



Agricultural insurance in the ASEAN region: MALAYSIA

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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 Malaysia

Agriculture plays a central role in Malaysia's economy, but unlike several of its ASEAN neighbours (Indonesia, Philippines, Thailand, Vietnam), Malaysia does not have a national (subsidised) agricultural insurance scheme. There is currently no commercial crop or livestock or aquaculture insurance available, although forestry/plantation insurance has been underwritten for many decades on a limited scale for commercial forestry, oil palm, rubber, and cocoa. Insurance penetration rates for primary crops, such as oil palm, rubber and cocoa, are low.

Due to the lack of agricultural insurance, the government had to allocate RM 80 million under the Agrofood Disaster Relief Fund to help rice paddy growers, farmers and livestock breeders who lost their produce due to natural disasters under the 12th Malaysia Plan. Agricultural insurance is seen as a way to protect farmers against natural disasters while reducing the fiscal burden on government. A national takaful-compliant* agricultural insurance programme is expected to be launched in 2022.

In Malaysia, the launch of an agricultural insurance pilot is imminent.

Agricultural insurance	Market status	Public, private, PPP	Government support for premium subsidies
Crop 	R&D	Public sector proposal through Agrobank and possible captive insurance vehicle	
Livestock 			
Aquaculture 			
Forestry/Plantation 	Commercial	Private	No
FORESTRY/ PLANTATION INSURANCE	Forestry/plantation fire policy: Covers against the loss of a tree (standing asset) as a result of fire and associated perils of flood, windstorm, and wild animal damage (e.g. elephants).		



Crop insurance proposals, 2004–2008

There have been several attempts in the past to introduce crop and livestock insurance, but these programmes have never been implemented. In 2004, the National Insurance Association of Malaysia, NIAM, with technical support from Partner Reinsurance Company, designed proposals for a national paddy (rice) multiple-peril yield shortfall (MPCI) programme. In 2008, Bank Negara Malaysia approved the formation of the Tani Malaysia poultry and livestock insurance scheme, supported by nine local insurers with reinsurance protection from Malaysia Re.

Paddy Takaful Coverage Scheme

In 2019, the Government of Malaysia confirmed its commitment to safeguard the welfare of citizens, particularly paddy farmers, with the introduction of a Paddy Takaful Coverage Scheme (SPTP). The scheme is expected to benefit 172,000 paddy farmers who own fields smaller than 10 hectares. Total compensation to be received by each farmer is estimated at RM 13,000. The government will initially allocate RM 50 million for this scheme, with aid in the form of cash ranging from RM 500 to a maximum of RM 800 per hectare, depending on the stage of the crops.

In March 2021, the Minister of Agriculture and Food Industries Ministry (MAFI) reaffirmed the government's commitment to introduce agricultural insurance under a task force headed by Bank Pertanian Malaysia Berhad, or Agrobank.

Agrobank is a fully takaful-compliant Islamic Bank (since 2015) and the leading development finance institution for the agricultural sector in Malaysia. Agrobank is leading the design and launch of a national takaful-compliant agricultural insurance programme by 2022. Agrobank plans to introduce agricultural insurance in two phases:

PHASE 1: Due to the lack of market interest in local takaful insurance and lack of technical knowledge to design and price agricultural insurance products and programmes, Agrobank plans to create an off-shore captive insurance entity. It will be owned by Agrobank and other shareholders/stakeholders and licensed by Bank Negara. It will draw on international takaful and retakaful expertise to pilot rice weather index insurance.

PHASE 2: In this strategic direction phase, the aim will be to crowd in as many of the 12 local market takaful insurers as possible and expand coverage for other sectors, including other food and commercial crops, livestock, and fisheries.

* Takaful is a type of Islamic insurance wherein members contribute money to a pool system to guarantee each other against loss or damage.

Challenges for farmers, insurance companies, financial institutions & government



- Low trust among farmers due to lack of knowledge and awareness of insurance.
- Premium rates are too expensive.



- Agricultural insurance is perceived as too risky or unprofitable to invest in.
- Lack of knowledge and technical capacity to design and rate agricultural insurance products/programmes.



- No major challenges identified.



- No major challenges identified.

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

- 🏛 Formulate the objectives of the country's disaster management policy, focusing on major crops and livestock and the greatest risks to Malaysian agriculture.
- 🏛 Consider index solutions for starting an agricultural insurance programme.
- 🏛 Complete risk profiles for major crops, livestock, and key production areas.
- 🏛 Select options for disaster risk management/insurance/financing based on actual risk exposure.



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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