





The Spanish Agricultural Insurance System





Serious weather problems in Spain have a particularly strong impact on rural areas.

The conditions under which certain agricultural practices are carried out leave the farmers involved so vulnerable to risks of natural disaster that many may have to cease operating.

The current Spanish Agricultural Insurance System, now 30 years old, has proved to be incredibly effective in managing said risks – in large part due to the efforts of public and private institutions involved in developing the system.

This report briefly outlines the main characteristics of the current system, as well as identifying its future role. In the following years various goals should be met, such as: universalising protection in the face of natural disasters affecting agriculture and livestock; lending support to manage agricultural crises; and helping farmers adapt to climate change.

I hope that the contents of this publication prove useful for all those interested in farming insurance, but particularly for farm owners.

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Contents

1. Insurance as a risk management tool	49
2. The Agricultural Insurance Act (Law no. 87/1978). The basic principles of the system	51
3. An organizational map of the system	55
4. The State Entity for Agricultural Insurance (ENESA)	57
5. Specialisation in the system: other institutions involved	59
6. Types of insurance: their evolution, from multi-risk cover to universal cover	63
7. Results of applying the system	67
8. New policy goals for agricultural insurance	71
9. Conclusions	73
International scope of the Spanish Agricultural Insurance System	75





1. Insurance as a risk management tool.

The highly developed nature of agricultural insurance in Spain is a direct consequence of the frequency of adverse weather conditions and other natural risks affecting the country's rural areas.

In fact, virtually all the risks that affect the sector (hailstones, frost, floods, drought, uncontrollable diseases, etc.) manifest themselves relatively often throughout Spain's various regions, making the adequate management of these risks vitally necessary.

While it is true that the traditional methods used in agriculture and livestock farming - such as the diversification of crops and livestock, irrigation transformation or disease prevention campaigns - are essentially important management tools, when these cannot be applied or their efficacy is limited, it is necessary to deploy other tools that reduce uncertainty in the sector and guarantee its economic stability.

The national consensus is that the most appropriate risk management tool to deal with adverse weather conditions and other natural risks is agricultural insurance.

Furthermore, consolidation in an increasingly globalized, and thus less protected, agricultural sector, adds another significant risk: unstable market prices. Given this situation, agricultural insurance could in the coming years offer new options to protect rural areas.





2. The Agricultural Insurance Act (Law no. 87/1978). The basic principles of the system.

As already indicated, the fact that our rural environment is highly vulnerable to adverse weather conditions and other natural risks means Spain has a long tradition of attempting to manage these potential threats.

Beginning in the early 20th Century, Spain developed a series of insurance systems that proved inefficient for various reasons. Then in 1978 a combination of the country's political parties, agricultural organizations and insurance companies approved the legislation currently in force, the Agricultural Insurance Act (Law no. 87/1978), which constitutes the basic pillar of today's consolidated insurance system.

The legal framework of the Law is complemented by various Regulations (inscribed in Royal Decree no. 2329/1979) and other Laws related to private insurance, and with the approval by the Government's Annual Plans proposed by the Ministry of the Environment and Rural and Marine Affairs.

The system, resting on this legal foundation, is configured as a complex mixture of public and private insurance, whose main objective is to assure stable profits

for the nation's farms by protecting them from the vagaries of bad weather and other natural risks.

The basic defining principles of this legal model can be summed up in the following ten points:

1. The vocation of universality regarding insurable production and risks.
2. Farmers insure themselves on a voluntary basis.
3. Damages resulting from insurable risks cannot be subject to additional assistance.
4. The model is based on the joint and several liability of all those participating in the system, including that of society as a whole.

This principle justifies three key aspects of the system:

- a) Insurance subsidies that are determined in large part by the joint and several liability of society as a whole with the country's rural areas.
- b) Insurance companies cannot reject applications for insurance policies





from farmers that comply with the policies' criteria.

- c) The insured party must stipulate in the insurance policy all of his or her lands are to be used for that farming production.

5. The insurance is based on applying assurance techniques.

6. The financial solvency of the system must be guaranteed.

This solvency is guaranteed by two instruments:

- a) Policy holders are ensured through a "pool" of insurance companies and institutions that assume joint risk. These are managed by the Spanish Association of Combined Agricultural Insurance Companies (AGROSEGURO).
- b) Reinsurance carried out by the Insurance Compensation Consortium and private reinsurance companies.

