



Agricultural insurance in the ASEAN region: VIETNAM


































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 Vietnam

Agriculture is the most important socio-economic sector in Vietnam. A high proportion of the population live in rural areas and are employed in agriculture. Farms are small, with about 70% of farmers operating on less than half a hectare and only about 8% on more than two hectares.

The government supports farmers, livestock producers, and fish farmers to protect against losses. First, through the National Agricultural Insurance Pilot Programme (NAIPP), a public-private partnership (PPP) that has subsidised crop, livestock, and aquaculture insurance

since 2011. NAIPP offers voluntary crop area yield index insurance (AYII), indemnity-based named peril livestock insurance, and indemnity-based aquaculture insurance for fin-fish and shrimp. Second, the national Natural Disaster Compensation programme provides state-funded disaster compensation to farmers, forestry producers, livestock producers, fish farmers, salt producers, and producer cooperatives or organisations that incur catastrophic losses from natural disasters and epidemics of more than 30% of their expected production.



Agricultural insurance		Year introduced	Market status	Public, private, PPP	Government support for premium subsidies
Crop	✓	1982 (2011)	Pilot	PPP	Yes
Livestock	✓	2011	Pilot	PPP	Yes
Aquaculture/Fisheries	✓	2011	Pilot	PPP	Yes
Forestry/Plantation	✓	Information not available	Limited availability	Private	No

CROP <i>Index insurance</i>	Area yield index insurance (AYII): Crop area yield index insurance was piloted in 2020 using RIICE, a satellite-based remote-sensing technology to trigger payouts for rice producers. This was groundbreaking — Vietnam became only the second country in the world, after India, to apply this technological innovation to its rice AYII product. RIICE enables the government to monitor and respond to natural rice disasters caused by drought, flood, salinity.
LIVESTOCK <i>Indemnity insurance</i>	Named peril accident and mortality and disease insurance: A pilot insurance project that has covered buffalo, dairy cow, pig, and poultry since 2011.
AQUACULTURE / FISHERIES <i>Indemnity insurance</i>	Insurance for fin fish: Indemnity insurance pilot that covered epidemic disease of fish stock (pangasius) in phase 1 of the NAIPP, but in phase 2 disease cover was specifically excluded by insurers and their reinsurers. Insurance for shellfish: Indemnity insurance pilot that covered epidemic disease of black tiger shrimp, white leg shrimp, but in phase 2 disease cover was specifically excluded by insurers and their reinsurers.
FORESTRY / PLANTATION	Forestry/plantation insurance: Covers fire, wind and associated perils. Limited availability through private insurers.

Insurance providers and partners

The NAIPP has received strong support from the Ministry of Finance, Ministry of Agriculture and Rural Development (MARD), and Provincial People's Committees. The programme is underwritten by two leading joint stock (majority state-owned) non-life insurers, Bao Minh Insurance Corporation and Bao Viet Insurance Corporation, and reinsured by the national partly privatised reinsurer VinaRe, with major support from SwissRe, a leading international reinsurer.

Subsidies and public sector support

Government support for phase 1 of NAIPP (NAIPP1) was in the form of premium subsidies ranging from 100% (free insurance) for poor farming households down to a minimum of 20% for state-owned farms and farmer organisations and cooperatives. A substantial premium subsidy budget of about

VND 358 billion (US\$70 million) was created for NAIPP1, but in phase 2 (NAIPP2), the maximum level of government premium subsidy support was reduced to:

- 90%** Poor farming households and individuals
- 90%** Near-poor farming households and individuals
- 20%** Non-poor farming households and individuals
- 20%** Farming organisations and cooperatives

The main purpose of premium subsidy support was to make insurance more affordable to farmers, especially poor households, and to encourage uptake of agricultural insurance. However, in Vietnam and other countries with market-based agricultural insurance and free government compensation programmes, having too many uncoordinated government-funded programmes can duplicate disaster relief for farmers and act as a disincentive for farmers to purchase agricultural insurance.

Results and lessons learned


Under NAIPP1, Vietnam became the only ASEAN Member State to successfully provide AYII for well over 300,000 smallholder farmers. NAIPP1 achieved very sound underwriting results on crop and livestock insurance programmes, but aquaculture insurance experienced anti-selection and severe epidemic disease losses that resulted in an overall underwriting loss for insurers and reinsurers and led them to exclude diseases from the aquaculture policy under NAIPP2. Other problems included a lack of rice yield data at the commune level, area yields not based on objective sampling methods, and farmers not receiving payments for localised losses. In NAIPP2, voluntary demand for crop and livestock insurance by farmers was disappointingly low despite government premium subsidies of up to 90% for poor and near-poor farmers.

Agricultural insurance	Number of insured households	Insured area / livestock	Average premium rate	Claims paid (VND)	Loss ratio
CROP: NAIPP1	236,397	65,297	4.3%	19 billion	21%
CROP: NAIPP2 Summer-Autumn 2020	7,291	1,465	5.1%	145 million	7%
LIVESTOCK: NAIPP1	60,133	—	3.1%	13 billion	15%
LIVESTOCK: NAIPP2 Ha Giang Province	3,484	4,793	3.6%	—	0%
AQUACULTURE: NAIPP1	7,487	5,803	5.1%	702 billion	307%
AQUACULTURE: NAIPP2	0	—	—	—	—


- Support and cooperation from local government are important.
- Products must be affordable and suitable for the local context.
- Financial support from the government is necessary to insure low-income households.
- Local insurers must have sufficient financial capacity and back-up from international reinsurers.
- Risk management and supervision are key.

Challenges for farmers, insurance providers, financial institutions & government


Since risks vary significantly from one region to another, both premium rates and losses are high. This makes it challenging for insurers to underwrite and control risks, and farmers tend to only purchase insurance in high-risk areas. Meanwhile, subsidies do not target the large, high-tech agribusinesses driving the agriculture sector. Business results are not encouraging.




- Lack of knowledge and awareness of insurance and low trust and demand.
- Government focuses on public sector financial institutions, not cooperatives or other trusted agencies.



- Insurers face challenges with underwriting, claims assessment, risk management, education, and communication.
- Insurance products are not attractive to farmers given the limited risks, crops, and livestock covered.
- Lack of knowledge, technical capacity, and quality data to rate and design products.



- Agricultural insurance is not a priority business and considered too risky or unprofitable.



- Agricultural insurance is not a priority policy issue and there is a lack of knowledge of the role it plays.
- Lack of budget to promote and support agricultural insurance.

Priorities & recommendations

- Adopt a long-term policy on agriculture insurance and increase the subsidy level to larger scale agribusinesses.
- Consider rice yield guarantee or yield insurance cover to enhance future programmes.
- Credit institutions and other businesses should be encouraged to take part in and provide support to the agriculture insurance programme.
- Insurance should be sold via agriculture credit providers and input traders, and microinsurance should be implemented in the agriculture sector.
- Insurance should be embedded in agricultural credit programmes and in developing agriculture value chains to make policies more coherent and more effective.
- The government and insurers need technical assistance to strengthen their capacity to develop and manage agricultural insurance programmes.



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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