Fishing for answers in the aquaculture insurance market

There are a number of fundamental issues that pose systemic risks to the aquaculture insurance market. But there are solutions available and implementing them successfully would create major benefits for aquaculture producers worldwide and the insurers and brokers that support them.

OLD PROBLEMS

The historical focus on salmon farming has created a number of problems. The first is that salmon farming centres on three regions: Scandinavia, Chile and Canada. Hence, this geographical concentration of risk makes the market susceptible to large losses from single events.

By way of example, an algal bloom in March 2016 killed 25 million fish in Chile's salmon farms, with insured losses running to hundreds of millions of dollars.

The second problem is that insurance policies for these salmon farmers have developed around the needs of this single specie, these three particular geographies, and the larger producers that dominate the sector.

Such policies are not so tailored towards the needs for other species such as shrimp, carp or even tilapia, all of which are large markets.

In 2014, for example, carps, barbels and other cyprinids accounted for 28.2 tonnes of produce with a value of USD 40.8 million. In the same year tilapias and other cichlids accounted for 5.3 tonnes of produce with a value of USD 8.8 million.

NEW SOLUTIONS

Insuring these species would help diversify the geographical exposure for carriers, expanding risks into Asia, Central America, and different parts of North and South America. It would dilute the focus on salmon and give insurers a broader base from which to maintain a consistent market presence.

However, it is not easy for insurers to break into the Chinese market, which is the single biggest aquaculture producer in the world. Nor is it easy to deal with the large number of small producers that make up many markets.

However, insurers could develop wordings for the specific risks faced in different territories by various types of producers.

Using advanced weather modelling technology and satellite imaging, would also help underwrite the catastrophic event exposure that is more prevalent in these territories.

Promoting mutualisation would bring smaller producers together under single umbrella organisations and in turn these organisations could buy insurance to cover members.

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POOLING EXPERTISE

It is not just insurers that should be leading the way. Global brokers have been involved in the aquaculture market for many years, but most deal with clients on an individual basis and have done little to pool the various silos of knowledge held in offices around the world. Solutions towards aggregation of deep current local expertise might be something to reflect about.

PUSHING CERTIFICATION

The introduction of wider and more consistent certification would also help producers, brokers and insurers alike. For producers, it would open up new markets by providing evidence of the standards met in production. Where entire regions go through the certification process, it would raise the reputation of that area and reduce the risk of cross-contamination between producers.

Improving quality standards through certification would make it easier to secure insurance, as well as outside investment and funding for development. Global aquaculture insurance premiums are around USD 150 million.

But commentators in the market believe they could go up to USD 3 billion given the size of the industry and the value of its produce.

Developing the market to that size will enable it to provide better, more affordable policies, on a consistent basis and to a diverse range of aquaculture producers. However to do that, we must first move beyond the existing mould, developed in the 1980s, which is holding the market back. ■

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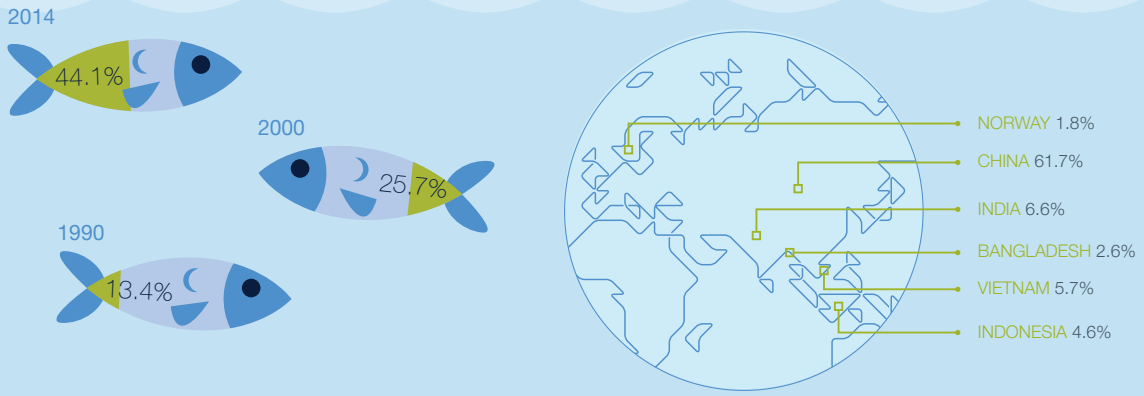
AQUACULTURE CONTINUES TO GROW AND CHINA DOMINATES PRODUCTION

Farmed food fish contributed a record 44.1% of the total 167 million tonnes of fish produced (capture fisheries including for non-food uses and aquaculture) in 2014. This compares with just 13.4% in 1990 and 25.7% in 2000.

China accounts for 61.7% of farmed food fish production. Then comes India (6.6%), Vietnam (5.7%), Indonesia (4.6%) and Bangladesh (2.6%). Norway is sixth at 1.8%.



Source: Food and Agriculture Organisation of the United Nations, 'The State of World Fisheries and Aquaculture – Opportunities and Challenges'. 2016