7. Agricultural insurance policies are conceived as a crucial agricultural policy tool.

8. Farmers are the clear main players in the implementation of the model.

This important role is materialised through its representatives: Professional Agricultural Organizations and Cooperatives.

9. The model takes advantage of the specialisation of each of the parties involved.

The model's design is intended to fully exploit the experience and solvency of each of the participating parties.

The following sections – which describe the way the model is organized and the functions of each of the participating institutions – reveal the level of specialisation that has been reached.

10. The system is subject to a process of constant improvement and renewal.

Therefore ENESA, in collaboration with all the associated organizations, annually debates proposals formulated by insurance companies relating to the contractual conditions and rates of each policy, as well as other relevant issues.





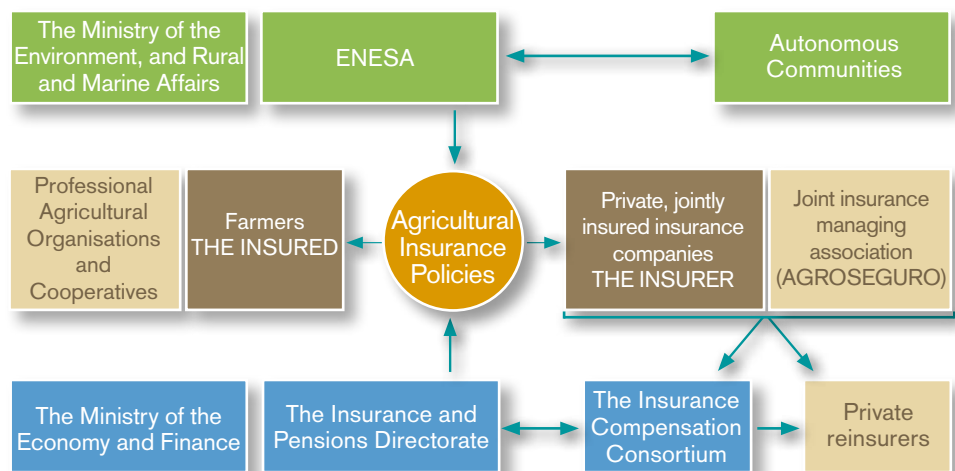
3. An organizational map of the system.

As previously indicated, the system is organized on the basis of the specialisations of the interested parties.

The ultimate aim is the signing of private insurance policies between farmers and insurers. However, in the course of these

transactions, regulated by ENESA, various public and private institutions intervene, as shown in the following organization chart.

Organization chart of the Spanish Agricultural Insurance System







4. The State Entity for Agricultural Insurance (ENESA).

The State Entity for Agricultural Insurance (ENESA), is an autonomous body attached to the Ministry of the Environment and Rural and Marine Affairs (MARM) and presided over by the undersecretary of the MARM. ENESA is the coordinating Hub for the daily running of the system.

Its main functions are:

- a) To devise the Annual Plan of Agricultural Insurance Policies.
- b) To grant subsidies to farmers to help them meet their insurance costs.
- c) To collaborate and coordinate with the Autonomous Communities regarding agricultural insurance.

Its more specific functions are:

- a) To control, in the agricultural sector, the development and application of the insurance plans.
- b) To establish the minimal technical conditions for cultivation, insurable performance, prices for effects of the insurance and the deadlines for subscribing to insurance policies.
- c) To inform farmers of proposals regarding the specific conditions and rates for each type of insurance policy devised by the Group of Insurance Entities.

- d) To carry out technical/financial viability studies for the inclusion of production and risks in the Annual Plans for Agricultural Insurance.
- e) To promote and circulate agricultural insurance policies, advising farmers in all related matters.
- f) To arbitrate all disputes arising between insurers and the insured.

ENESA's executive body is the General Commission, which represents all the parties participating in the system and is the forum for debate and decision making on everything relating to the functions entrusted to the organisation.

Also inside to ENESA's operation is the Coordinating Committee for the Autonomous Communities, whose main aim is to guarantee cooperation and coordination between the country's various local authorities regarding agricultural insurance issues.





5. Specialisation in the system: other institutions involved.

A basic principle behind the Spanish Agricultural Insurance System is that of specialisation. Therefore, in conjunction with ENESA, the system is applied and developed by the following institutions, each of which is responsible for carrying out functions for which it is specifically equipped.

