

Grim harvest for SA's underinsured farmers

INSURERS say that farmers who do not have insurance or who are underinsured are facing financial ruin from the recent floods.

Farming experts estimate that the floods will cost more than R1bn in lost production and a similar amount in damaged infrastructure. But, just like thousands of workers who have relegated insurance to the bottom of their priority lists, some farmers have not properly insured their assets, or even bought a policy, industry experts say.

"The impact from the recent flooding could easily run into billions, according to government estimates," says Adam Samie, CEO of Lion of Africa Insurance.

"This is made worse by the fact that many of those worst hit are uninsured and will therefore be unable to recover their losses."

Farmers in KwaZulu-Natal and the Northern Cape have been hit the hardest, suffering damage estimated at more than R350m, says Johan Schoeman, an agriculture specialist at CIB Insurance Solutions.

The head of agriculture at First National Bank's commercial banking unit, Francois Marais, says some of these farmers will require

immediate assistance to minimise the effect of diminished revenue from present and future harvests.

Despite this assistance, farmers will remain under financial pressure because some did not properly insure themselves, says Arnold van der Linde, a director at the Financial Intermediaries Association of Southern Africa.

Mr Schoeman says many of the farmers affected by the floods will lose out financially because the government has said it will not compensate for flood damage.

The level of underinsurance worries the industry, which has pledged to start an awareness campaign to encourage more farmers to insure themselves properly.

"The biggest problem ... is that farmers are reducing their cover in times when their margins are lower and consequently their capacity to recover from an adverse event due to lower cash flow (is lower)," says Tobias Doyer, head of agriculture at Santam. "The result of underinsurance is that we will observe an acceleration in the reduction in number of farming operations due to insolvencies or farmers closing down their businesses.

"This will lead to further concentration in the food production

THE COST OF UNDERINSURING

- According to research conducted by CIB Insurance last year, underestimating the replacement value of farming equipment, combined with a failure to regularly review their policies, means that the percentage of SA's farmers who are underinsured could be as high as 70%
- The floods will have a material impact on the agricultural industry this year
- Agriculture, Forestry and Fisheries Minister Tina Joemat-Pettersson has already urged banks to extend the debt repayment periods of farmers hit by recent floods
- Santam is calling for an industry-wide campaign to educate farmers and the general public about insurance



sector, but not a reduction in total production," he says.

Mr van der Linde says the level of underinsurance in farming has turned into a "political debate" regarding whether farmers should be receiving compensation and, if so, how much.

Mr Schoeman says research by CIB conducted last year revealed that many farmers had underestimated the replacement value of their equipment.

Some had not even reviewed their existing policies.

Based on this survey, Mr Schoeman says, it is safe to conclude that "the percentage of SA's farmers who are underinsured could be as high as 70%. This is a real concern after the major damage caused in the past month."

The firm has already experienced a wave of claims from its customers who suffered flood-induced losses, but thousands more will struggle to recover, let alone get back to farming.

Mr Schoeman says CIB is processing claims for damaged

buildings and machinery, but is yet to assess the loss of harvested crops ruined while in storage.

Mr Doyer says changing weather patterns should spur farmers to insure their assets properly.

"The important part agriculture plays in the economy cannot be denied," he says. "Despite its significance, though, the agricultural sector faces a number of challenges — of which weather remains a major risk.

"Unpredictable weather patterns and recent incidents of flooding (as a result of climate change) have once again emphasised the need for farmers to be adequately insured."

Mr Samie says the industry should use the lessons learnt by the floods to educate consumers about the risks of being either uninsured or underinsured.

There is also a need to ensure that more people have access to affordable risk products.

"When it comes to financial education, much of the focus by business and government tends to be on encouraging people to save more. However, in many instances, protecting your assets is as important as growing them," he says.

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