AGRUPACIÓN ESPAÑOLA DE ENTIDADES ASEGURADORAS DE LOS SEGUROS AGRARIOS COMBINADOS, S. A (SPANISH GROUP OF COMBINED AGRICULTURAL INSURANCE PROVIDERS).

Agroseguro

CONSULTATION ON THE GREEN PAPER ON THE INSURANCE OF NATURAL AND MAN-MADE DISASTERS

Agroseguro is the body responsible for managing crop and livestock insurance in Spain on the private-sector side. In Spain, crop and livestock insurance operates under a public-private system regulated by Law 87/1978. The private sector offers crop and livestock insurance cover in the form of a co-insurance pool. This pool is administered by Agroseguro on behalf of the private bodies that make it up.
The responses and statements contained in this document correspond to Agroseguro's views as the body responsible for managing agricultural insurance in the private insurance sector, and refer only to the insurance of crops and livestock and not of any other type of property (buildings, machinery, etc.).

Questions

(1) What is your view on the penetration rate of disaster insurance in the European Union? Please provide details and data to support your arguments. Is more research needed to understand any possible gaps in insurance supply and demand, insurance availability and coverage?

Concerning cover against damage to crops and livestock, most EU countries have insurance offering basic cover against hail, fire and floods for crops, and accidents and disease for livestock.

No up-to-date information on the take-up rate is available, but the 2009 study "Risk Management and agricultural insurance Schemes in Europe", produced by the JRC, suggests that the penetration rate varies widely from country to country. It should also be borne in mind that many of the products offered — particularly where crops are concerned — are single-risk, or multi-risk but cover a small number of very specific and limited risks.

A greater dissemination and training effort is needed, particularly on the demand side, since these are complex tools in constant evolution. It is important to take account of the variations between EU Member States in terms of the level of training and the development of the agricultural sector.

Questions

(2) What further action could be envisaged in this area? Would mandatory product bundling be an appropriate way to increase insurance cover against disaster risks? Are there any less restrictive ways, other than mandatory product bundling, which could constitute an appropriate way to increase insurance coverage against disaster risks?

In Spain's case, agricultural insurance cover is always offered as part of a combination, i.e. bundled with other risks within the insurance policy. Moreover, having a broad portfolio of products covering different crops (with different production cycles) and a broad geographic area

contributes to dispersion and diversification of risks, reducing the possibility of risk accumulation.

Insurance — particularly agricultural insurance — is a tool that must have the flexibility required to meet producer needs in terms of cover. There can be no question that agricultural products, holdings and the conditions under which agricultural activity is carried out are much more heterogeneous than in other insurance markets. We therefore take the view that it would be more appropriate to shift towards the development of more technical, flexible and customer-oriented tools.

Questions

(3) Which compulsory disaster insurance, if any, exists in Member States? Are these insurance products generally combined with compulsory product bundling or obligation for insurers to provide cover? Is compulsory disaster insurance generally accompanied by a right for the customer to opt out of some disaster risks? What are the advantages/possible drawbacks? Would EU action in this area be useful?

In the case of Spain and of agricultural insurance cover, there is no obligation to take out a policy for damage of this type. It must be remembered that agricultural insurance does cover disaster risks.

The State does not grant extraordinary (ex post) aid for damage to agricultural production in the event of a disaster that is covered by the agricultural insurance. In the event of a disaster that is not covered by the insurance policy, the State can grant extraordinary aid, and in this case the aid will be received solely by those producers who have taken out an insurance policy.

For the other branches of property cover (car, home, etc.) the insured party pays, within the insurance premium, an additional mandatory amount in return for which he/she is covered in the event of a disaster that is not covered by the insurance policy (e.g. earthquake). This cover is provided via the Insurance Compensation Consortium.

The EU could adopt a more pro-active approach towards the development and taking-out of disaster insurance by taking steps to reduce the cost to insured parties (thus making it easier for them to take out insurance).

Questions

(4) How can state or state-mandated disaster (re-)insurance programmes be designed and financed to prevent the problem of moral hazard?

In Spain, agricultural product insurance is voluntary, even though the general legal framework for it is laid down in Law 87/1979, the Agricultural Insurance Act.

Cover against these risks is provided via a public-private system in which private companies participate in the form of a co-insurance pool and the State participates by subsidising the cost of the insurance to the producers, among other things.

Moreover, the State provides re-insurance cover under the system via the Insurance Compensation Consortium. This is a stop-loss contract, for which private companies pay a premium.

As far as moral hazard is concerned, in Spain certain requirements are laid down in an attempt to minimise or eliminate conduct of this type. The most important of these are:

- Requirement for producers to insure all of the plots under the same crop that they own on the national territory. In other words, the producer may not choose to insure only the plots at higher risk and leave the rest uninsured when all of the plots are under the same crop.
- Application of deductibles or excesses and cover limits (co-insurance).
- In the event of the State granting aid to help with the cost of damage resulting from disasters, such aid will only be granted to the producers who have taken out an insurance policy.

