

Annex 20. Fact Sheet Portugal

1. Generalities:

Reasons for the creation of SIPAC

The climate characteristics in Portugal, mainly in what refers to the rain distribution along the year, with concentration sometimes excessive in winter and scarcity or lack of water in the spring/summer season, leads to frequent big oscillations in agricultural productions and so, in the farmers' yields, what makes particularly difficult the development of the agricultural activity. The existence of an agricultural insurance which minimizes these effects, guaranteeing a greater stability in the farmers' yields, becomes a fundamental instrument for the Portuguese agriculture. Thus, with that objective the crop insurance was created in 1979 in Portugal. However, it revealed maladjusted because of the high premiums and of the lack of a loss compensation adjusted to the different degrees of risks in each area.

Despite of the creation of this insurance, farmers went on making a big pressure on the Government, in the sense of asking him to bear the damages resulting from all kind of risks, namely those covered by the crop insurance.

Aiming to overcome these difficulties, an integrated system of agricultural insurance was created. It is named SIPAC (Sistema Integrado de Protecção contra Aleatoriedades Climáticas – DL 20/96 March 19th and DL 23/2000 March 2nd), and its characteristics will be presented in the following points.

2. General Framework:

- *Definitions of disaster (for the application of article 92.2 of the Treaty of Rome¹)*
- *General Law framework*
- *Objectives of the existing policies/programs*
- *Law barriers: does the law forbid that ad-hoc measures or disaster funds compensate damages that could have been insured?*

¹ The following shall be compatible with the common market:

(a)

(b) aid to make good the damage caused by natural disasters or other exceptional occurrences;

General structure – Characterisation of SIPAC

SIPAC is a public-private system agreed between the insurance companies, the Government and the Farmers. This system is applied in continental Portugal and its objective is to guarantee the economic and social stability of the rural areas.

SIPAC has three components: Crop Insurance, Calamity Fund and Reinsurance Compensations. Each of these components has the following objectives:

- Crop Insurance: Its objective is to contribute to the stabilization of the farmers' yields.
- Calamities Fund: Aims to compensate the farmers for damages produced by risks exclusively not covered by the crop insurance, in those cases in which a calamity situation is officially declared.
- Reinsurance Compensations: It compensates insurers for the excess of losses taking place during the application of their activities.

3. Market conditions

- *Competition on prices or on quality of services. Is there an independent body that fixes tariffs?*
- *Competition on quality of services*
- *Market players: Is there a dominant company?*

Crop insurance market conditions

Crop insurance can be bought after any insurance company authorised to exploit this branch and which celebrates a protocole with IFADAP/INGA.

The premiums of crop insurance are established by the insurance companies, reason for which there is a concurrence in the insurance market. To the effects of the calculation of the premium subsidies given by the Government, reference threshold tariffs are adopted. This means that, for example, if the rates adopted by insurers were above the reference tariffs, the subsidy applies on the reference tariff. On the contrary, when the commercial premium rate is lower than the reference tariff, the subsidy applies on the commercial rate.

There is a dominant company with a share of 45% of the market.

4. General features

- *Compulsoriness for the farmer?*
- *Public subsidies and cost for the farmers?*
- *Franchise (%). Is it computed on the total of the farm or per crop?*
- *Existence and importance of index-based insurances?*
- *Most usual method for determination of losses?*
- *Delay in paying indemnity after event or harvest?*
- *Is there a bonus-malus system?*
- *Is there an income insurance?*
- *Is there a (significant) market of MPC? (multi-peril crop insurances)*
- *Are there insurances on prices?*

General features of crop insurance:

In Portugal, the current crop insurance is a combined insurance aiming to insure production. It is bought by a significative number of farmers, and the rate of covered area over cultivated area is quite important in some crops.

The crop insurance is voluntary; it aims to secure a production and guarantees the farmer an indemnity in case of a loss due to meteorological adversities, through the payment of a premium.

