

Rural Insurance: Does Evidence Exist For Insurance Penetration In Nigeria?

Azubuike Samuel Agbam¹

Abstract

Insurance companies protect people from financial catastrophe by spreading the risk of financially crippling events over a large number of people. In doing this, insurance companies often sell specific types of insurance to specific demographic groups based on such things as occupation, education, group affiliations, and geographic location. Rural insurance can be insurance of any type that companies market specifically to people and organizations located in rural areas or with certain lifestyles, and practices. Decisions regarding insurance depend crucially on the extent to which individuals are willing to bear risk. Farmer's decision of whether or not to participate insurance is likely to be influenced by comparison of expected net gain (or loss) with or without insurance. The rural dwellers have favourable attitude towards insurance, hence aware and willing to take Nigeria Agriculture Insurance Corporation [NAIC]. Therefore there is evidence for insurance penetration in the rural areas. The Nigerian Agricultural Insurance Corporation is the sole provider of Agricultural insurance in Nigeria. It is recommended that the Act establishing the Corporation be reviewed, to allow the participation of private sector companies in agricultural insurance. This will improve efficiency and spur healthy competition in the sector. Further, young and well educated people should be encouraged to improve their willingness to take insurance, and provision of insurance services at affordable rate.

Keyword: Nigeria, attitude, rural insurance, agricultural insurance.

1. Introduction

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy and a premium is charged for the coverage.

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insured in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which detail the condition and circumstances under which the insured will be financially compensated.

Rural insurance is an underwriting company dedicated to providing insurance solution to meet the needs of agriculture and rurally based businesses. The core business principles that guide rural insurance are exclusively, access to informed and empowered decision makers, service and quality. The natural risks and disaster can pull back rural development. Therefore, there is dire need of insurance of rural risks. Crops insurance, cattle insurance, life and property insurance, general insurance, etc have abundant scope of development.

Crop insurance is the main rural insurance where the product, price and income risks are insured. If the farmers do not get a standard amount of product, required price and income from the farmers, they are compensated by insurance companies under crop insurance. Large varieties of crops, simultaneous

¹Department of Finance and Banking University of Port Harcourt, choba, Nigeria.

harvesting, small premiums and non-availability of records of labour cost and input costs have discouraged the insurer to insure the crop risk.

Someone who lives in the rural areas has different needs when it comes to insuring property. For this reason, property insurance for rural areas can be very different from what insurance companies offer in urban and suburban areas. Rural property insurance can be especially beneficial for farmers and ranchers, who have needs different from what a normal homeowner might have. Such property insurance may cover farmers' and ranchers' homes, barns, sheds, lawn property, fences, machinery and agricultural equipment. Property insurance can protect all of these things from flood, fires, high winds, theft, vandalism, earthquake, and other causes of loss.

Farmers often have their entire financial future dependent upon their ability to successfully plant, grow and gather their crops. A flood that destroys an entire crop of corn or disease that kills large number of cows can be financially devastating for a farmer or rancher. For this reason, insurance companies provide protection for people in the agricultural industry by offering them crop and livestock insurance. If such a disaster occurs, insurance companies will help policy holders to recover by compensating them for their losses. However, in order to obtain such insurance, farmers and ranchers may have to take certain measures to decrease risks such as constructing flood walls or regularly vaccinating their livestock against disease.

If someone comes onto a farmers' land and suffers from an accident that results in injury or death, the law may hold the farmer financially liable—even if the injured individual was not supposed to be there at all. For this reason, insurance companies offer farm liability insurance to protect farmers and other people in rural areas from the crippling financial damages that can come from a lawsuit. Insurance companies help in these cases by providing funds to pay the plaintiff as well as by paying for legal counsel to defend the property owner's interest and present evidence that he was not at fault.

It is very common for farmers and ranchers to require the help of labourers to work livestock or gather crops. However, this can sometimes be dangerous work. For this reason, insurance companies offer workers' compensation insurance to cover injuries that occur on the job. Companies that provide rural insurance may offer rates specific to workers for agricultural employees.