Insurance is a risk-transfer tool that has been greatly refined and has demonstrated its effectiveness, with limits that can be reduced to levels that are much more competitive than those presented by other tools (e.g. ex-post aid). Accordingly, development of a programme that is operational at national or supra-national level will require the involvement of the public authorities, the insurance and re-insurance sector, producers and all of the other players concerned in the decision-making process.

Questions

(5) Do you see any difficulties, barriers or limitations in using information to generate parametric insurance? Which factors could scale-up the promotion and uptake of such innovative insurance solutions?

Parametric insurance could indeed be a more economical and, a priori, simpler solution for cover against certain types of risk or for certain products. When designing parametric insurance, however, it is important to take account of certain aspects of fundamental importance for the correct operation of insurance of this type, including:

- Suitability of the index/parameter: For insurance of this type, compensation is based on the evolution of an index or parameter that is not actually directly related to the actual loss suffered by the producer. It is important for the index to be correlated to the losses so that can be adapted as closely as possible to the real situation.
- Technological/information needs: Insurance of this type generally requires high levels of technological development and similarly high levels of availability of information in order to measure the (historic and current) parameters. For instance, in the case of indices based on climate indicators, availability of a network of weather stations that can suitably measure the parameter in the different parts of the country is of fundamental importance. It is also important to maintain the database and technological systems needed for the measurement and calculation of the index.

Having public and harmonised sources of information at European level could go some way towards the development of products of this type. In this connection, we very much welcome the

Commission's initiative on the GMES programme.

The operating costs of parametric insurance are lower, but it requires significant investment to get it off the ground. The outcome is that parametric insurance is one more option available to the insurance sector for the development of risk-management and -transfer tools.

Innovative solutions do not derive solely from the development of parametric insurance but also from the technologies and management models being introduced in all types of agricultural insurance (prediction models, new damage assessment technologies, etc.). In this connection, the promotion and adoption of new insurance solutions could be stimulated by the development of RDI projects that increase knowledge and extend the development of innovations of this type.

Questions

(6) Could risk-based pricing motivate consumers and insurers to take risk reduction and management measures? Would the impact of risk-based pricing be different if disaster insurance was mandatory? Do insurers in general adequately adjust premiums following the implementation of risk prevention measures?
Are there specific disasters for which flat-rate premiums should be suggested? Should flat-rate premiums be accompanied by caps on pay-outs?
(8) What other solutions could be offered to low-income consumers who might otherwise be excluded from disaster insurance products?

(6) Risk pricing must be adapted to technical-actuarial criteria that guarantee the technical and financial viability of insurance products. In the case of agricultural insurance in Spain, pricing is based on risk and homogeneous risk zones are defined in accordance with the crop, species, variety, type of animal etc. The use of agricultural insurance is based on the correct transfer of risks as a strategy to complement, and not replace, the application of the practices, technical knowledge and technologies available to farmers to reduce risks and minimise the effects thereof.

(7) In Spain, bonuses and discounts on premiums are available to insured parties who implement preventive measures on their holdings (e.g. hail netting). As far as caps on pay-outs are concerned, an individual premium can only be assigned and quantified once the capital exposed to risk has been defined in accordance with the zones, risk levels, etc.

(8) Subsidies towards the cost of insurance could be a very effective means of enabling producers to take out insurance at a reasonable cost.

Questions

(9) Is there a case for promoting long-term disaster contracts? What would be the advantages/drawbacks for insurers and the insured persons respectively?

Using insurance as a means of managing disaster risks will require long-term scenarios and policies in order to bring about acceptable premium levels and reinsurance transfer costs. Accordingly, policies and strategies for insurance of this type must be envisaged over the long

term.

In the case of insurance contracts for crops, and given the nature of the products covered, it would be very complicated to draw up policies spanning more than one growing season, since the production and type of crop can vary from one season to the next.

Questions

(10) Do you think there is a need to harmonise pre-contractual and contractual information requirements at EU level? If so, should the approach be full or minimum harmonisation? What requirements concerning the commitment should be included, for instance:
- the nature of the insured risks;
- adaptation and prevention measures to minimise the insured risks;
- features and benefits (such as compensation of full replacement costs, or depreciated, time value of assets);
- exclusions or limitations:
- details for notifying a claim, for instance, if both the loss and its notification must fall within the contract period;
- who and to what extent bears the costs of investigating and establishing the loss:
- contractual effects of a failure to provide relevant information by the insurer:
- the remedies, costs and procedures of exercising the right of withdrawal:
- contract renewals:
- complaints handling?

As far as crop insurance is concerned, there is considerable divergence from one EU country to another in terms of agricultural productions and types of holding.

Disaster management scenarios, at national or supranational level, require long-term policies and consistency at all levels. There should therefore be minimum harmonisation at European level, particularly where disaster management policies are concerned.

It must, however, also be borne in mind that agricultural products, holdings and the conditions under which agricultural activity is carried out are much more heterogeneous than in other insurance markets. Such harmonisation should therefore take account of this diversity and be sufficiently flexible as to allow each country to develop risk management strategies suited to its own particular characteristics.