THE PRIVATE SECTOR

Professional Agricultural Organizations and Cooperatives.

The role of Professional Agricultural Organizations and Cooperatives is to represent farmers through:

- a) Informing to the other institutions of the ways in which the farming and fishing sectors need protection.
- b) Assisting with the design and planning of insurance policies.
- c) Acting as Holders in collective insurance policies.
- d) Potentially acting as insurers, through mutual insurance companies which can be formed to protect farmers (as outlined in the Insurance Act).
- e) Circulating agricultural insurance policies.

The Spanish Association of Combined Agricultural Insurance Companies (Agroseguro).

This public limited company, envisaged under the current legislation to represent private insurance companies, does so by:

- a) Establishing the conditions of insurance contracts and the rates to be charged.
- b) Controlling the insurance policy transactions carried out by commercial insurance company networks.
- c) Collecting premiums paid by the insured.
- d) Negotiating with the Government for the relevant subsidies owed to the insured.
- e) Valuing the damages caused by accidents or adverse weather conditions, and processing any corresponding compensation payments.

Private Reinsurers.

Private reinsurers have a dual function within the Spanish Agricultural Insurance System:





- a) To reinsure the Insurance Compensation Consortium (the system's state reinsurer).
- b) To reinsure under Agroseguro management.

THE PUBLIC SECTOR

The Department of Insurance and Pensions.

Under the current legislation, its roles are:

- a) To regulate insurance transactions, as well as the industry as a whole.
- b) To approve the insurance companies participation on Agroseguro each year.
- c) In conjunction with ENESA, to devise the rules for loss adjustment in the case of accidents, and the criteria for subsidising insurance costs.
- d) To propose to the Ministry of the Economy and Finance the reinsurance rules under which the Insurance Compensation Consortium should operate.

The Insurance Compensation Consortium.

The Insurance Compensation Consortium, is a Public Business Institution, attached to the Ministry of Economy and Finance, and has two functions:

- a) To act as the system's state reinsurer.
- b) To regulate loss adjustments when claims are declared.

The Departments of Agriculture of the Autonomous Communities.

The Departments of Agriculture of the Autonomous Communities help develop the agricultural insurance system by collaborating with the Ministry of the Environment and Rural and Marine Affairs to devise the Annual Plan of Agricultural Insurance, and grant insurance subsidies to farmers beyond those granted by ENESA.

They also coordinate the Regional Commissions for Agricultural Insurance. These Commissions, operating in, and presided over by, each Autonomous Community, with regional representatives from the institutions involved in the system, aim to collate and study the proposals for improving agricultural insurance within each Community.





6. Types of insurance: their evolution, from multi-risk cover to universal cover.

Advances in the Spanish Agricultural Insurance System have seen its insurance policies evolve from combined or multi-risk cover through to universal cover – with a range of policies in between, including yield insurance, or new types of insurance for the livestock sector to cover the removal of dead animals or the onset of drought in pasture.

Consequently, there are currently a wide range of insurance policies available, the most significant ones being:

AGRICULTURAL SECTOR

a) Multi-risk or Combined Risk Cover.

These policies offer specific guarantees against specific risks affecting the production of the policyholder. In the case of an accident, any damages or corresponding compensation is determined according to each plot of land affected, even when in certain cases compensation could be established for damages incurred between different plots that make up a larger piece of land.

In these cases, minimum thresholds are established for damages and excesses.

Premiums are determined for each risk and area of farmland by animal species or plant variety.

The farmer can choose between contracts that offer varying guarantee periods, risk combinations, etc.

b) Yield Insurance.

Yield insurance policies cover every type of adverse weather condition and other natural disasters that might affect crops.

These policies guarantee the farmer a percentage of the insurable yields on his or her land.

With these types of policy, damages in the event of accidents are calculated according to the farmer's entire land ⁽¹⁾ and the guaranteed yield is established to be around 70 per cent of that insured.

The insured yields based on geographic area, or on an individual level by farmland, are determined by the Ministry of the Environment and Rural and Marine Affairs.

Premiums are established by geographic area, animal species or the policyholder's previous land yields.

The farmer can choose the percentage of his or her cover.

⁽¹⁾ As an exception, the risk of hailstones is covered by plot of land.





LIVESTOCK SECTOR

a) Insurance against accidents and diseases.