In general, insurance is a form of risk management used to hedge against a contingent loss. The conventional definition is the equitable transfer of a risk of loss from one entity to another in exchange for a premium or a guaranteed and quantifiable small loss to prevent a large and possibly devastating loss. Basically, agricultural insurance is designed to provide covers for financial losses incurred due to reduction in expected outputs from agricultural products. The major products are crops and livestock. Others include fisheries and forestry. Crop insurance and livestock insurance provide the two broad categories for which commercial insurance covers are designed. Because of the complexities brought to agricultural ventures due to mechanization, a broad range of traditional policies, namely personal accident, fire, vehicles, machinery and public liability covers are made essential parts of a comprehensive agricultural insurance package.

Agricultural insurance policies protect the farmer against these unforeseen circumstances by way of indemnification. It also serves as securities for banks as indemnification for financial losses suffered by farmers from damages to their products and will provide funds for servicing such loans.

- **Statement of the problem**

One of the principal functions of Insurance carrier is risk management, used to hedge against a contingent loss. Rural insurance is dedicated to providing insurance solution to meet the needs of agriculture and rurally based businesses. But to the best of our knowledge, none has tried to state if evidence exists for rural insurance penetration in Nigeria. Therefore, the effort of this study is directed towards finding if evidence exists.

- **Objective of the study**

The main objective of this study is to find if evidence exist for rural insurance penetration in Nigeria.

2. Methodology

- **Study Area:** Rivers State is one of 36 states of the Federal Republic of Nigeria, located at the South-South, and all the 23 Local Government Areas that make up the state were involved.
- **Sampling Techniques:** the study adopted systematic sampling procedure to select respondents. The Resident Extension Officers in these local government areas assisted in drawing the sample frame. A total of 180 smallholder farmers were enlisted for the study.
- **Data collection:** The data were collected through the Extension Officers in the local government areas.
- **Data Analysis:** Data analysis involved tables and frequencies.
 - **Assessment of attitude to Insurance:** Likert-type of scale was used in the analysis of farmers' attitude to agricultural insurance. The scale falls under the category-group instrument whereby items are collected and analyzed against a criterion. In this the farmer's attitude are determined by requesting them to respond to some attitudinal statements. Each statement has weights attached to it or scores attached to it. Weights and scores are usually assigned so that high scores indicate favourable attitudes. The responses were weighted on a 5-point likert-type scale of strongly disagree = 1; disagree = 2; undecided = 3; agree = 4; and strongly agree = 5. The mean of the weight value was taken as a cut-off point, such that statements with values above the mean are regarded as implying a positive attitude, while mean scores below the weighted value were regarded as unfavourable, implying a negative attitude.
- **Hypothesis**
 - H_0 : There is no evidence of rural insurance penetration in Nigeria.
 - H_1 : There is evidence of rural insurance penetration in Nigeria.

Significance of the Study

If evidence exists, it will encourage the participation of private sector companies in rural insurance in Nigeria.

3. Literature Review

Farmers, like most other people, also place greater weight on potential negative outcomes of risk and they are generally willing to sacrifice potential income to avoid either risk or uncertainty (Ghadim and Pannel 2003; Marra, et.al, 2003; Dewan, 2011; Picazo-Taden and Wall, 2011). Peasant farmers are naturally keen to avoid taking risk which might threaten their livelihoods. This behavior influences the levels and types of inputs they use and the aggregate levels of output produced. If poor people are risk-averse to the extent that they are not willing to invest in the acquisition of modern inputs because that involves risks, they will remain poor (Mosley and Verschoor, 2003). Agricultural production is subject to risk and the attitude of producers toward risk will influence input choices insofar as these affect production risk (Picazo-Tadeo and Wall, 2011). Agricultural insurance is seen as the best strategies to address farm risks (Wenner, 2005). Agriculture is full of vagaries and natural calamities (Mishra and Mishra, 2013), and a large number of farmers in Nigeria produce under condition that exposed to the vagaries of nature and limited infrastructure like storage facilities and power (Onuorah, 2008).

Falola, et al(2013) stated that small farmers in many developing countries of the world including Nigeria are trapped in the vicious cycle of poverty. This cycle is characterized by low productivity and low farm income which leave them with virtually no saving capital required in the transformation of their production technology, and this consequently amounts to the low status accorded to farmers in the society.

