

## Standardisation key to insuring SA's growing grain storage industry in changing risk landscape

The current tough economic climate, high inflation and escalating risk landscape present challenges for South African grain producers and businesses operating throughout the grain storage value chain.

According to the International Grains Council (IGC), South Africa produces more than 18 million tonnes of grains annually, with nearly three million tonnes being exported. Ensuring a consistent supply of high-quality grains is vital to avoid volatility in price fluctuations.

By [Sean Harper](#) 6 Oct 2023



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Within the context of this economically constrained and heightened risk environment, I had the opportunity attend the 2023 Agricultural Business Chamber of South Africa (Agbiz) Grain and Oilseed Value Chain Symposium as a panellist.

Central to the symposium theme *Build Certainty, Create Sustainability*, the panel discussion unpacked 'the insurability of the grain storage industry' and the critical need to regulate and de-risk the grain storage value chain. Doing so would help to avoid losses stemming from the quality of crops such as wheat, corn and sorghum being compromised. This results in reduced trading values in an industry where margins are already squeezed.

Other panellists included Ebbe Rabie, managing director and head of speciality at Price Forbes; Gerard Ramage, SHEQ manager: health and food safety at VBK Group; Zhann Meyer, Africa head: global commodities at Nedbank Corporate Investment Banking; and Letisha van den Berg, director of ASPASA, small service mining association. The robust discussion was facilitated by Kobus Truter, head: structured commodity finance at ABSA Corporate and Investment Bank.

## Evolving risk landscape

The volume of grain production in South Africa has had a knock-on effect on the growth of the grain storage industry, and the panellists emphasised the risks attached to the development of non-commercial storage facilities.

A trend has emerged where grain commodities are moving away from large commercial storage operators (which are generally run with military precision) to privately owned silos operated by producers (farmers), or by grain processors. In these instances, farmers or a group of farmers join forces to erect a silo on their land and producers will erect a silo close to their processing facilities.

The challenge with these privately owned storage facilities is that producers and processors do not have the necessary skill set to operate a silo and manage the inherent risks such as dust explosions and fire.



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They often don't know the exact specifications for constructing these structures so that they can withstand their risk exposures sufficiently. Nor do they have access to the substantial capital needed to install essential risk-mitigating controls such as sprinkler systems – all this compounds their risk exposure and diminishes insurers' risk appetite.

The level of risk tied to these storage facilities is simply too great for most domestic insurers. This forces the owners to look for cover abroad, where the risk appetite may be more accommodating – even if only for a small percentage of the risk – but the cover is expensive.

We have also seen a noticeable escalation in climate-related severe weather events over the past five years, which is further elevating the risk profile of grain storage operators. Sub-par structures, often with a capacity of up to 30,000 tonnes, are particularly vulnerable to strong winds and hurricanes previously not experienced in South Africa.

Additionally, South Africa is entering an El Niño period, increasing the risk of drought, which often results in lower crop yields. Grain storage operators should therefore prepare and make provision for the possibility of reduced intake, adding further economic pressure.

## Improved traceability is essential

Issues related to the traceability of commodities proved to be a bone of contention for the panellists, who asserted that grain storage operators cannot be held accountable for risks that emanate from producers.

There is a strong demand for improved traceability throughout the grain value chain as the financial repercussions of an entire bin (containing grains from up to 20 producers) being downgraded because one producer, for example, used pesticides, are severe. If it can't be traced back to a particular producer, the storage operator is ultimately held liable for the losses of 20 producers.

Storage operators should only be held accountable for risks and legislation breaches within their own structures and premises, not for damages that originate from elsewhere in the value chain. This is where

detailed contracts, which clearly stipulate responsibilities and who takes on what liability, come into play.

## Urgent call for compliance

Due to the growing trend in non-commercial storage facilities and the evolving risk landscape, standardisation via a co-created compliance framework emerged as the most critical requirement to promote the insurability – and sustainability – of the grain storage industry.

Collaboration between insurers, operators and producers is essential to co-create a compliance criteria matrix that begins at the production stage. Such a framework would help all parties better understand the operating environment, the risks, and the risk management controls needed to mitigate exposures and improve insurability.

This framework could then be used to drive government engagement and initiate legislation to standardise the industry.

## Pooled insurance solutions are key

Alongside compliance, the panellists agreed that the best solutions would come through collaboration between storage operators to pool their risk and purchase insurance together through either a mutual fund or a cell captive investment. This would increase the affordability of insurance for everyone and would also benefit reinsurance rates.

Parametric (Index) insurance was also proposed as an ideal solution, particularly for climate-related systemic risks. Some storage operators are purchasing this cover from underwriters in the UK to cover losses stemming from hurricanes; claims are rated according to the category of the hurricane. Parametric insurance is the fastest-growing solution globally, but unfortunately, South African legislation does not yet permit it.



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It was emphasised that insurance is always cheaper than bank financing. It's more cost-effective to pay insurance premiums and allow an insurer to pay a claim when needed than to service a bank loan with high interest rates to recover from an uninsured loss.

With that said, it was noted that having insurance improves the bankability of an operation and that the terms and conditions of the insurance policy can be written into a financing agreement. Insurance should never be an afterthought but the requirements for risk mitigation should be considered at the start of building or expanding a storage facility.

Within this complex risk environment, grain storage operators must constantly evaluate their risks and mitigate their exposures through installing appropriate risk management controls. Understanding that your insurance is not your risk management programme, it is only part of a holistic risk management plan, is what will determine the insurability and sustainability of an operation.

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