These types of farm insurance exist within the multi-risk category and, as well as basic accident cover (for injuries, drowning, floods, falls, etc.), depending on the type of livestock insured, can also cover other liabilities such as abnormal births, mamitis and even certain diseases (tuberculosis, brucellosis, foot and mouth disease, PPC (hog cholera) and BSE, etc.).

With basic accident cover, compensation is determined according to each individual animal. In the case of diseases contracted during cleaning up and epizootic diseases programmes, these insurance policies award complementary compensation in addition to the official compensation because farmers are forced to sacrifice their animals or suffer damages due to immobilization.

Premiums are determined according to each kind of husbandry of the animals, the preventative health measures available on each farm, and the policyholder's actuarial results.

b) Insurance for removing animals that die on the farm.

So-called withdrawal cover is a type of "service supply insurance", offering the livestock farmer the opportunity to cover all his or her costs in the event of having to remove or destroy dead farm animals as a result of natural causes or accidents.

Premiums are determined according to each species, farm area, husbandry of animal and actuarial results.

c) Indexed drought insurance for livestock.

These policies aim to protect farmers in the event of drought affecting two specific sectors: livestock farming on pasture land (rearing cattle, horses, sheep and goats) and beekeeping.

Policyholders are awarded compensation for the increased costs of feeding their animals due to lack of pasture.

Premiums are determined according to geographic area and by species.

The valuation of damages caused by drought is based on an indexed model measuring, via satellite, vegetation growth in homogenous geographic areas.

FISH FARMING SECTOR

Fish farming is covered by multi-risk insurance that protects against damages caused by accidents and certain diseases.

FORESTRY SECTOR

Insurance for the forestry industry is also multi-risk, with basic liability cover in the event of fires on re-forested agricultural lands and cork oak forests.





7. Results of applying the system.

The Spanish Agricultural Insurance System has become highly developed, as reflected by its main indicators.

Firstly, it is important to point out that within the current system **all sectors are insurable** and that the biggest risks facing each sector are covered.

Insured capital, the indicator that best reflects the insured progress, totals more than 10,000 million euros, over four times greater than 15 years ago.

The **cost of insurance** in 2008 is approximately 800 million euros and **ENESA's subsidies** total around 300 million euros. Furthermore, it is worth noting that the Autonomous Communities offer additional, complementary subsidies.

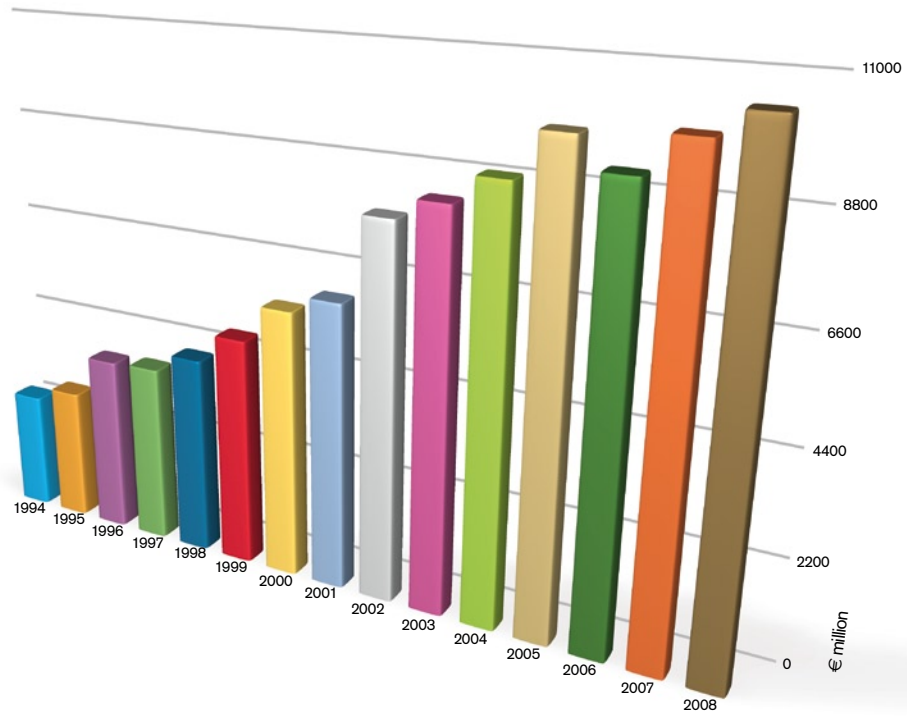
Finally, another important indicator is **the degree to which insurance has been established** within the respective agricultural sectors. See the attached graph for an illustration of this point.