However, through agricultural insurance, farmers can be saved from these losses or damage to crops or the effects can be minimized. Agricultural insurance is defined in the Nigerian Agricultural Insurance Scheme Operation Guideline (1989) as the stabilization of income, employment, prices and supplies of agricultural products by means of regular and deliberate savings and accumulation of funds in small installment by many farmers in favourable time periods, to defend the participants in bad time periods. Thus, agricultural

insurance serves as a means of guiding against loss should the insured event occur. According to Ray (2001), crop insurance can cushion the shock of disastrous crop losses in bad year and help to ensure a considerable measure of security in farm income over the years. Agricultural insurance looks into how risks and uncertainties can be effectively managed to the advantage of the farmers in the present and also in the future. This can help in stabilizing agriculture and in turn the economy at large. Agricultural insurance is therefore a necessary part of the institutional infrastructure essential for development of agriculture, which is mainly a high risk enterprise.

4. Results and Discussion

In an attempt to assist farmers in managing risks, various insurance policies, programmes and projects were put in place by the Nigerian government. One of these programmes is the Nigerian Agricultural Insurance Scheme (NAIS) which was formerly launched in 1987. This was later followed by the incorporation of the Nigeria Agricultural Insurance Corporation (NAIC) in 1988 to implement the scheme. Besides, several private insurance companies that incorporate agricultural insurance in their policies have also emerged in Nigeria over the years.

The National Agricultural Extension and Research Liaison Services (NAERLS, 1991) identified the following as the benefits of agricultural insurance to farmers:

- a. It protects farmers against financial disaster after suffering any of the insured risks for which indemnity (compensation) is paid. The farmer is not only able to continue in business but also the stability of his income is enhanced;
- b. Agricultural insurance empowers the farmers to obtain farm credit. Since insurance guarantees protection against crop and/or livestock failure, the insured farmer has greater confidence in obtaining loans;
- c. It facilitates better planning and project implementation since there is a high level assurance for continuity in business;
- d. It serves as an assurance to banks and other financial institutions who grant loan for agricultural purposes that loans given will be repaid; and
- e. It build farmers confidence in using new technologies and making greater investments in agriculture.

Recognizing the benefits of agricultural insurance, the Nigerian Government in 1987 established the Nigerian Agricultural Insurance Scheme (NAIS) with the following objectives:

1. To provide relief or compensation to farmers in the event of crop or livestock losses resulting from natural disasters;
2. To encourage the provision of credit by financial institutions to farmers since agricultural insurance contract policies would be accepted as collaterals by them;
3. To minimize or eliminate the need for emergency assistance provided by government during agricultural disaster;
4. To promote agricultural production by encouraging the adoption of new and improved farming technologies and in making greater investments in t the agricultural industry; and
5. To reduce unemployment or underemployment amongst farmers to extent of which crop and livestock failures are contributing factors. According to Chikwendu, Amos and Tologbonse (1995), the NAIS to date covers a wide range of crops and livestock enterprises such as: maize, rice, yam, cassava, millet, groundnut, wheat, sorghum, cattle, pigs, sheep, goat, and poultry. The premium on insurance cases for these crops and livestock are subsidized at 50% by the government. The scheme is designed for all classes of farmers, namely small, medium and large-scale.

Table 1 shows level of awareness of agricultural insurance by the respondents and their willingness to take the service. About 16.9% of the farmers were strongly aware of agricultural insurance, 33.1% were partially aware, 30.6% were fairly aware while 19.4% were not aware at all. This result indicates that about 80.6% of the farmers were aware of agricultural insurance. In spite of large percentage of the farmers' awareness of agricultural insurance, only 50% were willing to take it.

Table 1: Distribution of Respondents According to their Awareness and Willingness to take NAIC Insurance (N = 160).

Item	Number of Respondents	Percentage
Level of awareness about NAIC		
Strongly aware	27	16.9
Partially aware	53	33.1
Fairly aware	49	30.6
Not aware	31	19.4
Willingness to take insurance		
Willing	80	50.0
Not willing	80	50.0

Source: Author's field Survey, 2015.

Farmers responses with respect to insurance were evaluated on the five-point Likert scale and the results are presented in table 2.

