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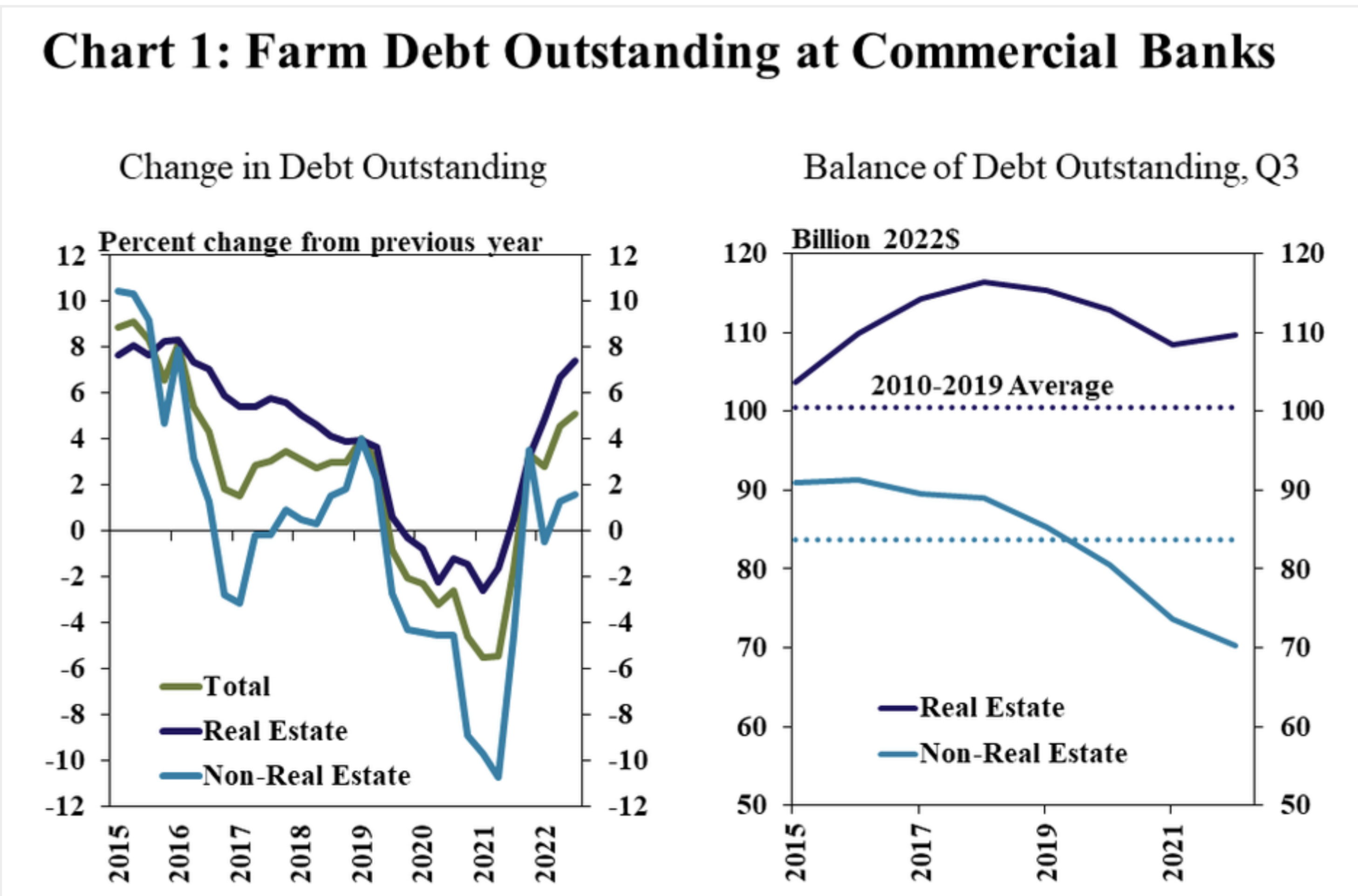
Fintechs have a long runway in agricultural finance

Article

The news: The proliferation of fintechs has disrupted the traditional banking system in nearly every kind of way. But fintechs have much more opportunity ahead, starting with agricultural finance, per Forbes.

The opportunity: Not typically a household topic of conversation, the size of the agriculture sector and the number of other industries that rely on agriculture is overwhelming.

- Aside from just farming, the agricultural sector props up countless industries like food manufacturing and services, textiles, and forestry and fishing.
- Considering farms and all other industries that depend on the agricultural sector, in total these sectors contributed more than $1 trillion to the economy in 2020. That's over 5% of annual GDP.
- In some emerging countries, agriculture accounts for up to 25% of the overall economy.
- Farm debt for real estate and non-real estate at commercial banks grew by 7% and 2% respectively YoY as of December 2022. And loan balances at agricultural banks are at historically high levels. Interest rates on farm loans are increasing every quarter. In Q3 2022, rates on operating loans increased by 85 basis points and rates on real estate loans rose by 110 basis points.



Farm Debt Outstanding at Commercial Banks. Source: Federal Reserve Bank of Kansas City

The lag in ag banking: Banking is a main component of the agricultural sector, but many of those working in agriculture are severely underserved financially.

- Ninety percent of transactions in the agriculture sector still occur by paper checks.
- The rural nature of farming means farmers tend to disproportionately lean on loans from smaller community banks. This makes up 70% of agricultural lending from all commercial banks. But institutions with less than $1 billion in assets fell from 17,514 to 4,116 between 1986 and 2020, according to the Congressional Research Service.
- Farmers also say they face limited access to fair lending and persistent discrimination against women and racial minorities.

A complex ecosystem: With such a technological advantage over most traditional banks and a huge opportunity, fintechs have great potential to disrupt agricultural banking. And products aren't limited to farm loans—ag banking goes much deeper.

- **Payments:** Fintechs are already highly proficient in payments processing. With most of the agricultural sector still using checks, fintechs can revolutionize how farmers transact.
- **Commodities pricing and trading:** Because the sector is vulnerable to the weather and supply chain issues, ensuring proper pricing on commodities is vital to protect farming operations from price volatility.
- **Insurance:** In seasons when the weather doesn't cooperate, farms must lean on climate insurance to make ends meet. But traditional banks don't always have the means to accurately underwrite farm-related insurance policies. Fintechs can use advanced technology to better measure weather-related risks.
- **Marketplaces:** Fintechs have the opportunity to easily connect farmers with new buyers through technology—a process that is usually done offline.

Here's who to watch: Some fintechs are already making names for themselves as agricultural digital banks.

- US-based Tillable works with **Evergreen Bank** to provide farmland mortgages, refinancing, operating loans and rental financing.
- UK-based Oxbury offers lending services to British farmers and savings accounts that support farmers to individual or business customers.

- Insurtech **World Cover** uses satellites to underwrite climate insurance for small farmers in emerging markets like Kenya and Ghana.
- Kenya-based startup **Twiga** connects farmers directly to buyers.

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