

# Enabling small aquafarmers access to insurance

## FAO, NACA and APRACA propose a hybrid approach between insurers and government

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**F**AO estimates the number of aquaculturists in Asia at nearly 11 million of which about 4 500 are believed to be insured for their aquaculture crops. That is less than 1 percent of aquaculture farmers insured. Only some large-scale aquaculture enterprises are insured and small-scale entrepreneurs have no access to the service yet. Aquaculture has been growing more rapidly than all other animal food producing sectors. Asia contributes about 91 percent to the world production in volume terms. This prompts the need for risk management strategies, including insurance. A recent review of world aquaculture insurance carried out by FAO indicated a high demand for aquaculture insurance. It pointed out that the gap between the demand for and supply of aquaculture insurance in Asia is increasing.

Aquatic animal health problems are the major cause of losses in Asian shrimp and fish farms. They impact seriously on the profitability of both the farmers and the insurers of aquaculture in Asia. Since the start of the new millennium, the underwriting experiences have been improving and aquaculture insurance is becoming economically attractive to both farmers and insurers. Unfortunately, current insurers involved in aquaculture in Asia limit their coverage to a small number of traditional aquaculture species and are hesitant to include "new" species and culture systems. Mutual insurance schemes in aquaculture are rare. The lack of enabling policy and regulatory frameworks for aquaculture and fisheries insurance is also limiting the development of insurance services for the sector.

In response to this regional need, the FAO in collaboration with the Indonesian Directorate General for Aquaculture, the Network of Aquaculture Centres in Asia-Pacific (NACA) and the Asia-Pacific Rural and Agricultural Credit Association (APRACA) organized the "Regional Workshop on the Promotion of Aquaculture Insurance in Asia". This aquaculture insurance workshop, the first of its kind in Asia, was attended by 50 participants from over 15

countries in Asia and experts from other regions. It was held on 30 April-2 May 2007 in Bali, Indonesia.

*Workshop recommends a "hybrid" approach that would enable small aquaculture farmers access to insurance. The insurers and re-insurers in the workshop noted the importance of organized farmer groups adopting better management practices (BMPs) in contributing to the insurance-worthiness of small aquaculture farmers.*

The workshop proposed a "hybrid approach" to aquaculture insurance. Broadly, this consists of working with well-established groups of small-scale farmers that apply better management principles (BMPs) in aquaculture and, as such, work towards reducing or mitigating risks. Through mutual schemes developed with groups of farmers, individual farmers would receive compensation when losses occur. The cost of damages from large scale disasters (such as cyclones, flooding or disease epidemics) would be spread through arrangements with insurance brokers, insurers, re-insurers, loss adjusters and risk management experts in collaboration with the government. This approach will be tested in the next few years in selected countries in Asia with support from FAO, NACA and APRACA together with commercial insurance companies. This would enable poor and small-scale aquaculture farmers in Asia to have access to aquaculture insurance service - a service which will help them to recover faster from disasters, restart their business and resume their livelihoods.

Below is the full text of the workshop conclusions and recommendations:

### Conclusions and Recommendations

The Asian region represents the largest number of aquaculture farmers in the world (nearly 11 million) and of these - the predominant number are small- and medium-scale operators. In

2004, 90 percent of the world's total aquaculture production in volume was generated in Asia. The value of Asian aquaculture production in the same year was estimated at nearly US\$57 billion. The Asian aquaculture sector showed average annual growth rates of 7.7 percent in value terms.

The Regional Workshop on the Promotion of Aquaculture Insurance in Asia, held in Bali, Indonesia, 30 April -2 May 2007, recognized that aquaculture insurance is likely to be attractive to farmers whose aquaculture operations are the principal form of livelihood and in which the family/operator has invested significant livelihood assets (time, labour, infrastructure, financial investment). It was also noted that aquaculture insurance schemes in Asia do not cover small-scale aquaculture at present. There is currently high uncertainty over the viability of aquaculture insurance in the small-scale aquaculture sector. In this regard, the workshop concluded that a "Hybrid Approach"<sup>1</sup> involving partnerships between governments, insurers, and private- and public sector organizations would be the most suitable approach for the region to develop schemes accessible to groups or clusters of medium- and small-scale aquaculture producers.

In recognition of this, the participants endorsed the following recommendations of the Regional Workshop:

Governments in the Region are encouraged to:

- Contribute to the establishment of aquaculture insurance schemes in the region by providing an enabling environment (legal and policy frameworks) and consider appropriate social coverage for risks that cannot be covered by the insurance sector.
- Engage with insurance industry, other public- and private bodies and clusters/groups of small-scale farmers in the development and implementation of a "Hybrid Approach", which is considered as a better approach for aquaculture insurance development in support of small-scale aquaculture in the region.
- Continue to provide an enabling environment for increasing the degree of adoption of Better Management Practices in aquaculture to facilitate sustainability and reduce production related risks.

- Work closely with the aquaculture sector in quantifying risks and developing effective mechanisms for their mitigation.

The Insurance sector<sup>2</sup> is encouraged to:

- Initiate the establishment of an Asian Aquaculture Insurance Pool (A.A.I.P)<sup>3</sup> which will serve as a market facility for the provision of aquaculture insurance services to the region.
- Assist in the creation of awareness and in facilitating capacity building for the establishment of mutual and other insurance schemes. Such schemes would spread the risks related to "smaller" disasters that affect some, but not all, participants in the scheme.
- Pro-actively engage with governments in seeking ways to implement the "Hybrid Approach" to aquaculture insurance that can address the needs of medium- and small-scale aquaculture operations.

The workshop recognized the need for FAO, intergovernmental organizations such as NACA and other relevant international or regional agencies and development banks to continue to support, participate and invest in the development of insurance for small-scale aquaculture in Asia.

Further information about the workshop outcomes may be obtained via e-mail from Mr Raymon Van Anrooy.

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<sup>1</sup>The "Hybrid approach" is laid out in detail in a document produced by the Regional Workshop titled: "Guidelines for action to meeting insurance and risk management needs in developing aquaculture in Asia".

<sup>2</sup>The sector comprises direct and re-insurers, brokers, risk management experts and loss adjusters, etc.

<sup>3</sup>The nature and purpose of the A.A.I.P. is broadly discussed in the "Guidelines for action to meeting insurance and risk management needs in developing aquaculture in Asia", being redrafted to incorporate relevant information from the workshop.