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SHARP PRACTICES IN AGRICULTURAL INSURANCE: IMPLICATION FOR FOOD SECURITY IN NIGERIA

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ABSTRACT

Agriculture as a business is confronted with many risks due to natural hazards such as drought, flood and windstorm as well as problems of pests and diseases. In order to pave ways for sustainable agriculture and self-sufficiency in food production, there is the need for tailored protection, hence the agricultural risk management component which is “insurance”. This paper examined insurance as a risk management option and also highlighted the sharp practices being played in agricultural insurance industry in Nigeria. The sharp practices denied genuine farmers who suffered great losses the opportunity of benefitting from the insurance claims that can bring them back to business. Measures to stem down the sharp practices such as the elimination or review of the roles of insurance agents and brokers were suggested. The paper advised that anti-corruption agencies in the country should beam their searchlights on the activities in the agricultural insurance industry with a view to curb the nefarious activities of both the clients and the operators.

Keywords: Agricultural insurance, anti-corruption agency, agricultural risk, and insurance graft.

INTRODUCTION

Agriculture is of cardinal importance to any nation; be it developed, developing or underdeveloped. It is through this activity that food, fibre and foreign exchange earnings are provided for individuals and countries (Yekinni, 2011). Agriculture plays a major role in national development. A well planned and implemented agricultural process will improve the country's GDP.

As in the national economy of virtually all countries of the world, the agricultural sector is a very important contributor to the Nigerian economy. It is generally regarded as the “mainstay” of the economy and it is estimated to provide employment for about 70% of the active labour force, contributes over 40% to the Gross Domestic Product (GDP) and accounts for about 6% of the nation's foreign exchange earnings, second only to crude oil (NAQAS, 2009.)

Agriculture is of great benefit to Nigeria. In a simplified form the importance of agriculture to national development can be summarized as follows:

- Provides direct and indirect employment for up to 70% on the Nigerian population.
- It is the major source of food to the Nation's increasing population.
- Agriculture provides the raw materials for all agro-based local and foreign industries.
- It accounts for a sizeable proportion of the export trade and foreign exchange earnings.
- It is a major contributor to the Gross Domestic Product (GDP).
- Agriculture provides market outlets for many products of the industrial sector of the economy (Adeyefa, 2013).

African agriculture is dominated by small holders with 96% of them cultivating less than 5 hectares (CTA, 2013). The African Agricultural

sector is, however, liable to risks -market, production, fire, livestock theft and increasingly to climate risks (drought, flooding, hurricanes, typhoons). Tailored protection systems are thus urgently needed (CTA, 2010). Hence, the need for agricultural risk management component, which is “insurance”.

The study will put agricultural insurance practice in Nigeria in proper perspective and will also pinpoint all the sharp practices inherent in the scheme.

The specific objectives of the paper were to:

- describe relevance of insurance to agriculture in Nigeria.
- elucidate sharp practices peculiar to the policy holders (farmers) and the graft issues on the part of the agricultural insurance operators in the country.
- enumerate the effect of sharp practices in agricultural insurance and the implication for food security in the country.
- recommend possible solutions to curb the nefarious activities of farmers and the operators of the agricultural insurance.

METHODOLOGY

The study will make use of relevant literatures, hands-on experience and observations from the field.

Nigeria Agricultural Insurance Scheme (NAIS)

On 15th December, 1987, the Nigerian Government took a giant step to formally establish the Nigeria Agricultural Scheme. Prior to this period, Nigerian farmers suffered various losses on their investments and had no means of going back to production.

Agricultural Insurance is a specialised type of insurance that can be applied to agricultural



enterprises. The major emphasis of the Nigeria Agricultural Insurance Scheme is to make it a potent tool for increasing and stabilizing agricultural production through providing access to credit and encouraging the adoption of improved technologies in farming. By the scheme, the effects of various natural disasters, which are sometimes enormous and mostly beyond the farmers' control will be greatly minimized in farming where losses inevitably occur. The agricultural insurance arrangement is designed to provide financial compensation that should enable the farmers who suffered losses to return back to the farm (Adeyefa, 2013).

The Food and Agriculture Organisation (1992) defined insurance as a financial mechanism which aims at reducing the uncertainty of loss by pooling a large number of uncertainties so that the burden of loss is distributed. By paying his proportionate share of the losses for the group as a whole, plus his share of the administrative expenses, the individual policy holder is able to avoid the burden of the loss that, were it to strike him alone, might put him out of business or set him back for years.

Going by the above explanation, insurance has been recognized as a formalized contract between an insured, otherwise known as the policy holder, and any insurance company that bears the risk of any loss that may or may not occur. Such a contract is meant to cushion the effects of any financial loss to the insured. In the case of agriculture, the farmer is the policy holder while the insurer is the special outfit like the Nigerian Agricultural Insurance Company established to offer insurance cover in respect of certain agricultural enterprises.