The support provided by the Government consists on a subsidy to the premiums, which varies from 35% to 75% and depends on the risk covered, on the crop, on the reference rate, the location, of the preventive measures used and on the type of contrat.

The crop insurance comprises almost the totality of the crops grown in continental Portugal. The risks covered are:

- Hail
- Fire, lightning and explosion
- Snow
- Tornado
- Waterspout or water flow
- Damages on the cherry fruits
- Frost
- Persistent rains in the industry tomato

Crop insurance does not cover: trees, greenhouses or other agricultural capital; nor seedings or plantations performed out of the normal season in the region or kept in not advisable technical conditions.

To be eligible for subsidies, farmers must compulsorily fulfill a series of minimal technical conditions of labour, mainly what refers to: plantation density; exposition; atmospheric draining; capacities of soil use; water availability for irrigation; interval between prunings; degree of infestation and phytosanitary state. Each crop has to obey to some specific requirements, being possible that the trespassing of at least one of the conditions eliminates the right to access the premium subsidy.

When a loss occurs, the loss adjustment is performed by the insurer company, who sends to the place loss-adjusters in order to verify the occurrence of the loss and to determinate the amount of the loss. In principle, each loss has two visits: the first one after the loss occurrence; the second one at harvest time, for a final loss evaluation. The payment of the indemnity usually takes place after harvest.

Farmers always support a 20% of the losses (so relative deductible of 20%). The time elapsed between the occurrence of a loss and the payment of the indemnity is very variable, the swiftness of the payment often depending of the bigger or smaller proximity of the loss date to the harvest date (usually in this system indemnities only take place after harvest).

According to the last data available, the average time elapsed between the loss and the indemnity payment was around 140 days. Taking into consideration, as was mentioned before, that usually the indemnities are paid post-harvest, the 140 days can be justified because the majority of the losses have taken place in the months of April and May, and the crops with more weight in the insurance concentrate their harvest in the months of September and October.

In Portugal, we still do not have other insurance type beyond the combined. However, we intend to perform some studies in order to evolve towards the enlargement to other type of insurances, mainly yield insurance, given that, from our understanding, the insurance system should be a dynamic system which evolves so as to respond to the needs of the farmers.

5. Insurance products available

Description of all the available programs per crops per groups of crops

5.1. Type of product

Crop Insurance. Insurance combineds to cover productions

5.2. Products covered

Almost all crops grown in continental Portugal: Field crops (Cereals, protein crops and oil crops), linen, potato, beetroot, cotton, tobacco, vegetables, fruits citrus and non-citrus, nuts, olive, grapes.

5.3. Risks covered

- Basic coverage: Fire, lightning, explosion and hail
- Complementary coverage: Tornado, waterspout, frost, snow
- Total coverage: All the risks above; all the risks above + damages on the cherry fruits; all the risks above + persistent rains in the industry tomato

5.4. Technicalities

- a) The insured is obliged to insure all the crops of the same species that he owns or grows in the same “concelho”
- b) The loss is estimated by insured field
- c) Deductible: 20% of the losses is always to be assumed by the farmer
- d) The calculation of the indemnities is based on the actual production. In case of loss, the indemnity to be paid to the farmer equals the 80% of the real losses.
- e) There farmer has to fulfil some requirements
- f) There is no bonus-malus system
- g) Average time elapsed between the occurrence of the loss and the payment of the indemnity: 140 days
- h) Commercial taxes charged by the insurers, as well as the reference tariffs established by the Government, are defined by SIPAC region. There are 5 SIPAC regions (A, B, C, D and E) defined according to the probability of occurrence of risks, increasing the probabilities from region A to region E.

5.5. Public involvement

- a) Subsidies to insurance premiums: vary from 35 to 75%
- b) Reinsurance: Whenever the value of the indemnities exceeds a percentage of the premiums, always within the scope of the losses due exclusively to risks covered by the crop insurance, the Government, through the SIPAC component “Reinsurance compensations”, shares the losses with the insurers.

