



Latest developments in crop insurance in France

Bureau du crédit et de l'assurance





Plan of the presentation

- Climate risk management scheme
- CAP "health check" and crop insurance
- Issues and prospects



The National Agricultural Disaster Guarantee Fund - Principles

- Created in 1964, the fund makes payments to compensate for losses resulting from natural disasters
- The disaster must be formally recognised by the public authorities
- The indemnity covers on average 25% of the loss
- The fund is a safety net which has demonstrated its effectiveness following large-scale weather-related events



Limits of the system of direct indemnities

- Expenditure is by nature unpredictable and may vary greatly from one year to the next
- The indemnity procedure may be long and does not enable the farmer to restart the production process immediately
- Some individual situations cannot be covered
- The system does not give a farmer any indication of the level of his risk

→ Since 2002, farmers and government have wanted to redirect risk management policy towards the development of crop insurance

Crop insurance since 2005

- Contracts must cover at least the following risks:



Hail



Drought



Wind, storm



Rain and flood



Frost





Crop insurance since 2005

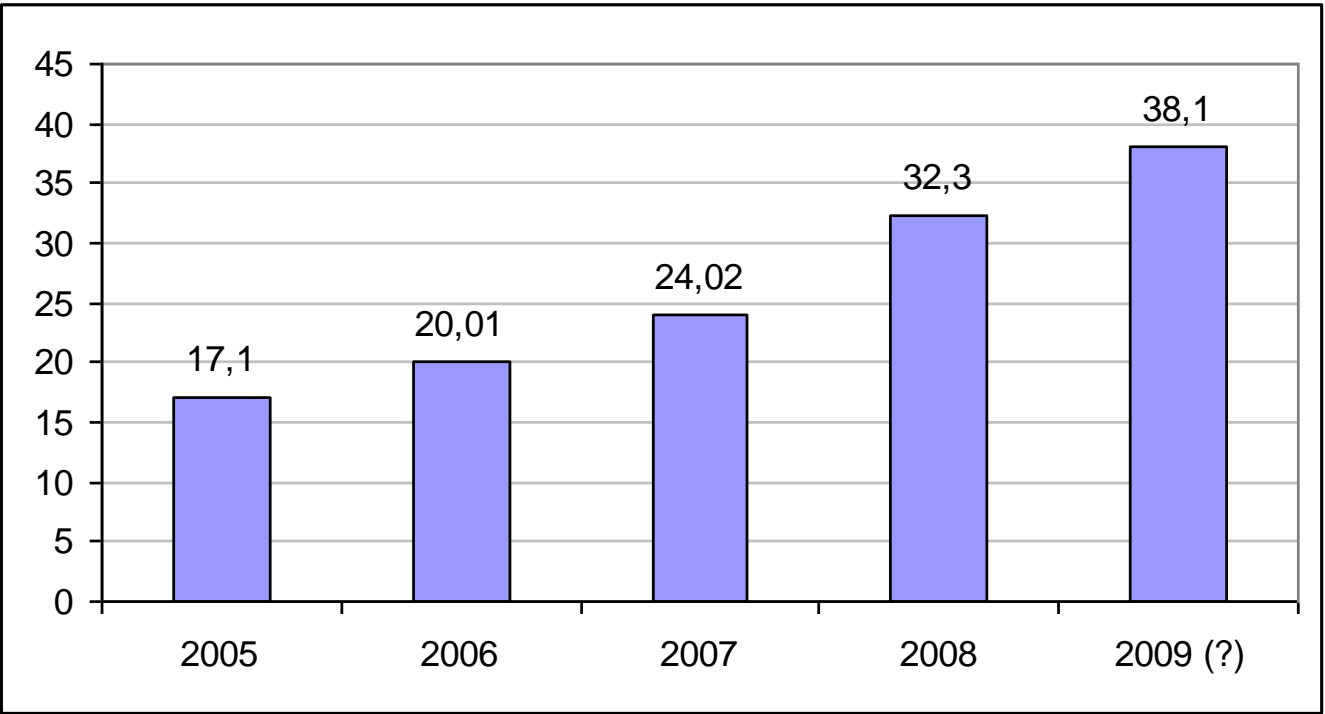
- Contract « by individual crop »
 - For each type of crop, the whole area of the farm devoted to this crop must be insured.
 - When a disaster occurs, compensation is paid for each crop insured individually
 - Several « individual crop » contracts may be taken out on the same farm
- Contract « by farm »
 - The contract must cover at least 80% of the area of the farm devoted to crops for sale and at least 2 types of crop
 - The loss which may be compensated for is calculated globally over all the crops insured.