Relevance of insurance to agriculture in Nigeria

- a. The agricultural sector in Nigeria is responsible for generating more than 40% of the GDP in the country (NAQAS, 2009). A partial failure of the sector due to natural hazards invariably affects a much greater proportion of the population and deals a severe blow on national economy.
- b. In Nigeria, agriculture is subject to more frequent and severe incident of natural hazards as drought, flood and windstorm e.tc. as well as pests and diseases.
- c. Majority of farmers in the country are faced with poor financial resource to withstand risks.
- d. Provision of agricultural insurance in the country will encourage lending institutions to be more interested in agricultural financing.
- e. Agricultural insurance will be a sort of security for practicing and prospective farmers in the country.
- f. Agricultural insurance scheme provides clients (farmers) with quality agricultural extension

services in addition to the conventional extension programme of the Agricultural Development Programmes nationwide.

- g. In recent time, there has been an increasing interest in agricultural insurance cover worldwide and particularly in Nigeria because it has been confirmed globally that of all the risk control methods, the most practically feasible option for effective control of agricultural risks is by risk transfer mechanism of insurance (Olagunju, 2012).

Insurance can be conveniently described as a risk-management strategy that involves the transfer of the associated uncertainties of an event or activity to the professional risk carrier (insurance companies) for a fee which is usually referred to as premium (Olagunju, 2012)

Sharp practices within the insurance industry

According to Wikipedia, sharp practice is a pejorative phrase that describes sneaky or cunning behaviour which is technically within the law but borders on being unethical. It can also be described as a way of behaving in business that is dishonest but not out rightly illegal. Sharp practices are prevalent in every industry, the fact that insurance is an intangible non-physically-visible commodity and a mere promise to remedy a loss situation makes it more amenable to sharp practices.

Agricultural Insurance like other forms of insurance is perhaps one of the most misunderstood professions. Insurance practice involves a lot of principles, conditions, exclusions, exceptions etc. with the intent of strengthening the practice. It is also, a perfect alibi for a perfected soul to perpetuate fraud, theft and all sorts of underserved advantages.

The effects of the many untoward incidences in insurance of which agricultural insurance is not an exception is responsible for the very stringent conditions of effecting an insurance cover and also of getting claims paid, as layers of verification are involved.

Despite this, avalanche of fraudulent practices such as misrepresentation, false declaration and host of others otherwise referred to as sharp practices pervade the industry.

In agricultural insurance, there are sharp practices on the part of the policy holders (farmers) and the organisation saddled with this responsibility (NAIC) which can also be referred to as insurer and even National Insurance Commission (NAICOM), an agency established to regulate insurance practice in Nigeria.

Sharp practices on the part of the policy holders (farmers)

- a. The wrong assertion that Nigerian Agricultural Insurance Corporation (NAIC) was established

to share national cake to the Nigerian farmers:
- Farmers who patronise agricultural insurance schemes always believe that government had made large amount of money available to the organisation of which they are expected to get their own share. Farmers felt that having paid their insurance premium to NAIC, and without experiencing any loss on their farms, it is their right to make claims. According to Amusat and Olagunju (2014), this problem is common to all categories of farmers across the geo-political zones of the country,

- b. Under- insurance: - Farmers who have 5,000 poultry birds may decide to insure only 1000 birds and such farmer will expect the 5,000 birds to be fully insured. Knowing fully well that he only paid premium on 1,000 birds. In case of loss, the farmer will demand compensation for 5,000 birds. This usually happens to farmers who obtained credit facility from financial institution and was compelled by such institution to obtain insurance cover for his farm.
- c. Exaggerated claims: - In case of losses, farmers would expect NAIC to pay their losses in full and even pay for their expected return/profit on the investment. In many cases, farmers would connive with credit institutions and some bad eggs among NAIC staff to press home their illegal demands (i.e. asking for what is not legally due to them).

This is a bad moral hazard common among the farmers with erroneous view that they want to get part of the national cake like their fellow Nigerians who work as officials and authorities in government establishments (Adeyefa, 2013).

Wrong basis of indemnity

Indemnification for crops and livestock insurance losses under Nigeria Agricultural Insurance Scheme was based on estimated production cost and not on the value of expected yield. This will be made known to policy holders ab - initio but because of their greed and corrupt nature, some farmers will try to distort the record and be requesting for expected yield value in crop insurance and market value in livestock insurance as basis for compensation payment.

According to Amusat (2013), this practice is peculiar to the literate and large scale farmers.

Delayed loss of notification and adverse selection with an intent to defraud

Agricultural Insurance Policy stipulates that losses be reported to the insurers (NAIC) within twenty four to seventy two hours of loss occurrences or as soon as practicable to enable NAIC staff inspect the loss when evidences are still fresh. Farmers can report directly to the nearest

NAIC office or to the credit institutions where they collected their loan, (Adeyefa, 2013)

Some farmers for obvious reasons usually delay the report till after they might have destroyed the evidences of the loss sustained which would enable the NAIC staff to calculate the claim appropriately.

