreement through which subscribers share risks among themselves.

**Insurance**: a more restrictive formal structure providing financial coverage to address specified losses sustained by stakeholders resulting from stated perils.
Step 3: Assess Options

Coverage may be offered by a number of agencies:

- Different agencies may select specific perils
- Cost sharing may occur among stakeholders
- Flexibility is key
Step 4: Negotiating the Solution

- Public Agencies
- Coordination Funding
  - Standard Development Support
- Joint Risk Minimization Team
- Targeted Risk Assessment Process
- Standard Development
  - Standard Improvement
  - Standard Monitoring & Education
- Reinsurance Industry
  - Reinsurance Cover
- Indemnification Body
  - Audits Risk Reports Compliance Validation
  - Policies Premiums??
- Commercial Producers and other Stakeholders
Public Sector Role - PSRMP

A publically funded, five-year program

Addressed gaps in available risk management coverage

Two objectives:

enhancing the ability of farmers to manage risks traditionally not covered by government programs or the private sector, and

increasing the participation of the private sector financial services industry in providing risk management to the agricultural sector
Responding to Gaps in Private Sector Risk Management Tools

Producer (s) Organizations

- Project applications and action plans
- Financial and technical assistance

Donors/Public

- Consultations on potential projects, products and services

Private Sector Insurance Industry

- Risk management activities and data
- Risk management products and services
Specific Examples

• S.e. Layers/Pre-lay/leghorn breeders
• S.e. Broiler Breeders
• AI Broilers/BB/Leghorns/Turkey
• Bluetongue for sheep – cross subsidy of premiums between cattle and sheep
Example: Stakeholder Roles

Layered Approach
- $100: National or International Governments
- $80: Re-Insurance Market
- $20: Producer Groups in Conjunction with Regional Government in the Form of a Reciprocal
- $10: Self-Insurance - Deductible

Segmented Approach
- $100: National Government
- $80: Re-Insurance Market
- $20: Reciprocal
- $10: Individual Producer
- 50% Coverage
- 100% Coverage
Alternate Risk Management
- Relevance to You -

Provides a Structure to identify elements of common concern - strengthening the interaction among stakeholders.

1. Formal Structure/Approach
2. Formal Agreements/Governance
3. Increased Clarity
Summary

1. Your problem is not unique

2. You need to consider alternative risk transfer mechanisms
   - Change traditional thinking about compensation
   - Leverage funds and knowledge

3. Focus on a Strategic (4 Step) Process – replace regulation with self discipline (motivate appropriate behavior)