IMPACT OF SUBSIDIZED INSURANCE ON FARM RISK MANAGEMENT DECISIONS

Spanish case
AGROSEGURO
Agricultural insurance in Spain: a case of PPP

Central Government (ENESA) and Regional Governments

SUBSIDIES

ANNUAL INSURANCE PLAN

INSURANCE

INSURED PRODUCERS

Insurance contract

Premiums

Indemnities

COINSURANCE ENTITIES

1

2

...

23

Reinsurance contract

Premiums

Excess claims

INSURANCE COMPENSATION CONSORTIUM (CCS)
Factors affecting risk management decisions on farm

- Investment capacity
- Risk vulnerability of farms
- Risk perception of producers
- Full time vs. part time agricultural producers
- Subsidies to agricultural insurance cost for producers
Factors affecting risk management decisions on farm

Evolution of subsidies paid to producers
Impact of subsidies in farm risk management decisions

Main findings

- Different adaptation responses depending on the agricultural sector.
- Drop in underwriting of main crop insurances.

Subsidies’ decrease

Producers’ response

- Underwrite insurance options with less level of cover but cheaper.
- Not to underwrite insurance policies: Mainly small producers.
Impact of subsidies in farm risk management decisions

Sectors’ response

- **Fruit trees: Stability**
  - Despite subsidies’ reduction, underwriting remains more stable than in other sectors.

- **Wine grape: Fluctuations and positive response**
  - Remarkable reduction in insurance underwriting in 2013 compared to 2012 (7% insured production, 20% written premiums).
  - From 2015, adaptation of insurance for wine grape with a more flexible structure and increase of subsidies, which lead to a positive response of producers.

- **Herbaceous crops: Risk perception**
  - Strong influence in underwriting of risk perception of producers, specially for winter cereals.
Impact of subsidies in farm risk management decisions

Sectors’ response

- Citrus fruits: Adaptation to improve
  - Difficult situation of the whole sector, due to its structure (small producers), tight profit margins and the remarkable decrease in subsidies, both at a national and regional level from 2012.
  - Strong decrease in underwriting from 2013 (40% insurance policies, 27% written premiums, 13% insured capital).
  - Adaptation of insurance for citrus fruits to offer a wider range of cover level, production prices, etc. and increase of subsidies.
  - Recover of underwriting level from 2015.
Impact of subsidies in farm risk management decisions

Main conclusions

PPP MODEL
Joint effort of all institutions to reduce the effects of the economic crisis.

- **Public Administration**: Continue to support the agriculture insurance despite budgetary cuts. Adaptation of subsidy percentages based on available budget.

- **Insurance companies**: Adaptation of insurance products and prices: Tariffs adjustment, reduction of the profit margin and expenses to reduce the insurance cost.

- **Producers**: Understanding the insurance as an investment and underwriting the insurance choosing options more adapted to their financial capacity, but still earmarking more money.