This is one of the causes of misunderstanding between the insurer and the clients. For example in a livestock insurance policy, there is a carcass warranty which stipulates that in the event of the death of livestock e.g. poultry, cattle, sheep or goat the carcass should be preserved e.g. burying, for the insurance officers to see before they were to be finally disposed off. A breach of this important condition put the insurer and the farmers in collision course. According to Adeyefa (2013), there is a provision to pay certain minimum amount referred to as “ex-gratia payment” to encourage the farmer.

Some farmers for various reasons might decide to insure only some selected items or enterprises on the farm for cover. Usually, the selected items are likely to be ones that are problematic or those that are prone to factors that might cause losses without the knowledge of the insurer. This is an intent to commit fraud and capable of running down the insurer.

Graft Issues on the part of the Insurance Operators in Nigeria

The issue of graft (form of corruption) is common to the operators of insurance industry in Nigeria including the regulating body which is NAICOM, Insurance Companies, Re-insurance Company, specialist Insurance (NAIC), intermediate brokers, agents and the loss adjuster.

According to Adeyefa (2013) and Amusat (2013), some of the graft issues peculiar to the operators are as follow:

- a. Convenient over-look by Nigeria Insurance Commission in obvious cases of infraction especially in a favoured case of insurance companies/practitioners that are close to the organisation.
- b. Inability to pay claims to the clients (farmers) who suffered losses due to frivolous and trivial reasons without any penalty from the supervisory body (NAICOM).
- c. Some insurance companies do over-rely on “small print” excuses and as a result would refuse to pay claim. When there is time to pay claim to farmers, they will point out many errors in the application form.
- d. Delay and outright non-availability of funds for claim payment as a result of non-maintaining solvency margins.
- e. Fake insurance transactions: - There are many fake insurance companies in the country and they always try to bear resemblance with a



- valid and registered insurance company e.g. NIAK instead of NAIC.
- f. On the part of the Insurance brokers: the sharp practices are legendary and stupendous e.g. non or late remittance of premium or payment of just a fraction of premium received from clients by brokers/agents in the name of all sorts of illegal deductions, such as business procurement percentage, retentions, agency percentage, overriding percentage etc.
 - g. Deliberate delay of premium or just paying a quarter of the due premium and refusal to pay the balance especially if no-loss was recorded up till the end of cover.
 - h. Cover shopping is another unfolding practice where a broker prepares a slip for some named underwriters, as soon as the slips are signed, he waits till the end of the cover, if no loss is reported, he prepares a new list for fresh underwriters, he does this year in, year out until claim happens and therefore goes to pay only when loss happens. By so doing, he has defeated the purpose of the Insurance because instead of being fortuitous, it becomes certain.
 - i. Loss adjusters are known to be collecting bribe from claimants in order to write favourable or outright falsehood reports so as to favour the claimants.

Effects of sharp practices on agricultural insurance and food security

Sharp practice in insurance causes deep infractions in the operations of insurance in Nigeria, the relevance of insurance as a risk-management tool is impeded as the benefits are eroded as rouges, thieves, pen-robbers etc. end up collecting most of the benefits (Amusat and Olagunju, 2014). The main aim of agricultural insurance in Nigeria is to return farmers who suffered losses back into business (Adeyefa, 2013). This purpose is defeated as the huge amount of money reserved for that purpose always end up in the wrong hand. Farmers in Nigeria especially the resource poor farmers who provided over 80% of the food consumed in the country (Adebowale and Amusat, 2005) have not felt the impact of this laudable scheme and remain perpetually poor. The Nigeria Agricultural Insurance Scheme was established by Babangida regime in 1987, up till now majority of farmers in the country are not aware of the existence of the scheme, (Amusat, 2013) as the management of the organisation (NAIC) refused to popularize the scheme, even though huge amount of money meant to settle farmers who incur losses is kept as reserved by the organisation. Nothing is as certain as incurring losses by farmers, as long as no provisions are made to cushion the effect of losses being experienced by farmers, self-sufficiency in food production in Nigeria will continue to be a mirage.

CONCLUSION

There is urgent need to control sharp practice in agricultural insurance as it has affected negatively the development of agriculture in Nigeria. NAICOM which is the supervisory agency needs to be alive to her responsibility by sanctioning erring insurance companies and continuously monitoring the industry. The roles of insurance brokers and agents need to be reviewed or eliminated out rightly. The Nigerian Agricultural Insurance Corporation (NAIC) needs to step up her enlightenment campaign with a view to educate farmers on the modules operandi of the organisation. The bad elements working in the corporation should also be flushed out as their actions are inimical to the progress of agriculture in the country. Farmers association should also caution their members from making attempt to defraud the organisation established to bail them out of the loss suffered on their farms. All the anti-corruption agencies such as (EFCC, ICPC, Special Fraud Unit (SFU) of the Nigeria Police) in the country should also beam their searchlight in this area with a view to curb the nefarious activities of both the clients (farmers) and operators of the agricultural insurance industry in the country.

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