Risks and insurable sectors

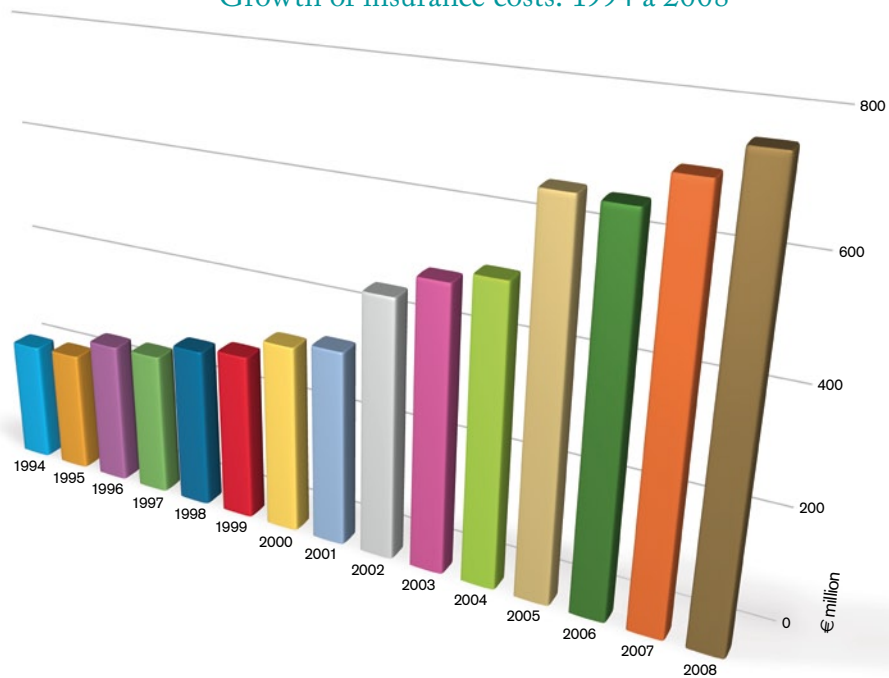
SECTOR	TYPE OF INSURANCE	INSURABLE CROPS, LIVESTOCK OR OTHER RESOURCE	INSURABLE RISKS
AGRICULTURE	Multi-risk	All crops	Most adverse weather conditions and natural disasters
	Yields	Extensive herbaceous crops, olives, almonds, vineyards, tomatoes and fruits in specific areas	All
LIVESTOCK	Accidents and diseases	Cattle, sheep, goats, horses, pigs and poultry	Accidents and common diseases ⁽¹⁾
	Removal	Every species	Removal and destruction of dead farm animals
	Drought	Cattle, horses and sheep (on large expanses of land) Beekeeping	Drought Drought and fire
FISH FARMING	Accidents	Several species	Accidents and common diseases
FORESTRY	Multi-risk	Corn-oaks and other forest trees on reforested agricultural land	Fire, flood, torrential rain, etc.

⁽¹⁾ Epizootic diseases: (foot and mouth disease, hog cholera, BSE, etc.), diseases included in the livestock cleanup programme (tuberculosis, brucellosis, etc.) and other uncontrollable diseases.