Questions

(11) Do deductibles, excesses co-insurance and other exclusions effectively prevent moral hazard? What alternative terms and conditions could be appropriate for disaster insurance, given that the insured party may be unable to take effective risk reduction measures against a disaster?

Deductibles or excesses in crop insurance make it possible to reduce the moral hazard associated with products of this type, since the the pay-out to the insured parties is lower than the income that would have resulted from the harvesting and sale of the crop. Furthermore, in Spain

producers are required to insure all of the plots under the same crop that they own on the national territory. In other words, the producer may not choose to insure only the plots at higher risk and leave the rest uninsured when all of the plots are under the same crop.

In the case of disaster insurance, we agree with the wording of the question as far as the limitations on preventive measures by the insured party are concerned. However, it should also be borne in mind that the said party has very little capacity to increase the risk: accordingly, moral hazard is no obstacle to the development and implementation of insurance as tool for disaster management.

Questions

(12) How could data on the impacts of past disasters be improved (e.g., by using standard formats; improved access to and comparability of data from insurers and other organisations)?
(13) How could the mapping of current and projected/future disaster risks be improved (e.g., through current EU approaches in flood risk mapping under the Floods Directive 2007/60/EC, civil protection cooperation and promotion of EU risk guidelines)?
(14) How could better sharing of data, risk analysis and risk modelling methods be encouraged? Should the available data be made public? Should the EU take action in this area? How can further dialogue between insurance industry and policy-makers be encouraged in this area?

(12) Disaster analysis requires a great deal of coherent information which is, to a large extent, produced by public bodies. It would thus be very useful if advances in the gathering and preparation of the information produced by European countries and the European institutions were to result in the said information being channelled towards risk management.
Given that it is the insurance sector that takes on the risks, progress could be made in the model used to manage the information produced in the course of disaster management, and the response and management policies applied to losses sustained could be assessed and further refined. It must be borne in mind that this information must also be fed into any prevention and relief models that may be developed.

(13) and (14) The EU and its Member States have significant technical and technological resources for identification, study, measurement and design of models for the analysis, quantification and spatial distribution of the climatic phenomena and factors that contribute to disasters. We should like to see greater involvement by the public institutions and the insurance sector in the identification and design of the "working groups" required to define risk management policies, prepare the teams and existing information and optimise the gathering and dissemination of information for the implementation of operating models.

Questions

(15) How can the Union most effectively help developing countries to create solutions for financial protection against disasters and shocks and what should be the priority actions? What types of partnerships with the private sector and the international institutions should be pursued for this purpose?

Developing countries are hit harder — if this is possible — by the damage caused by natural disasters.

Where crops and livestock are concerned, producers need risk management tools that will allow them to maintain an income and continue their activity. The State, for its part, must promote agricultural policies that contribute to the maintenance and development of the agricultural sector, which in many developing countries is one of the main motors of the national economy. In this connection, development programmes and advisory projects that promote the development of risk management tools with regard to damage to crops are of particular importance. Specifically, and based on Agroseguro's experience on a number of advisory projects involving a range of countries in Europe, Latin America and the Caribbean, the priorities to be addressed by development programmes would be as follows:

- Programmes of training in risk management and agricultural insurance: one of the most common limitations is the lack of personnel specialised in risk management and insurance for agricultural production. In this connection, the training programmes developed in a number of countries have proven to be of great use not only in the short term but also in the long term.
- Public-private collaboration programmes between the various bodies involved in risk management (insurance sector, State, associations of producers, etc.).
- Promotion of co-insurance to cover risks of disaster: given the extent, intensity and accumulation of risk generated by weather events, covering these risks using the co-insurance/co-reinsurance pool formula has proven one of the most effective and successful approaches, since otherwise there are some risks that are practically impossible for individual insurers to cover on their own.

Questions

(20) Are there specific aspects of loss adjusting which would benefit from more harmonisation? If so, which? Are there practical difficulties for loss adjusters to operate cross-border?

Loss adjustment is the stage at which the insured party evaluates and assesses the usefulness of the insurance he/she has taken out. This loss adjustment process must be as objective and transparent as possible, and it is important for the insured party to know how the damage is to be evaluated, when the compensation pay-out will be received, etc. It is also important for loss adjusters to have expert knowledge of the goods and risks being valued: they must therefore have the knowledge and skills necessary to assess the damage correctly.

In Spain's case, for agricultural production cover there are loss-adjustment rules that are public and form a part of the insurance contract, meaning that they are known to all of the parties (insured party, insurer and loss adjuster).

Furthermore, the loss adjusters must meet specific requirements (in terms of their training and personal capacities) that will guarantee correct valuation of the damage and a high-quality service to the insured party.

In order to operate in other countries, loss adjusters must have knowledge of the productive

situation of the country (type of holdings, zones, etc.), of the production and risks being valued and the conditions and types of insurance product.