



New Swiss Re *sigma* study puts the spotlight on the role that insurance can play in improving food security for over 850 million people globally.

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- **One in eight people in emerging markets suffer from hunger and malnutrition.**
- **Agricultural insurance is an indispensable part of agricultural risk management and helps to smooth farm income as well as incentivise food investment.**
- **Agricultural insurance penetration in emerging markets is currently very low but potential premiums by 2025 can reach an estimated USD 15-20 billion.**

**Zurich, 16 January 2013 – Global agricultural production must increase by 60% to feed the world's population, which will reach 9 billion by 2050. Swiss Re's latest *sigma* research publication, "Partnering for food security in emerging markets" proposes a multi-stakeholder approach to address the problem of food insecurity, putting agricultural insurance on the table to help manage agricultural risks, stabilise farm income, and encourage agricultural investment to strengthen the food chain infrastructure.**

Food security today means having physical, social, and economic access to sufficient, safe, and nutritious food.<sup>1</sup> But steady population growth, insufficient farm investment, socio-economic instability, and adverse weather events remain key challenges to the world's food supply, often barring people's access to food. Moreover, dietary preferences and nutritional demand are changing and are also putting pressure on food production and availability. Recently, rising food prices have become a major concern due to a combination of complex factors.

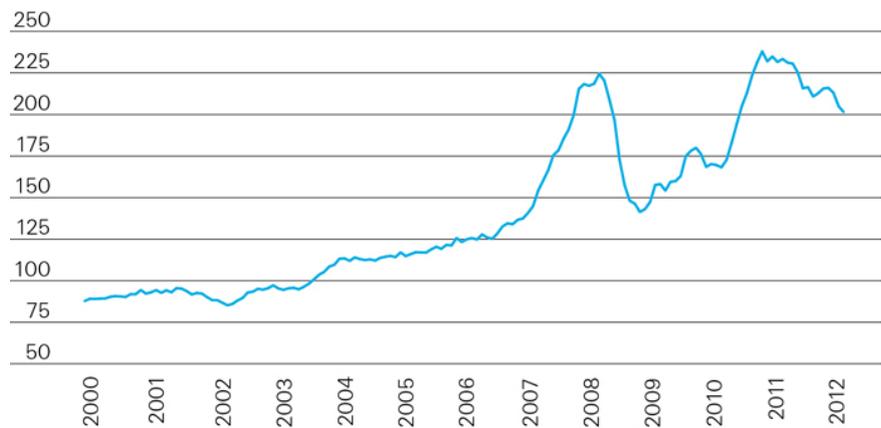
"Volatile food prices (up 74% since 2005) and supply issues due to the 2012 US drought have heightened food security concerns recently, especially for vulnerable people in emerging markets," explains Clarence Wong, Swiss Re Chief Economist for Asia. Out of the 850 million people suffering from hunger worldwide, 98% are located in emerging markets. The Asia-Pacific region has the greatest number (528 million), followed by sub-Saharan Africa (237 million).

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<sup>1</sup> The full current definition of food security can be found in "The State of Food Insecurity in the World 2001", FAO (Rome, 2002), p. 49.



**Food price index (2002 to 2004=100)**



Source: Nominal monthly food price index, the Food and Agriculture Organisation of the United Nations (FAO).

### **Achieving food security requires a multi-stakeholder approach**

Part of ensuring sustainable agricultural production includes employing holistic risk management strategies that help to reduce, mitigate, and cope with various farm risks. "Insurance is an integral piece of the puzzle," says Wong. "Meeting growing food requirements necessitates massive investment in agriculture, even in the midst of an economic crisis. Innovative, multi-stakeholder cooperation is the way to make progress towards global food security."

Agricultural insurance can help to manage risks in the agricultural value chain, stabilise farm income, and promote investment in agriculture. It can also act as collateral for credit. A typical example of agricultural insurance is area-yield crop insurance, which bases pay-out on the shortfall of an area's realised crop yield relative to its average historical yield. This kind of insurance was implemented in 2010, for example, by the Vietnamese government in partnership with re/insurance companies to provide rice farmers with risk protection.

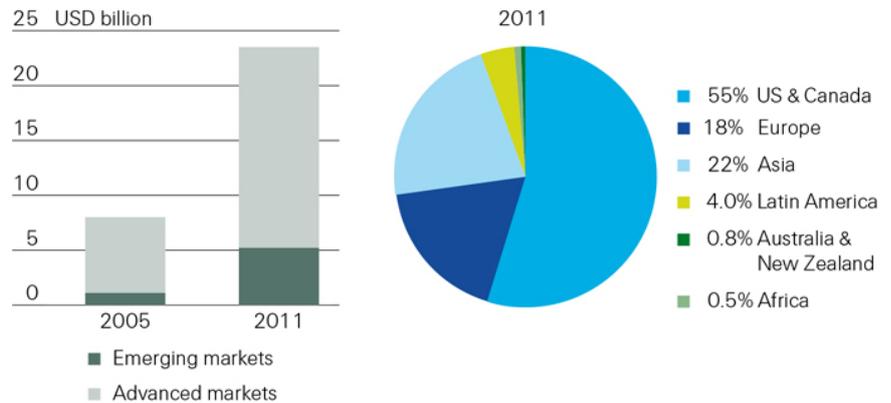
### **Agricultural insurance is growing, especially in emerging markets**

In 2011, global agricultural insurance premiums were estimated at USD 23.5 billion, around USD 5 billion of which was generated from emerging markets (mostly China and India). Insurance cannot provide food security on its own in emerging markets, but it can play a big part in aligning production incentives, raising awareness of the importance of risk mitigation, and encouraging investment in agricultural efficiency. Farmers and producers, governments, communities, cooperatives, and agribusiness can benefit from risk management solutions offered by re/insurers at multiple levels.

Nevertheless, agricultural insurance penetration remains very low and is far from reaching its full potential in emerging markets, estimated at three to four times the current market size. "Tapping the full power of agricultural insurance in emerging markets requires a lot: proactive and enabling government policies, supportive infrastructure, innovative products, cost-effective business models, new distribution channels, and advanced technology. Much of this can be achieved by partnering with insurers," says Amit Kalra, a co-author of the *sigma* study.



## Estimated agricultural insurance premiums worldwide, 2005 and 2011



Sources: The World Bank; Swiss Re Economic Research & Consulting

### Notes to editors:

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#### How to order this *sigma* study:

The English, German, French, and Spanish versions of the *sigma* study No 1/2013, "Partnering for food security in emerging markets", are available electronically on Swiss Re's website: [www.swissre.com/sigma](http://www.swissre.com/sigma). The versions in Chinese and Japanese will appear in the near future.

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