

Study into the feasibility of agri-insurance in Wales non-technical Summary

Background

This is a non-technical summary for the feasibility study into the options available to the Welsh Government for the potential provision of agri-insurance to farmers after severe events in Wales.

The study was prompted by the extreme weather event experienced in 2013 and the Roberts review of the 'Resilience of Farming in Wales' published in January 2014.

The research aimed to examine:

- The extent to which potential providers of subsidised insurance can be found in the private insurance market;
- The availability and adequacy of data to enable the calculations of premiums;
- The role of the WG to contribute to any information gaps; and
- The potential of reinsurance provision.

The research entailed an extensive literature review into risk, insurance, the events of adverse weather in Wales in 2013 and examples of agricultural support following adverse weather events in other countries. Following this, a series of interviews were undertaken with three groups of organisations: the Welsh Government, insurance providers and industry stakeholders including farmers unions.

Key Findings

Current System in Wales

The Organisation for Economic Co-operation and Development (OECD) recommends a holistic approach to risk management starting with the provision of information and training.

- The WG aims to achieve this through the current Farming Connect service which offers advice, training and knowledge sharing opportunities to farmers.
- In Wales this has been supplemented by the provision of ad hoc ex-post support as seen in response to the 2013 weather event.
- While ordinary risk is covered through commercial insurance policies, there is currently no commercial provision against the impact of extreme weather events at a farm or national scale.

Attitudinal Barriers to insurance for extreme weather risks

- There was no evidence of any intrinsic attitudinal barriers held by farmers to the use of insurance against extreme weather risks

- However there was a perception amongst farmers that the cost of premiums for insurance of commercial large scale livestock herds and flocks would be prohibitive to its uptake
- There was also some evidence that farmers underestimate the impact of extreme weather events

Demand and Supply for insurance

- The research found that at present there is little apparent demand for insurance against extreme weather events in Wales
- There are questions about the future demand for insurance depending on the future of direct payments outside of the EU policy framework
- There are no technical barriers to the supply of insurance within this area, though there is a caution that premiums would need to be at a level that farmers would be willing to pay. Currently for premium pedigree breeding animals the insurance premium is 10% of the animal's value.

Start up conditions for insurance

- The OECD note that facilitating good start-up conditions (information, regulation and training) should be the primary role of the government in the development of commercial insurance.
- It was noted that there was a lack of available data to inform premium levels in relation to the losses of animals.
- While data is not necessary to establish premium level, the lack of data is priced in leading to higher premiums than might otherwise be the case.
- Consideration should therefore be given to gathering and developing likely data sources relating to losses of animals.

Options for providing insurance

- Multiple options exist for providing subsidised insurance including: granting tax relief for premiums, making payments directly to farmers, and subsidising the insurance industry directly.
- Subsidising the insurance industry directly was considered a less costly way of providing subsidy and may therefore be the most attractive option, for the insurance industry, but does not give any capacity to the farming industry to increase national resilience
- However further detail on the level of subsidy and how it can be provided cannot be provided without further engagement between the Welsh Government, farming industry and insurance suppliers.