

Agriculture Insurance Industry in Indonesia

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By:





Current Challenges – Public Private People Partnership for Sustainable Farming

Current Challenges for Indonesian Farmers

1. Lack of Good Agriculture Practice
 - a. Harvest failure due to pest / disease, virus
 - b. Farming activities are mostly handle by old farmers (> 50 years old) → lack of smart farmers to cope with climate change issues
 - c. Shrinking of cultivated areas
2. Limited access to market
 - a. From the farmers to the kitchen = 6-10 middlemen → high distribution cost that benefited the middlemen (traders) instead of the farmers
 - b. Simultaneous harvest with average harvest quality = oversupply = low market price → a low “net income” society

Current Challenges for Indonesian Farmers

3. Limited access for farmers to finance

- a. Banking sectors → agriculture is *close* to harvest failure = high Non-Performing Loan
→ farmers are un-bankable = trapped into loan sharks
- b. Insurance → harvest failure = high claim ratio, high risk, mostly avoided
 - Existing government agriculture insurance based on indemnity scheme =
 - 1) Paddy insurance + cattle insurance (since 2015) - covered by one state-owned insurance company = 80% premium subsidy by government + 20% premium subsidized by local government or borne by farmers → mandated by Law of Republic of Indonesia no. 19 / 2013, Protection and Empowerment of Farmers
 - 2) Aquaculture insurance (shrimp, milkfish, tilapia, pangasius, catfish) – covered by an insurance consortium of 12 companies = 100% premium subsidized by Ministry of Maritime Affairs and Fishery → mandated by Law of Republic of Indonesia no. 7 / 2016, Protection and Empowerment of Fishermen, Fish Raisers and Salt Farmers

Current Challenges for Indonesian Farmers

4. Private sectors are rarely involved in agriculture development
 - a. Crop is a sensitive issue in Indonesia, especially paddy, that makes private sectors feel uncomfortable to directly involve in this matter
 - b. There are many grants from government agencies / donors which are not profit oriented → farmers “demand” the same treatment from private sectors
 - c. Law no. 19 / 2013, Protection and Empowerment of Farmers , article 38, verse (1): *“The Government and the Local Government in accordance with its duty assign State-owned enterprises and/or business entity belonging to the local government in insurance sector to carry out Agricultural Insurance”*



Current Challenges – **Public-Private-People Partnership for Sustainable Farming**



How Could a Public-Private-People Partnership Establish Sustainable Farming

A conducive ecosystem in farming business which is commercially run by a Value Chain based on risk mitigation might lead to the establishment of Sustainable Farming thru 3 accesses:

- 1. Access to technology** → applying Good Agriculture Practice / Good Aquaculture Practice (Smart Farming) to adopt with climate risks → reduce harvest failure due to pest disease virus; increase quality + quantity
- 2. Access to market** → direct connection between farmers and off-taker, limiting the middlemen (reduce distribution cost) by using IT platform
- 3. Access to finance** → loan for un-bankable farmers thru Micro Finance Institution (rural bank, credit union, cooperatives) and Fintech; crops insurance (indemnity / index based); micro investment to protect the value of their money



How Could a Public-Private-People Partnership Establish Sustainable Farming

PEOPLE

1. Main target = transform the mindset from farmer into micro entrepreneur
2. Manage the business professionally and commercially under private sector with the least government subsidy (loan interest, insurance premium)
3. Set up farmers groups as a solid communities for sharing, learning and develop their own business



How Could a Public-Private-People Partnership Establish Sustainable Farming

PUBLIC

1. Main target = doubled farmers net income
2. Local policies that boost the creation of farmer's entrepreneurship and provide more space for private sectors to increase the local economic development thru local farmers / fishermen → digital village (IoT in farming)
3. Smart subsidy such as: providing free mobile platform for education / real time weather forecast / Automatic Weather Station / market place / internet access / irrigation system / develop agro-tourism infrastructure



How Could a Public-Private-People Partnership Establish Sustainable Farming

PRIVATE

1. Main target = increase the livelihood of the farmers through higher crops quality and more productivity yield with the same size of land, without deforestation
2. Apply integrated risk mitigation business model by all stakeholders → creativity, innovation especially to cope with climate change risks
3. Apply Smart Farming business model which is attracted young generations who will intentionally choose to become Smart Farmer



How Could a Public-Private-People Partnership Establish Sustainable Farming

PRIVATE – for insurance sectors

The roles of insurance are, beyond risk transfer mechanism, to directly or indirectly:

- 1) implement integrated risk mitigation in the ecosystem
- 2) reduce the possibility of harvest failure including adopt the climate risk challenges
- 3) increase the quality and quantity of the yield thru Smart Farming technology (Good Agriculture Practice + Internet of Things)
- 4) increase young farmers, including female farmers, as entrepreneurs in farming
- 5) increase food production with eco-friendly business model