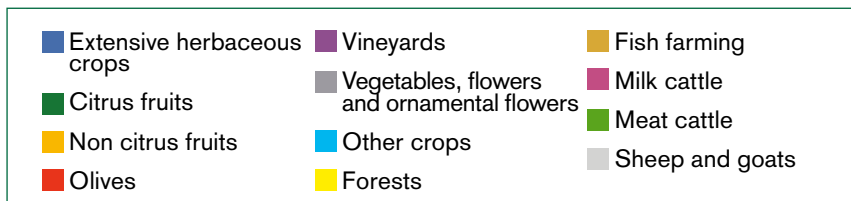
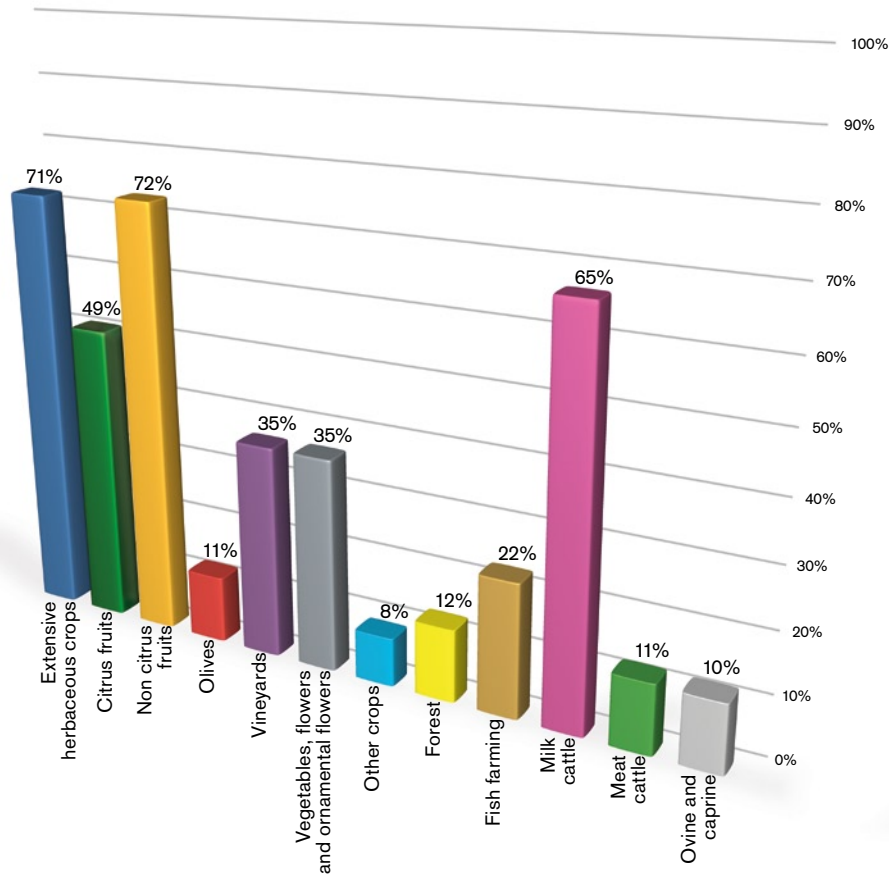
Growth of insured capital. 1994 to 2008



Growth of insurance costs. 1994 a 2008



Current implementation of insurance in major Spanish productions



The removal of death animal insurances from the farms have an average of 90% of implementation.





8. New policy goals for agricultural insurance.

Taking into account the advances achieved in Spain's agricultural insurance policies, as well as new European Union directives relating to risk management, future goals should be:

1. To universalise protection for insurable risks in the agricultural sector.
2. To introduce an insurance policy to cover forest fires, both in reforested agricultural areas and in old-growth forests.
3. To provide more comprehensive cover within the livestock sector for animal health risks.
4. To design tools to better manage agricultural crises.
5. To develop the possibilities offered by agricultural insurance in helping agriculture adapt to climate change.
6. To promote existing abroad cooperation, with the aim of developing risk management models that help improve production conditions in rural areas.





9. Conclusions.

Now thirty years old, the Spanish Agricultural Insurance System has gone from strength to strength.

The system, consisting of a complex mix of public and private insurers, exists to help to the economic stability of farming areas by protecting farmers from adverse weather conditions and other natural risks.

The system's complexity is a necessary result of tapping into the experience, solvency and professional capabilities of its constituent parts. For example, the insurance sector pitches in with its technical expertise, while the public sector deploys its abilities to plan on a large scale and distribute subsidies. Furthermore, the agricultural sector itself plays a major role in the development of the system.

The consolidation of the system has allowed it, going forward, to set new challenges – such as providing universal cover in rural areas, designing financial instruments to manage agricultural crises, using insurance to help agriculture adapt to climate change and promoting these activities, which have been carried out by both the government and the international private sector.

At the end of the day, the future success of the system is going to depend on maintain-

ing the commitment of the parties involved, which it is worth reminding ourselves are the following:

The Private Sector:

- Professional Agricultural Organizations and Cooperatives.
- The Insurance Institutions that make up Agroseguro.
- Private reinsurers.

The Public Sector:

- The Ministry of the Environment and Rural and Marine Affairs, via ENESA.
- The Ministry of the Economy and Finance:
 - The Insurance and Pensions Directorate.
 - The Insurance Compensation Consortium.
- The Departments of Agriculture of the Autonomous Communities.





