

AGRICULTURAL INSURANCE

Briefing Note¹

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1. Introduction

There is considerable diversity in the range of agricultural insurance schemes available in Member States throughout Europe. Some of these are subsidised by Member States and others purely privately funded. Insurance is probably the best known tool for risk management but the nature of agriculture presents a number of issues. For example, systemic risks (i.e. a lot of people suffer losses at the same time) make it necessary for insurance companies to charge very high premiums if state contributions are not available. These premiums are often unaffordable for many farmers. Because of this, comprehensive agricultural insurance schemes therefore need strong support from the public sector.

Drawing on the Agricultural Insurance Schemes report by the IPSC – Agrifish unit of the Joint Research Centre (JRC) of the EC this paper highlights the subsidised and non-subsidised insurance schemes throughout the EU.

2. Crisis and Disaster – Regulation for State Aid

The “Community guidelines for state aid in the agriculture sector” (EC, 2000) allows for adverse weather conditions on agricultural production to be assimilated to natural disaster if the damage is more than 20% of normal production in the less-favoured areas and 30% in other areas. Insurance premiums may be subsidised up to 80% when insurance covers natural disasters, or assimilated events. If the insurance covers other losses, the maximum aid is 50% of the premium.

3. Types of Crop Insurance

Hail insurance is the main type of insurance extending to crops in the EU. There are some other insurance policies extending to other meteorological events e.g. frost. These are known as **combined risk insurance**.

Yield insurance is a term applied to a type of policy that covers losses for a *given* crop due to any meteorological event.

Whole-farm yield insurance refers to *all* crops produced by the farm.

Another type of insurance, **Revenue Insurance**, combines yield and price insurance. This provides the farmer with payment if his production falls below a threshold.

¹ This information is extracted from the IPSC – Agrifish unit of the Joint Research Centre (JRC) of the EC, *Agricultural Insurance Schemes*. November 2006

All these types of insurance are based on the results of individual farms, and losses are adjusted measured on the field. Insurance can also be based on:

- An index common for an area (**index insurances**)
- The statistical yield for the year in a predefined area (**Area-yield insurance**)
- Area yield/revenue below a certain threshold in a particular area for a particular crop all the farmers are compensated (**Area-revenue insurance**)
- Meteorological indicator or satellite image (**Indirect-index insurance**)

4. Livestock Insurances

There is different treatment for losses in the livestock sector. For example, farmers who lose livestock due to a 'List disease'² are generally supported by MS governments and EU institutions e.g. they receive the value of any destroyed animals.

A number of Member States finance these *direct* losses from the national budget (Denmark, Finland, France, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, and UK). Other countries have a co-financing system – a Public-Private financing scheme – in which farmers pay a tax to a compulsory fund structure (Austria, Belgium, Germany, Greece, The Netherlands).

Consequential losses e.g. resulting from movement standstills are most often completely borne by the farmer themselves although some other countries will partly compensate for these indirect losses by paying above the market value of those animals forcibly slaughtered (Austria, Belgium Ireland).

In the absence of public assistance for livestock insurance *private* insurance schemes have arisen for some livestock production (Germany, Netherlands, Sweden, Spain, UK, and Italy).

5. Agriculture Insurance in Europe

Table 1 shows the range of agriculture insurance products available in different European countries and the amount of the premium subsidised by government.

In Spain all the insurance companies operate in a pool known as a co-insurance regime. The system is run in collaboration with the Government and the farm unions. Countries such as Austria, France, Italy and Luxembourg also have well-developed insurance systems and most risks are covered depending on the insurance scheme. Single and combined risk schemes are available in 9 of the countries listed but only hail and a few other risks are covered.

² Diseases specified by OIE that require specific control measures established by EU directives

Hail insurance or single-products insurance are the main products available in the UK, Belgium and the Netherlands and demand for other farm insurance products is negligible. **There is no public support to insurance in these countries.**

Table 1

Country	Single-risk ins.	Com-bined ins.	Yield ins.	Intro-duction	Insured area (1000 ha)	Premium amount (M€)	Premium /insured value (%)	Average indem-nities (M€)	Insurance subsidies in M€ (%)
Austria	PS	PS	PS	78%	1,054	52,0	2.6%	32,0	24 (46%)
Belgium	P	-	-	n.d.	n.d.	49,0	n.d.	n.d.	0
Bulgaria	P	P	-	52%	1,276	6,6	4.8%	4,5	0
Cyprus	GC	GC	-	(100%)	112	8,7	7.2%	4,5	4,4 (50%)
Czech Rep.	PS	PS	-	35%	1,074	32,0	1.8%	24,0	7 (30%)
Denmark	P	-	-	n.d.	n.d.	n.d.	n.d.	n.d.	0
Estonia	P	-	-	<1%	n.d.	0,1	n.d.	n.d.	0
Finland	P	P	-	<1%	n.d.	1,8	n.d.	1,1	0
France	P	P	PS	n.d.	3,507	211,0	1.7%	n.d.	5 (2.4%)
Germany	P	-	-	43%	7,265	129,2	1.2%	104,5	0
Greece	G	GC+GS+G	-	(100%)	n.d.	n.d.	2.5%	218,0	n.d.
Hungary	P	P	-	52%	n.d.	43,5	n.d.	30,7	0
Ireland	P	-	-	n.d.	n.d.	n.d.	n.d.	n.d.	0
Italy	PS	PS	PS	8%	976	271,2	7.4%	166,2	180 (67%)
Latvia	PS	-	-	<1%	n.d.	0,1	n.d.	n.d.	0,05 (50%)
Lithuania	PS	-	-	1%	9	1,1	4.3%	1,1	0,55 (50%)
Luxembourg	PS	PS	PS	45%	26	1,3	2.3%	1,0	0,65 (50%)
Netherlands	P	-	-	n.d.	n.d.	75,0	n.d.	30,7	0
Poland	P(S#)	-	-	7%	n.d.	9,9	n.d.	6,3	0
Portugal	PS	PS	-	22%	298	46,9	8.4%	30,2	32 (68%)
Romania	PS	PS	-	12%	812	14,0	n.d.	4,4	7 (50%)
Slovakia	PS	PS	-	n.d.	n.d.	n.d.	n.d.	n.d.	(50%)
Slovenia	PS	P	-	17%	n.d.	9,5	7.6%	13,8	4,3 (45%)
Spain	PS	PS	PS	26%	5,850	564,7	6.3%	388,3	232 (41%)
Sweden	P	P	-	60%	1,500	n.d.	n.d.	n.d.	0
UK	P	-	-	7%	370	11,1	0.8%	n.d.	0
TOTAL						1,538		1,061	497(32%)