How Could a Public-Private-People Partnership Establish Sustainable Farming

The results of Public-Private-People Partnerships :

- 1) increase young farmers, including female farmers, as entrepreneurs in farming
- 2) achieve food production thru an eco-friendly business model
- 3) create a Sustainable Farming model which is scale-able and do-able for all types of commodities

Insurance Companies Initiative in Agriculture Insurance

Insurance Coy	Commodity	Insurance Scheme	Partners	Current Status
Jasindo – state owned	Paddy	Indemnity – <ul style="list-style-type: none"> Risks covered = minimum plant damage 75% due to pest disease and natural disaster, 80% of the premium is subsidized by government and 20% borne by farmer, voluntary product, sum insured = IDR 6 million/hectare 	<ol style="list-style-type: none"> Min of Agriculture → product design Local Agriculture Dept. → offering the product to farmer / farmer groups Claim surveyor 	Program still rolling from 2013
Jasindo – state owned	Corn	Indemnity – <ul style="list-style-type: none"> Risks covered = minimum plant damage 75% due to pest disease and natural disaster, 100% premium borne by farmer, voluntary product, benefit = IDR 6 million/hectare 	<ol style="list-style-type: none"> Micro Finance Institution → distribution channel Claim surveyor 	Program still rolling from 2017

Insurance Companies Initiative in Agriculture Insurance

Insurance Coy	Commodity	Insurance Scheme	Partners	Current Status
Jasindo – state owned	Cattle	Indemnity – <ul style="list-style-type: none"> Risk covered = death of cattle due to disease/accident/ child-birth/stolen 100% of the premium is subsidized by government, voluntary product, sum insured = IDR 10 million/cattle 	<ol style="list-style-type: none"> Min of Agriculture → product design Local Agriculture Dept. → offering the product to farmer / farmer groups Claim surveyor 	Program still rolling from 2014
AXA Mandiri – private sector	Paddy	Weather Index (parametric) – <ul style="list-style-type: none"> Risk covered = lump sum of IDR 1,5 million (fertilizer, seed, agriculture equipment) would be disbursed if the rainfall index less 700 within 3 months. 	<ol style="list-style-type: none"> Farmer group in Malang, East Java Province PT Gresik Cipta Sejahtera – fertilizer factory Bank Mandiri 	Programs were run for 2 seasons = Dec'15-Feb'16 Mar'16-Mei'16

Insurance Companies Initiative in Agriculture Insurance

Insurance Coy	Commodity	Insurance Scheme	Partners	Current Status
Sompo Insurance Indonesia – private sector	Paddy	Weather Index (parametrix) – <ul style="list-style-type: none"> Risks covered = lump sum of IDR 5 million would be disbursed if the rainfall index less 630 within 3 months 	Farmers group in Bojonegoro District, West Java Province and Lombok, West Nusa Tenggara Province	Programs were run for 2 seasons = Okt’16-Des’16 2018-2019
ACA – private sector	Maize	Indemnity <ul style="list-style-type: none"> Risk covered = loss of yield due to drought / strong wind, benefit IDR 10 million, insurance premium 100% borne by farmer 	<ol style="list-style-type: none"> Rural bank Seed company 	<i>Pilot Project</i> has been done since 2015-2018 in Dompu district, West Nusa Tenggara Province
ACA – private sector	Paddy	Weather Index <ul style="list-style-type: none"> Risk covered if the rainfall index below the agreed rainfall index 	<ol style="list-style-type: none"> Rural bank Seed company 	<i>Pilot Project</i> has been done since 2017-2018 in Indramayu district West Java Province

ACA's Experience

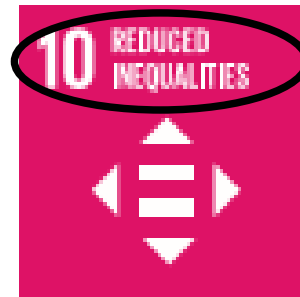
Party	Type of Risk Mitigation Applied by Each Party
Seed supplier, pesticide	Private agronomist / extension workers stay together with the farmer → to ensure that each of the farmers apply Good Agriculture Practice before land clearing until harvesting period → each of stakeholders has access to mobile apps technology to monitor farmers' activity, plant growth, including yield → reduce the possibility of harvest failure due to pest, diseases and drought.
Micro Finance Institution	<ol style="list-style-type: none"> 1. Loan component = <ol style="list-style-type: none"> a. Pesticide, herbicide, fertilizer, seed, labor cost, insurance premium, loan interest, admin cost b. Water pump cost → will only be disbursed should there be any drought 2. Simple Family Financial Literacy → accelerated farmers' repayment capacity even before due date, saving for daily and emergency needs, micro investment to manage their wealth 3. Social control thru local wisdom under farmers group → to keep the Non-Performing Loan < 3%
Off-taker	GAP → harvest quality match with consumer's standard (for industry and individual customer)
Insurance	<ol style="list-style-type: none"> 1. Covers only uncontrollable risks = rainfall, drought 2. Non-nature risks = pest and disease could be managed if the farmer apply GAP + local wisdom
NGO	Coordinator or facilitator of all activities / business process and make sure all stakeholders are committed to do their duties and roles as agreed before.

