

AGRICULTURAL INSURANCE

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The agricultural sector constitutes a strategic sector; however, the recent extreme weather events pose a challenge for governments and businesses, which must adopt strong and effective measures to address their consequences and mitigate the damage caused in this sector. Among other policies, financial instruments that facilitate the management of economic losses and damage in the agricultural sector are supported. In this context, it is worth highlighting the role played by the insurance contract, considered a measure within reach of the agricultural sector that allows for the protection of farming and livestock from the risks inherent to the sector. It is a way of transferring risk, preventing it from being borne by the farmer himself.

Definition

The agricultural insurance contract is an insurance contract in which, as in any other insurance contract, the insurer undertakes, in exchange for the payment of a premium and in the event that the covered risk occurs, to compensate the insured for the damage suffered, within the agreed limits. The particularity of this type of insurance contract lies in the risks it covers, as well as in the subsidies that are granted for the payment of the premium. This aid is part of the protection measures that a strategic sector such as the agricultural and food sector deserves. As for the type of risk, the risks inherent to the sector are linked to events related to natural agents, consequently, the importance of this type of insurance has increased with the increase in catastrophic events that threaten the agricultural sector, especially in recent years. For all these reasons, the agricultural insurance contract becomes a passive defense tool for the farmer that allows him to deal with the damages arising from the weather events that affect his activity through the insurance company and, in turn, becomes an ideal instrument to stabilize the income of agricultural producers. Thus, this type of insurance contract aims to protect the farmer by avoiding jeopardizing his agricultural production and subsistence as a result of an accident. Consequently, agricultural production is protected and, in turn, the agri-food sector is protected.

European context

The European Union is facing the challenges posed by agricultural activity, food production and climate change based on the objectives set out in the United Nations 2030 Agenda for Sustainable Development and the European Green Deal drawn up by the European Commission in December 2019. This pact includes a package of measures relating to climate, environment, energy, transport, industry, agriculture and sustainable finance, all of which are closely linked. It follows that agricultural policies should be developed taking into account the objectives contained in the Green Climate Deal, the Communications of the

Commission of the European Union of May 2020 and the Conclusions of the European Council on "The Farm to Fork Strategy". In this regard, the CAP (Common Agricultural Policy 2023-2027, which entered into force on 1 January 2023) has also been aligned with the achievement of these objectives and is called upon to strengthen the contribution of the agricultural sector to the European ecological transition. So the CAP has changed its structure and objectives to reconcile these ends for the good of the whole community. The two funds included in the EU budget and which finance the CAP play an important role in this adaptation. On the one hand, the CAP financed by the European Agricultural Guarantee Fund (EAGF) which offers direct aid and finances market measures. And, on the other hand, the CAP is financed through the European Agricultural Fund for Rural Development (EAFRD), which promotes the EU's rural development linked to the objectives that have been discussed related to sustainability and climate. The insurance contract is a measure that is part of the financial instruments supported by the EAFRD. It is considered a tool within the reach of the agricultural sector that allows agriculture and livestock to be protected from the risks inherent to the sector. It is a way of transferring the risk from being assumed by the farmer himself, favoring rural development.

Current situation and future challenges

Despite the importance of agricultural insurance and its undoubted usefulness in dealing with claims arising from weather events, in the current context, characterized by the increase in claims and the increase in damage suffered in the agricultural sector, this type of insurance contract needs to be reinforced. This reinforcement involves increasing coverage and premium subsidies. In this sense, the annual agricultural risk management plans of each member state must determine in a very detailed and well-argued way the types of coverage that can obtain the subsidy, that is, the risks, guarantees and types of crops that are described in these plans. Therefore, studies on compensation are essential, taking into account not only the loss rate of each year, but also of the insured production and capital in order to make year-on-year comparisons. The aim is to expand this insurance, because if only farmers whose crops are highly exposed to risk use the insurance, the accident rate will be very high and, consequently, premiums will become more expensive. In turn, given the high cost of the premium, the farmer will not resort to insurance and the anti-selection of risks will be increasingly intense, harming the good end of this tool. In short, the aim is to prevent the figure of agricultural insurance from being unattractive in the insurance sector because the indemnities are higher than the income from premiums and produce a financial imbalance. In addition, well-established agricultural insurance favors the use of reinsurance between insurance companies in order to assume excess claims.