International scope of the Spanish Agricultural Insurance System.

Farming development, here and abroad, has in recent years been subject to significant uncertainties and changes of direction, leading farmers to become concerned about their future place on the land.

Such uncertainties are the result of various causes, but three factors stand out as paradigmatic of the current malaise: the threat of climate change, the consequences of animal health crises, and market instability following trade liberalisation and globalisation of markets.

At another level, it is worth bearing in mind that in recent years the EU has revised its agricultural policies with a view to achieving a more sustainable CAP and to encouraging farmers to become more economical and agronomic. Within this context, the EU believes it is increasingly important to encourage European farmers to become responsible for managing their own risks, which were previously cushioned by EU support of markets and prices.

In the context of said debates, the Commission has put forward its reflections and proposals. These turn out to be quite original, suggesting as they do the advisability of using new instruments to help

farmers improve their ability to manage risks and crises.

The specifics of this new position have appeared in reports and policy decisions which posit interesting and original changes to achieve better and more developed systems to protect the agricultural sector. For example, "European Community directives regarding public assistance in the agricultural sector 2007-2013 [2006/C 319/01] and their supplementary exemption Regulation [Regulation (EC) N° 1857/2006], include innovative suggestions relating to risk management that are of special interest for the Spanish Agricultural Insurance System given that they corroborate the thinking on these issues that has been promoted in Spain since our system came into operation.

The first issue to highlight is the introduction, for the first time in these Directives, of the concept of "managing risks and crises", which posits that putting in place good risk management policies represents a vital instrument to achieve a sustainable and competitive agricultural sector in the European Union, as well as valuing the current instruments for managing risk available to EU countries, as follows:

“The Commission has reviewed the series of measures for managing risks and crises currently in operation that can be financed by the state. The conclusion of said review is that the current combination of instruments is adequate, but should be redefined in the light of experience”.

The newly introduced criteria are very similar to those already applied in Spain (“help those who help themselves”), in so much as they require farmers to be insured before they can apply for state assistance in the event of adverse weather conditions or natural disasters. As the Directive indicates:

“In the future, as of a particular date [1 January 2010], compensation payments for adverse weather conditions should be lowered for those farmers who have failed to take out insurance for the product in question. Only if a member State can convincingly demonstrate that, despite all reasonable efforts, it is unable to acquire an affordable policy for a particular phenomenon or product, the Commission should reject this request”.

The Commission's new position and the favourable results obtained by applying the Spanish Agricultural Insurance System are leading the ENESA to assist and advise International Institutions and Ministries of Agriculture from various countries. This is because agricultural insurance often features on the working agendas of bilateral relationship talks between the

Spanish Ministry and those of our European partners.

The main thrust of ENESA's work in the international sphere has been the following:

- To build relationships with Commission Departments responsible for defining and regulating state assistance for agricultural insurance and crisis management.
- To cooperate and participate in working meetings with International Institutions with which the Spanish Ministry has established cooperation agreements, such as for example, the Inter-American Development Bank (IDB), the Inter-American Institute for Cooperation on Agriculture (IICA), the OECD, and the Latin American Association for the Development of Farming Insurance (known by its Spanish abbreviation, ALASA).
- To engage with various countries' Ministries of Agriculture by exchanging information with them, receiving their official missions, and participating in their technical meetings and staff training. In recent years ENESA has maintained this kind of relationship with the Ministries of over 40 countries.
- To develop, design and consult on international aid projects involving insurance systems, in collaboration with the Spanish International Development Agency (AECID) and other related institutions in various countries, such as the Domini-

can Republic, Uruguay, Peru, Morocco and Algeria.

- To maintain a website aimed at providing information to other countries within the framework of the International Cooperation Projects.
- To organise international conferences and working meetings with the aim of facilitating the exchange of information and increasing the awareness of the Spanish Agricultural Insurance System. To date we have organised three such conferences, the last of which was held in Madrid from 15 to 17 November 2006, and attended by almost 900 participants from 42 countries.

Owing to its rapid development in recent years, Spain is now one of the world's most pre-eminent countries at designing and implementing agricultural insurance systems. Its massive experience in this field is being made available to state institutions in other countries so that these can promote greater protections for farmers and develop better tools aimed at managing risks.