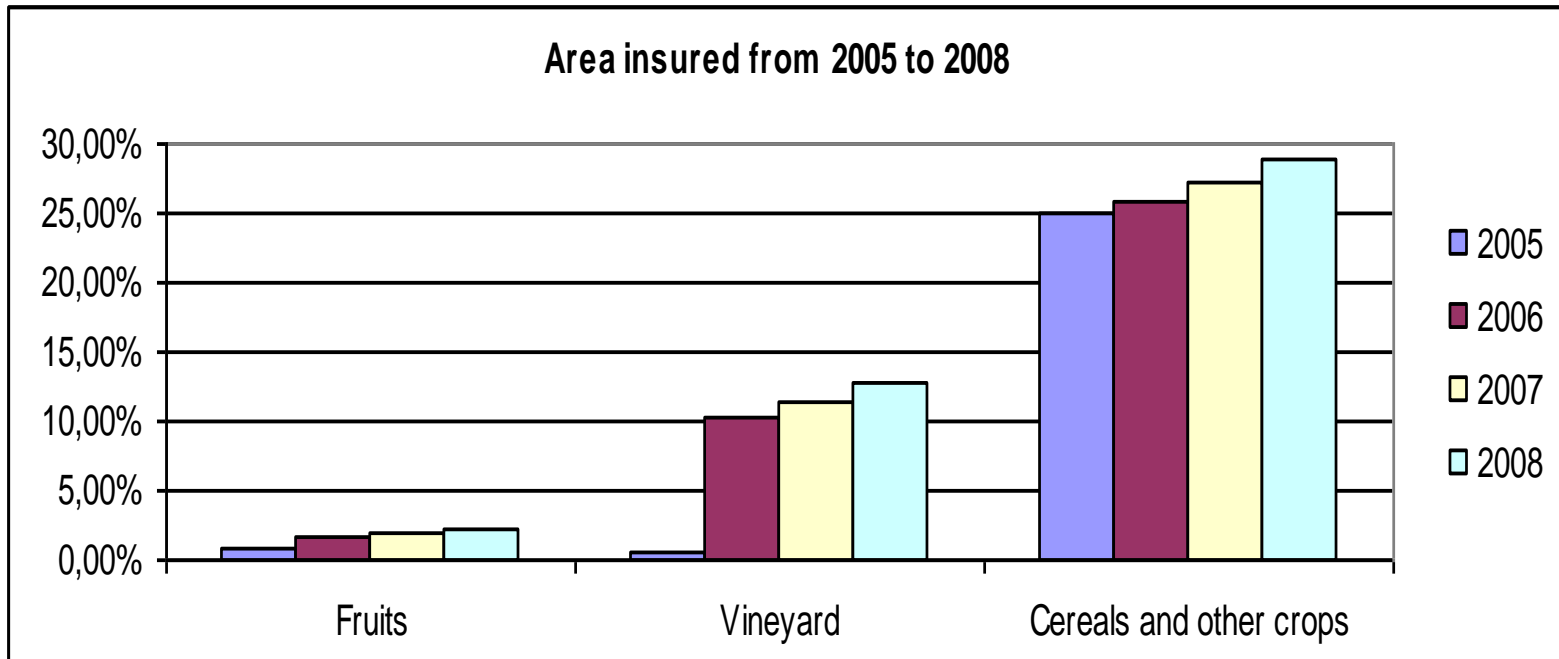
The national incentive scheme

- The public authorities make a financial contribution to the insurance premium paid by the farmer
 - An annual decree lays down the detailed rules for implementing the subsidies system
 - From 2005 to 2009, subsidies fluctuated between 25 % and 45 % of the premium, depending on the year, the production sector concerned, and the beneficiary
- The system is operated through the private agricultural insurance market
 - It is based on free competition between insurance companies
 - Insurance companies must undertake to comply with a set of specific conditions

Cost of insurance subsidies since 2005 (M€)



Situation at the end of 2008



- The take-up rate has increased since 2005
- Take-up still varies widely between types of crop



Insurance in the CAP « health check”

- An opportunity that was to be seized in order to :
 - Incorporate insurance subsidies into Community law
 - Raise the ceiling for public subsidy
 - Benefit from Community funds
- Possibilities opened up by Community legislation
 - Public subsidy may be up to 65 % of the premium
 - 75 % of the subsidy is drawn from Community funds