The result of the analysis revealed that respondents agreed to the following statements: insurance is beneficial to farmers, insurance reduces farmers' worries and stress, insurance cushions the affect of losses and damages and insurance promotes using new technology and making greater investment in agriculture. Others are recovering farmers is government liability and government is using insurance to collect money from farmers (indemnity) with a mean score of 3.00 and above, showing that the respondents have a positive attitude towards insurance. They recognized the fact that agricultural insurance is beneficial and it can help reduce farmers' worries and stress over uncertainties and risk associated with poultry enterprises. It implies that respondents had a favourable attitude towards insurance as confirmed by the overall mean score of 3.62. However, respondents displayed their disagreement with making insurance a requisite for credit assessment from formal financial institutions. The farmers believe that taking insurance policy should be optional and should not be tied to acquisition of credit. Most farmers are appreciative of the risky nature of the enterprise and one appropriate way to overcome such risk and uncertainty is through insurance.

Table 2: Respondents Attitude towards Insurance

Statements	Frequency					Attitude Score	Mean
	SA	A	U	D	SD		
Insurance is beneficial to farmers	87	63	10	-	-	717	4.48
Insurance reduces farmers' worries and stress	69	71	7	3	10	666	4.16
Insurance cushions the affect of losses and damages	70	65	15	7	3	672	4.20
Insurance promotes using new technology and making greater investments in agriculture	67	60	20	12	11	650	4.06
Recovering farmers is government liability	75	57	10	5	13	656	4.10
Insurance should be mandatory to all farmers	15	25	25	55	40	400	2.50
Insurance serves as an assurance to banks to grant loan to farmers	5	5	20	60	70	295	1.84
Government is using insurance to collect money from farmers (indemnity)	50	40	40	20	10	580	3.63
Overall mean score	3.62						
N	160						

Key: SA = Strongly Agree, A = Agree, U = Undecided, D = Disagree, SD = Strongly Disagree.

Perception of constraints to farmers' participation in agricultural insurance are presented in table 3

Respondents demonstrated their favourable attitude towards agricultural insurance by disagreeing with the statements that agricultural insurance is not beneficial to small-scale farmers; agricultural insurance is not needed to cushion the effects of losses or damages and those losses in agricultural enterprises are acts of God. However, respondents did not favour mandatory agricultural insurance policy. They believe that taking an insurance cover should be optional. Important constraints to participants in agricultural insurance identified by the study include: fears that the claims may not be paid; inadequate knowledge on the benefits of agricultural insurance; high premium rate and long bureaucracy in making an insurance contract. The result also show a low the response of farmers to agricultural insurance in Rivers State of Nigeria

Table 3. Perception of constraints to farmers' participation in agricultural insurance.

S/N	Statement	Remarks
1	Agricultural enterprise is faced with risks and uncertainties	A
2	Agricultural insurance is beneficial	A
3	Agricultural insurance reduces farmers' worries and stress	A
4	Recovering farmers' losses is governmental liability	A
5	Agricultural insurance should be mandatory	D
6	Agricultural insurance is not beneficial to small-scale farmers	D
7	Agricultural insurance is not needed to cushion the effects of losses or damages	D
8	Losses in agricultural enterprises are acts of God	D

Key: A = Agree, D = Disagree

These findings indicate that farmers recognized the fact that agricultural activity is faced with risks and uncertainties, and the appropriate way to overcome such risks and uncertainties is through insurance cover. This is in agreement with the findings of Chuks, 2012. Therefore, there exists evidence for rural insurance penetration in Nigeria.

5. Conclusion

The favourable attitude expressed by farmers towards agricultural insurance is an indication that there exist evidence of insurance penetration in Nigeria, but they should be educated/ sensitized on the benefits of insurance. Further, young and well educated people should be encouraged to improve their willingness to take insurance, and provision of insurance services at affordable rate.

6. Recommendation

The Nigerian Agricultural Insurance Corporation is the sole provider of Agricultural insurance in Nigeria. It is recommended that the Act establishing the Corporation be reviewed, to allow the participation of private sector companies in agricultural insurance. This will improve efficiency and spur healthy competition in the sector.

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