Source: Prepared from information in the fact sheets provided by the experts in each country

Legend:

- : Not existing
n.d.: no data
#: Pilot experience

S : Subsidized
P : Private non-subsidized
PS : Private partially subsidized

G : Public non-subsidized
GS : Public partially subsidized
GC : Public compulsory partially subsidize

6. Premium Rates

A comparison of premium rates, expressed as a percentage of the insured value indicates that these vary considerably, for example from a low level of about 1% in the UK and Germany to about 6-8% in Spain, Portugal, and Italy. However, there are a number of determinants of the level of premium rates in crop insurance that make comparing these rates in a meaningful way very difficult. These include:

- The frequency of risks in time and on area
- The type of risk (hail, drought) and the number of risks covered
- The sensitiveness of crops
- The number of farms insured
- Technicalities like deductibles

Table 1 shows the percentage of premiums subsidised by countries. This will tend to vary depending on the country's policy to promote some particular type of coverage, to help some agricultural sub-sector or to facilitate some types of farms. The annual subsidies to the EU25 are around 497M€ (32% of premiums).

7. Ad Hoc and Fund Payments

It should be noted that other risk management tools exist in most countries. These include ad hoc payments and compensation payments. Table 2 shows the level of and reason for payment from these sources from a number of countries.

Table 2

Country	Years available	Total payment (M €)	Average payments /year (M€)	Comments
Austria	1995-04	55.9	5.6	Frost, drought, flood
Belgium	1985-02	29.4	1.6	Frost, drought, rain, pests
Belgium	1999	280	-	Livestock: dioxine
Bulgaria	2000-04	2	0.4	Insect pest control fund & others
Cyprus	2001-04	28.6	7.2	-
Czech Rep.	1995-04	369.3	36.9	Flood, drought, frost
Denmark	-	-	-	Storm & forest storm damage
Estonia	-	0	0	No payments
Finland	1996-05	114.2	11.4	Crop damage compensation scheme
France	1996-05	1,555.8 ⁽¹⁾	155.6 ⁽¹⁾	Drought 67%, frost 19%, rain 13%
Germany	-	-	-	no data
Greece	1995-04	701.0	70.1	-
Hungary	1999-02	48.8	12.2	Frost, drought
Ireland	1999-04	400.6 ⁽¹⁾	66.8 ⁽¹⁾	Livestock disease
Italy	2001-06	680.0	113.3	Drought and others not covered by insurance
Latvia	2000-05	19.3	3.2	Frost, drought, rain
Lithuania	2000-05	15.7	2.6	Frost, drought, rain
Luxembourg	-	-	-	No ad-hoc aids for crops. No other data
Netherlands	1998	250.0	-	Excessive rain; aids not allowed any more
Poland	-	10.0	10.0	Epidemic diseases
Portugal	last 10 ye	30.0 ⁽²⁾	3.0 ⁽²⁾	-
Romania	last 5 years	56.8	11.4	Drought, frost, floods
Slovakia	-	-	-	no data
Slovenia	1995-04	97.8	9.8	Drought, hail, frost
Spain	2000-05	22.2	3.7	Frost, drought, rain
Sweden	-	-	-	Infectious diseases
UK	2001-05	1,897.7	379.5	Livestock disease
TOTAL			904.3	
(Croatia)	1997-04	-	2.5	54 M€ in 2003 for drought

(1) The 50% of this amount comes from sector private contributions, through taxes on agricultural insurances (France) or from levies on the commercialization of the products (Ireland).

(2) Portuguese farmers also contribute to the calamities fund but the amount refers to Government contributions

It is important to note that where damage could have been insured compensation from these sources is forbidden by law. This has the effect of fostering agricultural insurance in these countries.

Compared to the annual subsidies paid out by the EU 25 (497M€) the average amount paid out in ad hoc payments is 904M€. About 50% of the ad hoc payments are given for natural disasters like drought, frost, flood and excessive rain. These risks are insurable in countries providing yield insurance.

8. Conclusion

Agricultural insurance is a complex issue. The existence and take up of such schemes depends on a range of variables which makes direct comparison in different countries difficult.

The subsidising of insurance schemes raises the possibility of an EU-wide system of agricultural insurance. Theoretically these could be funded through pillar II of the CAP, possibly by modulation. Again, however this is an inherently complex issue with a range of issues to be addressed including compatibility with WTO agreements, the requirement for a large percentage of farmers to take up the scheme, cost, political will, technical feasibility/database information availability, and the view that because of necessary loss adjustment subsidising agriculture means subsidising the insurance industry. In relation to this last point where insurance products offer a wide range of coverage (i.e. for systemic risks) there is a direct link between development of these and public support. In other words there is likely to be greater support for subsidising single risk schemes (e.g. hail) than those schemes covering a range of risks.