Adaptation of the national system

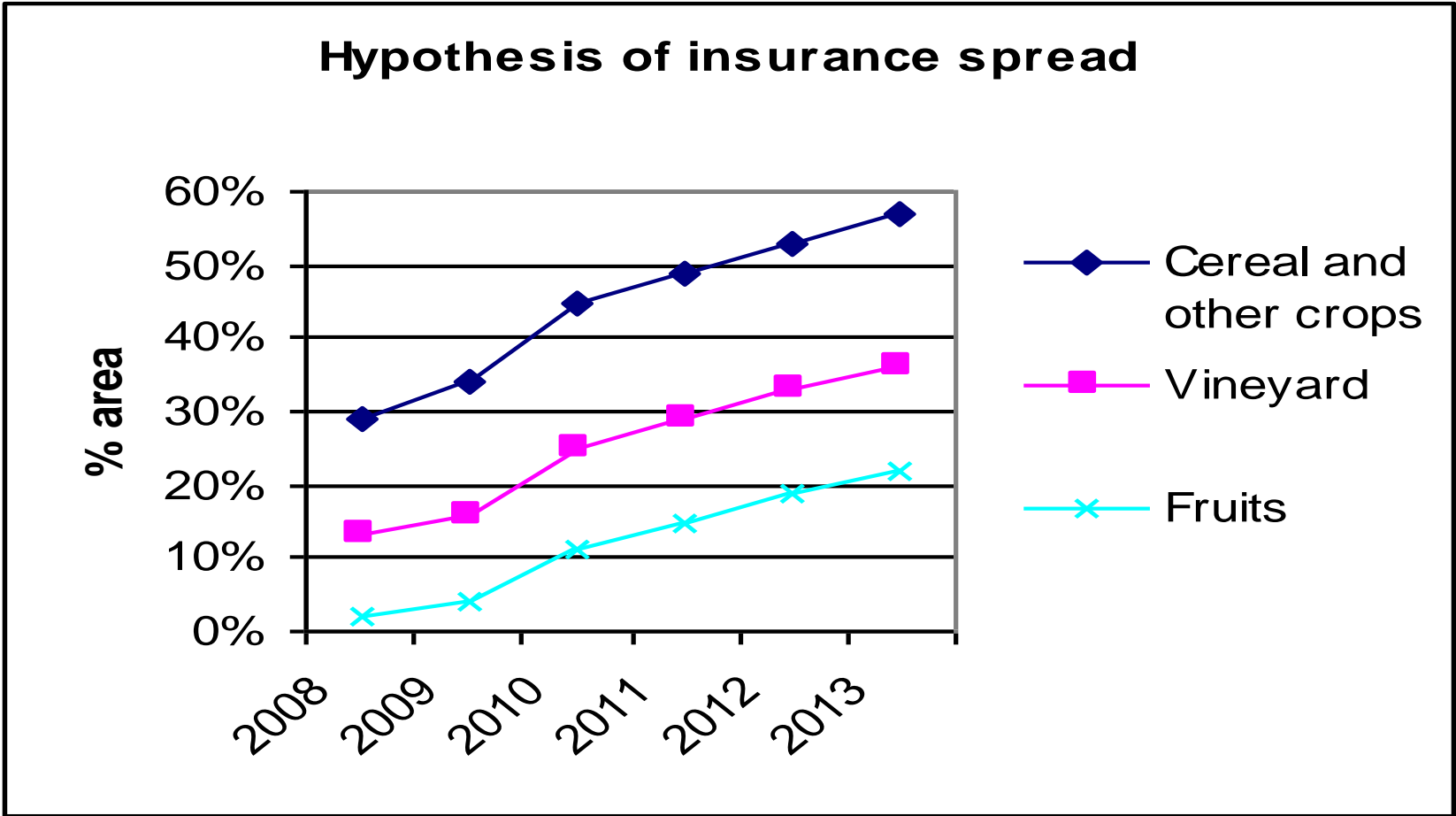
- Each disaster must be formally recognised by the competent authority
 - It is possible to establish in advance criteria for automatic formal recognition
- The subsidy must be paid directly to the insured person
- The Commission sets a minimum level of loss for triggering the compensation procedure
 - The loss must exceed 30 % of average production
 - The Member State concerned may decide the level of the deductible
- The regulation excludes the possibility of implementing an additional subsidy via other arrangements



Detailed rules for paying the subsidy

- A total budget of € 133M (made up of € 100M of Community funds and € 33,3M of national funds) is set aside for the measure.
- The level of subsidy will be highest in the first year (65% of the premium)
- If the budget is exceeded, a budget stabiliser will be applied for arable crops
- The subsidy level will decrease over the years, in the light of the extent of take-up of insurance contracts

Expected impact of the reform





Issues for the future: Organising the transition from the NADGF to insurance

- Organising the transition from compensation to insurance
 - Arable crop losses, which are considered an insurable risk, have been excluded from the scope of the fund since 2009
 - Wine growing and fruit and vegetables will be excluded when the extent of take-up of insurance is sufficient for these types of production (it is planned to exclude wine growing in 2011)
- Promoting the establishment of insurance in the most risky sectors
 - Developing new detailed rules for contracts
- Launching an experiment on pasture land
- Making sure that reinsurance capacities are adequate



Issues for the future :

Consider the system as a whole

- Organise the co-existence of different tools of risk management
 - Eventually, compensation from the fund should be reserved for exceptional risks
 - Precautionary saving enables small-scale incidents to be covered. There is a tax-free savings mechanism which must be encouraged,
 - Precautionary saving and insurance must be carefully dovetailed (both must be encouraged and complement each other)



Issues for the future: Extend cover to other risks

- Integrate all climate risks and all types of production
- Cover income risk
- Cover health risk