5.6. Coverage data 2003

- a) Number of farmers: 64,868 (33% of total)
- b) Insured area (ha): Per crops. Total: 247,645 (19% of total crop area)
- c) Insured capital (Million euros): Per crops. Total: 420,440 (10% of total value of production)
- d) Commercial premiums (Million euros) Per crops. Total: 36,392
- e) Indemnities (Million euros): Per crops. Total: 5,236
- f) Loss ratio (1998-2003): 59.58%

6. Coverage in the last years.

The same data as above, for the years 1998-2003. The indemnities are also given by peril causing the loss. The Total amounts spent on premium subsidies have been:

Unit: Mil €

1998	46,037
1999	52,372
2000	33,764
2001	36,926
2002	34,009
2003	24,377

7. Reinsurance

The reinsurance system is mixed (public-private). The Government, in order to compensate insurers for the excess of losses, gives them a compensation equivalent to 85% of the value of the indemnities paid, in the part exceeding a percentage of the value of the premiums, always only for those risks covered by the crop insurance.

Trigger of the mechanism of “reinsurance compensations”

Loss ratio: Indemnities paid/premiums in the year $=I/P = \lambda$:

If $\lambda > A$ then the Government pays insurers 85% of $(\lambda - A) \times P = I - AxP$

A	General	Damages on cherry fruits
Regions A, B, C	110%	85%
Region D	80%	65%
Region E	65%	65%

The adhesion to the mechanism of “Reinsurance compensation” is voluntary and made globally for all the regions. In general, up to date, all the insurer companies working in this branch have adhered to the reinsurance system. The adhesion to this mechanism is made through a contribution, different by SIPAC region, equivalent to a percentage of the value of the premiums.

	Insurers contributions
Regions A, B, C	6.3%
Region D	9%
Region E	10.8%

8. Alternative risk management tools

- *Ad-hoc measures (extraordinary disasters): average expenditure in the last 10 years, delay to pay.*
- *Calamity funds regularly fed. average expenditure in the last 10 years, delay to pay?*
- *Mutual funds?*
- *Non monetary tools?*

In Portugal, in the last ten years, the measures taken in order to face the events caused by calamities not covered by crop insurance were taken, in most cases, within the scope of the Calamities Fund.

The Fund is one of the components of SIPAC, presented in point 2 of this report, and its objective is to compensate farmers for the losses caused by risks which cannot be covered by crop insurance. Next we explain the working of the Calamities Fund.

The conditions for its activation are:

- Generalised production damage of at least 50%
- Important yield loss
- Declaration by the Government of a Calamity situation

So, aids are given by the Fund for losses caused by risks not covered by the current crop insurance products, in those cases where a Calamity situation is officially declared both by the Ministry of Finances and by the Ministry of Agriculture, Rural Development and Fisheries. They will establish the date of occurrence and the support measures, as well as the geographic area of intervention and the crops covered.

Climatic agricultural calamity is defined as the happening of phenomena - exclusively climatic - with an exceptional character, which cause a generalised damage of crop production of at least 50%, resulting from this an important decrease in the yields of the farmers.

The determination of the damages to production will refer to the productivities usually obtained in the region, calculated in base to the average obtained in the last six years, with exclusion of the year of lowest productivity.

The Fund is financed by dotations from the Government budget and by contributions from the farmers.

There are two conditions to access the fund:

- 1- The farmers must have bought a crop insurance policy in the date of occurrence of the calamity
- 2- They must have paid a contribution to the Fund (equivalent to 0.2% of the insured value)

The issued measures were given as interest bonus (low interest rate credit) and exceptionally as subsidies. They total a global expense for the Government in the last 10 years of about 30 million euros, what corresponds to an average amount of about 3 million euros per year.

9. Changes undergoing the system.

Currently the system is going to be object of adjustments that we expect to implement in a near future. These changes mainly aim to enlarge the crop insurance to new risks, which currently can only be framed in the system within the scope of the Calamity Fund. The final purpose is to increase the degree of coverage of the farmers and, at the same time, to transfer to insurers the responsibility of the payment of the indemnities associated to those risks.