Along with this necessary reinforcement, other measures can be established that could also be effective to guarantee the sustainable development of this activity, competitiveness and the stabilization of producers' incomes. In countries such as Italy, the agricultural insurance contract with the subsidized premium is combined with other agricultural insurance contracts to cover the risk not covered by the subsidized policies. In addition, in

cases where the insurance system does not offer specific protection with respect to certain risks, mutual insurance funds and mutual income funds, as well as the new national mutual fund, may come into operation.

Another possible measure is the introduction of parametric insurance contracts. In this type of insurance contract, losses are individualized in an abstract way through the use of IoT devices and Blockchain technology. Compensation is paid in accordance with what has been previously agreed, although the existence of the damage must always be proven.

Finally, although the agricultural insurance contract is a good measure that adapts to the needs of the sector, this tool must be linked to the reinforcement of prevention measures through the implementation of climate adaptation techniques. In fact, the investments made to mitigate the effects of climate change and reduce the risk of insurers favor the contracting of insurance by reducing the exposure to risk of insurers. In order to achieve the objectives of sustainable finance in this area, the role of distribution and its intermediation facilitate the contracting of the appropriate products for the type of agricultural activity carried out and the risks exposed. In addition, innovation, knowledge and its transfer will be key to implementing mitigation practices.

Finally, it should be remembered that in addition to increasing the public budget to cover premiums and ensure sufficient financing for the payment of agricultural insurance at current levels of contracting, it is necessary to intensify dissemination and publicity actions on the advantages of insurance, stressing that these are effective measures in the short and long term.

Agricultural insurance: the Spanish case.

In the case of Spain, the defining characteristic of combined agricultural insurance consists of the collaboration of insurance companies and the public administration through an elaborate system that includes: a group of insurance companies managed by a private entity (Agroseguro) that covers risks under a co-insurance regime; a state entity – the National Agricultural Insurance Entity (Enesa) – which analyses, designs and proposes annual insurance plans and subsidies from the public sector, in contact with Agroseguro and with the professional and trade union organizations of farmers and ranchers; and the Consorcio de Compensación de Seguros (CCS), which provides reinsurance coverage to Agroseguro entities and participates in it to the extent necessary to complete the co-insurance table.

Enesa plays a leading role as it adapts its lines to the real conditions of the crop, the characteristics of the risk, the destination of the productions, the size and structure of the farm, the risk prevention techniques and the actuarial results of the insurance. In addition, it includes the requirements for granting subsidies and analyzes the feasibility of insurance for other crops in order to expand coverage in future insurance plans. Professional agricultural organisations and agri-food cooperatives participate in the General Commission of Enesa.

The subsidy, calculated in accordance with the criteria established in the Plan, is applied directly, in the form of a direct discount, to the premium at the time of contracting. Enesa pays the subsidy directly to Agroseguro, which is responsible for issuing receipts to policyholders and managing their collection. Agroseguro is a management entity that has taken the form of a public limited company and manages agricultural insurance on behalf of the insurance companies that are part of the co-insurance pool. Along with the management of policies, it is also responsible for appraising claims and paying compensation, among other management functions. Agroseguro shareholders are the insurance companies authorized to operate in this line of insurance and the Consorcio de Compensación de Seguros, when it participates in the co-insurance table, as is currently the case. Insurance companies assume all the risks provided for in the annual plans and share the risk on a co-insurance basis. In this sense, they share the risk and, in turn, cannot reject a policy requested by a producer when it meets the requirements demanded in the Annual Plan. It should be noted that the producer who subscribes to a policy is obliged to insure all his productions in the same sector. In this sense, it can be said that the system is based on the solidarity of the participants.

This system is completed by the role played by the Insurance Compensation Consortium (CCS), especially with reference to the figure of reinsurance. The CCS is a public business entity of the state public sector. It is an entity attached to the Ministry of Economic Affairs and Digital Transformation, through the Directorate General of Insurance and Pension Funds (Dirección General de Seguros y Fondos de Pensiones). It participates in the co-insurance table, assuming part of the risk of the Agricultural Insurance system like any co-insurance company. In addition to its participation in the co-insurance table, the CCS plays another important role in the agricultural insurance system, since it assumes, by means of reinsurance, in the years in which excess claims are incurred, most of the excess. The conditions of the reinsurance contract are laid down in a Ministerial Order. To carry out its reinsurance function, the Consortium receives a surcharge on agricultural insurance premiums. In relation to the reinsurance by the CCS, there is the treatment that must be given to the stabilization reserve to deal with payments for excess claims.

The element that characterizes combined agricultural insurance in Spain is public-private cooperation, since it has so far made it possible to implement this insurance despite its technical difficulty and the amount of damage caused by meteorological phenomena.

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