ACA's Experience

Party	Commodity Paddy – 1 planting season	Commodity Maize– 3 planting seasons
Farmer	<ol style="list-style-type: none"> 1. Free from pest and disease, drought could be overcome because farmer believe in insurance 2. Increase in yield from 6,4 ton/ha → 9,2 ton/ha (type of seed Ciherang) = increase 44% from existing rice field 3. Rice quality from regular become premium quality → increase in selling price, from IDR 4.000 /kg become IDR 4.500/kg 4. Net profit increase from IDR 8 million/7.000 sq.meter → IDR 19 million/7.000 sq.meter → increase 240,5% 5. More young farmers involve 6. Farmers are willing to pay insurance IDR 1 million / hectare 	<ol style="list-style-type: none"> 1. Free from pest and disease. Wild boar attack were overcome by planting simultaneously. 2. Average yield increase of dry kernel from 5,2 ton/ ha → 8 ton/ha = 30% increase 3. Good post harvest handling → lesser the water content of dry kernel → increase in selling price 4. Net profit increase from IDR 2 million/ha → IDR 10 – 15 million/ha 5. Young farmer age 30-40 years old, ex-overseas workers who come home to become maize farmer. 6. Change in farmer's mindset to become paddy small entrepreneur → more courage to invest, not count on government's support/grant/subsidy
Rural bank	<ol style="list-style-type: none"> 1. Interest rate 22% / year (No government subsidy interest rate, which is 7%), NPL = 0% 2. No government subsidy in insurance premium 	<ol style="list-style-type: none"> 1. When the program started, 90% farmer are un-bankable (rejected by the bank) → become bankable after joint the program. 2. Interest rate 15% - 20%, NPL = 0,8% 3. Few farmers asked for other product → load for truck, peeling machines, etc.

ACA's Experience

Party	Commodity - Maize
Seed company, pesticide,	The presence of extension workers (agronomist) provided by seed company were a great success to help the farmers applied Good Agriculture Practice
Local Dompu District government	<ol style="list-style-type: none"> 1. The transaction from maize business in higher than the local government's Budget Revenue and Spending (as normally set up by the government for each district and province to run the public service) 2. Revenue increase → reduce poverty at Dompu District 3. May 2018 = Dompu's Head District , Drs. H. Bambang M. Yasin was awarded with Asia Awards 2018 Government And Company = The Asia Best Regional Leader 2018 (www.dompukab.go.id/bupati-dompu-the-asia-best-leader-2-10.html) for his great achievement in reducing poverty at Dompu District.



Value Chain Based on Integrated Risk Management in Agriculture





Indonesian citizens are excellent, cultured, and expert in science tech



Progressive and sustainable economy



Inclusive and equitable development



Democratic, powerful, and virtuous country

Development Pillar of Indonesia 2045

44% increase in paddy harvest within 1 planting season

240,5% increase in farmers' net profit

HUMAN DEVELOPMENT AND MASTERY OF SCIENCE & TECH

- Impartial Acceleration of Indonesian Citizen's Education
- Increased Role of Culture in Development
- Increased Contribution of Science and Technology in Development**
- Increased Community's Health Level and Life Quality
- Workforce Reform

SUSTAINABLE ECONOMIC DEVELOPMENT

- Increase Investment and Economic Competitiveness**
- Acceleration of Industrial and Tourism Dev
- Maritime Economic Development**
- Reinforced Food Security and Farmer's Welfare**
- Strengthened Energy and Water Security
- KCommitment Towards the Environment**

EQUITABLE DEVELOPMENT

- Acceleration of Poverty Eradication**
- Equal Opportunity and Equitable Distribution of Income**
- Equitable Regional Development**
- Integrated and Equitable Infrastructure Development

NATIONAL RESILIENCE AND GOVERNANCE

- Substantial Democracy
- Institutional and Bureaucratic Reform
- Enhanced National Justice System and Anti-Corruption
- Free and Active Foreign Politics
- Free and Active Foreign Politics



Thank You