Agricultural insurance in the ASEAN region: LAO PDR

Background

The ASEAN region is one of the most exposed in the world to natural and climatic disasters, from earthquakes and volcanic eruptions to typhoons, floods, droughts, and pests and diseases affecting crops and livestock.

These disasters can cause many millions of dollars in losses and damage for the agricultural sector in an average year, and run into billions of dollars in more catastrophic years. Climate change is already having major adverse impacts on crop production and yields and is also affecting livestock and aquaculture. These negative impacts are predicted to increase significantly by the turn of the century.

Agricultural insurance is one of the tools that ASEAN Member States can use to compensate farmers for losses and transfer some of these unmanageable risks to national and international capital and insurance markets.

A snapshot of agricultural insurance in the ASEAN region

Brunei	No agricultural insurance
Cambodia	Crop & forestry insurance
Indonesia	Crop, livestock, aquaculture & forestry/plantation insurance
Lao PDR	Forestry insurance approved, but not yet available
Malaysia	Forestry insurance available on a limited scale
Myanmar	Crop insurance
Philippines	Crop, livestock, aquaculture, forestry & greenhouse insurance
Singapore	No agricultural insurance
Thailand	Crop & livestock insurance
Vietnam	Crop, livestock, aquaculture & forestry insurance

The status of agricultural insurance in Lao PDR

Lao PDR is an important agricultural economy in the ASEAN region, but there is no history of agricultural insurance in the country and no insurer is currently offering crop, livestock, or forestry insurance. However, in 2021, the insurance regulator approved a fire and allied peril insurance product for large-scale commercial plantations, such as rubber and oil palm.

The government faces budgetary constraints that make it difficult to invest in a national agricultural insurance programme, but is keen to introduce crop insurance and the launch of a pilot is imminent. It is working on identifying the most appropriate legal and regulatory framework and institutional and operating model(s): public sector, private sector, or a public-private partnership (PPP). There is also debate on the supporting role of government and the most appropriate insurance products to introduce first.

Agricultural insurance	Market status	Insurance providers
Crop	R&D (weather index insurance)	The insurance market in Lao PDR is relatively small with 22 registered insurance companies and total annual premium volume of about USD 70 million: non-life insurance accounts for about 95% of premiums and life insurance for 5%. Allianz Lao is the largest insurance company with 36% market share.
Livestock		
Aquaculture		
Forestry/Plantation	R&D (approved but not yet available)	

Sovereign disaster risk financing & insurance

Agricultural insurance products should not be planned and developed in isolation, but as part of a systematic risk prioritisation process that builds on and is integrated with existing disaster risk management and disaster risk financing for agriculture. Lao PDR is the first ASEAN+3* country to purchase catastrophic flood index insurance from SEADRIF.

Governments planning to introduce agricultural insurance should study the budgetary implications of premium subsidies carefully, and recognise that designing, implementing, and scaling up agricultural insurance is a long-term process requiring a long-term commitment.

Challenges for farmers, insurance companies, financial institutions & government

- Lack of knowledge, awareness, and trust in insurance.
- Premium rates are too expensive.
- Lack of demand for voluntary private insurance.

- Lack of technical knowledge, expertise, and experience in the design, rating, and implementation of agricultural insurance.
- Agricultural insurance is not a priority and considered too risky.
- Lack of quality data for risk assessment and high data acquisition costs.

- Lack of interest by financial institutions in bundled credit and insurance.
- Agricultural insurance products do not meet the risk transfer needs of value chain actors.

- Lack of budget to allocate to the promotion and support of agricultural insurance.
- Lack of knowledge of the role of agricultural insurance.

* Ten ASEAN Member States and the People's Republic of China, Japan, and the Republic of Korea.

Research suggests farmers are willing to pay for insurance, with support

With the exception of the plantation sector, most farmers in Lao PDR are poor subsistence farmers with small landholdings. Their ability to pay for insurance is therefore very low, but recent research by the National University of Laos (NUOL) indicates that farmers may be willing to pay if they have financial support. The study focused on rice farmers and pig producers and found that:

- Rice farmers are more vulnerable to disaster shocks than pig producers.
- Rice farmers and pig producers would be interested in buying insurance if it was affordable and they had access to financial institutions.
- Access to credit is major constraint for many farmers in Lao PDR. Banks and other financial institutions reported interest in using insurance as a form of collateral for loans.
- Insurance companies expressed interest in offering agricultural insurance, but lack sufficient information to assess the risk.
- Interviews with the Departments of Agriculture and Livestock suggest that it would be difficult to introduce agricultural insurance in Lao PDR due to government budgetary constraints to finance premium subsidies.

Government policy measures to promote agricultural insurance

There are a range of policy measures that governments can adopt to promote the uptake of agricultural insurance. The most common form of government support in ASEAN Member States is premium subsidies, which have been a significant factor in the scaling up of agricultural insurance in the region. Other policy options include:

- Establishing agricultural insurance legislation.
- Investing in data strengthening.
- Investing in financial and rural literacy programmes.
- Financing premium subsidies for agricultural producers.
- Waiving agricultural insurance taxes (VAT, stamp duty).
- Making agricultural insurance compulsory for farmers accessing formal credit.
- Providing disaster aid only to farmers who have purchased crop insurance.
- Aligning crop insurance with government disaster compensation (and social safety net programmes).
- Setting national standards for agricultural insurance product design and pricing to be adopted by all insurers.
- Establishing statutory agricultural insurance pools.
- Promoting state catastrophe reinsurance protection.

Recommendations

- Elaborate the risk profiles of major crops and production regions to guide the selection of appropriate insurance solutions.
- CAT-level sectoral weather index solutions may be a preferred option when starting an agricultural insurance programme, but more in-depth research and technical assistance are needed.
- Technical assistance and capacity building are needed to move forward with CAT-level index and indemnity insurance solutions.
- Options for bundling agricultural insurance with credit and other services should be studied.

To learn more about the Climate Risk Financing in Cooperation with ASEAN project, visit:

https://www.thai-german-cooperation.info/en_US/climate-risk-financing-in-cooperation-with-asean/

https://www.asean-agrifood.org/

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