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THE FRENCH AGRICULTURAL INSURANCE SCHEME

Outlook Forum
Washington, D.C.
February 22, 2013

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20th century

1 Early 1900

- > Risk management: crop hail insurance
 - Non systemic risk,
 - Address risk ex ante

2 1964 : a permanent agricultural disaster payment program

- > Risk coping: “Fonds de calamités agricoles” (agricultural disaster fund)
 - Address risk ex post for all systemic risks
 - Governmental decision
 - Burden of this program shared between farmers and government
 - Low indemnisation

Year 2000 – a new vision emerged

Mr. BABUSIAUX, at the request of French authorities, issued new proposals with a 3- floors scheme for coping and managing agricultural risks

▪ **Individual**

- Farmers can retain small but recurrent losses
- They will be helped through savings account “free of tax” for 5 or 7 years

▪ **Mutual insurance**

- For more severe and less frequent losses
- Transferred to mutual insurance companies, commercial insurers and reinsurers

▪ **National solidarity**

- French government must play a role in case of major disasters
- Two ways
 - Providing postdisaster payments,
 - Acting as reinsurer of last resort

Since 2000 – step by step

2002 DPA (savings account) authorized by the French government

2005 French MPCl created

- Yield-based indemnity products
 - Subsidies up to 35 % of premiums
-

2010 France (as Italy and the Netherlands) decided to use the possibility recently offered by European Union to push subsidies up to 65 % of premiums paid by farmers

- 75 % of this amount is provided by European Union,
- 25 % of this amount is provided by state member (France)

But farmers have to follow the WTO green box constraints

- Losses over 30 % of the production
 - Indemnities limited to 70 % of the losses
-

2012 Sanitary and environmental risks Fund created

Today – slow progression

- **DPA (savings account)**

- Limited amount : 27.000 euros/year
- No longer linked to the subscription of an insurance policy
- Half of this amount has to be deposited in a bank for 7 years
- Tax deductible only for this period of time
- Popular among farmers organizations,
... but not really used up to now: only 900 DPA accounts

French crop insurance

■ In 2010

- 72.000 policies
 - 4 M hectares
 - 161 M€ premiums, including subsidies 54 M€: 40 M€ U.E. / 14 M€ France
 - 126 M€ indemnities
-

■ In 2011

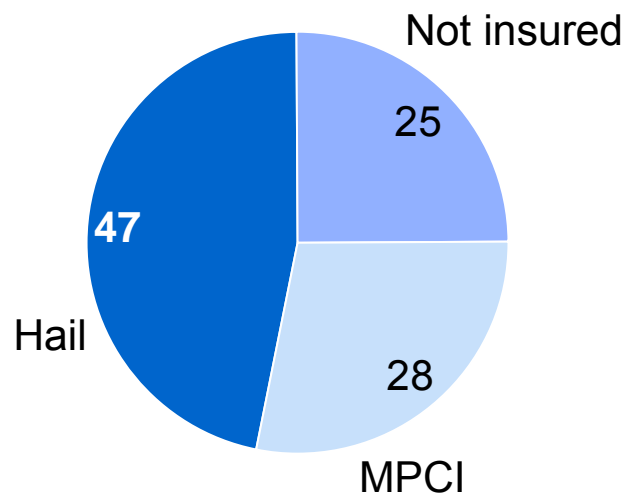
- 77.000 policies (against 100.000 policies for hail)
 - 4.5 M hectares (less than 30 % of the French arable land)
 - 216 M€ premiums (including subsidies 71 M€: 52 M€ U.E. / 19 M€ France)
 - 235 M€ indemnities
-

■ On the period 2005-2012,

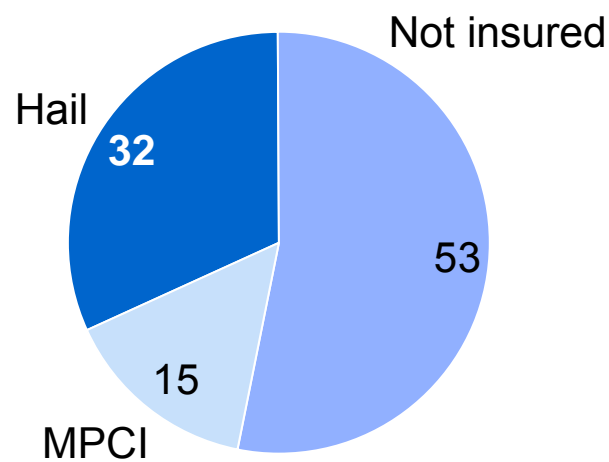
- Loss ratio is around 0.9 which is not satisfactory on the long run
- Yearly budget ceiling assigned by the French government – 133 M€ (100 M€ U.E. / 33 M€ France)

Crop insurance not yet widely spread

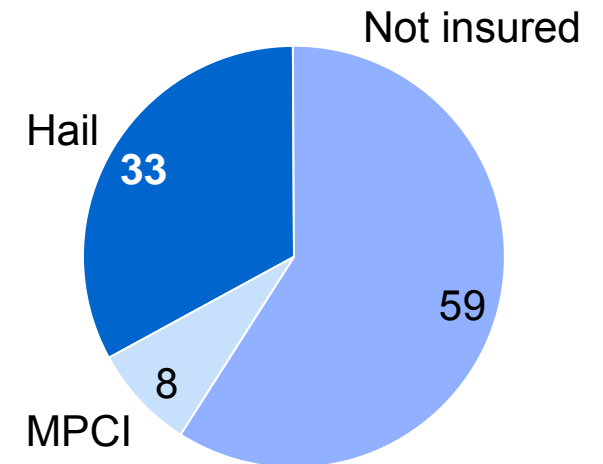
Main crops



Wine production

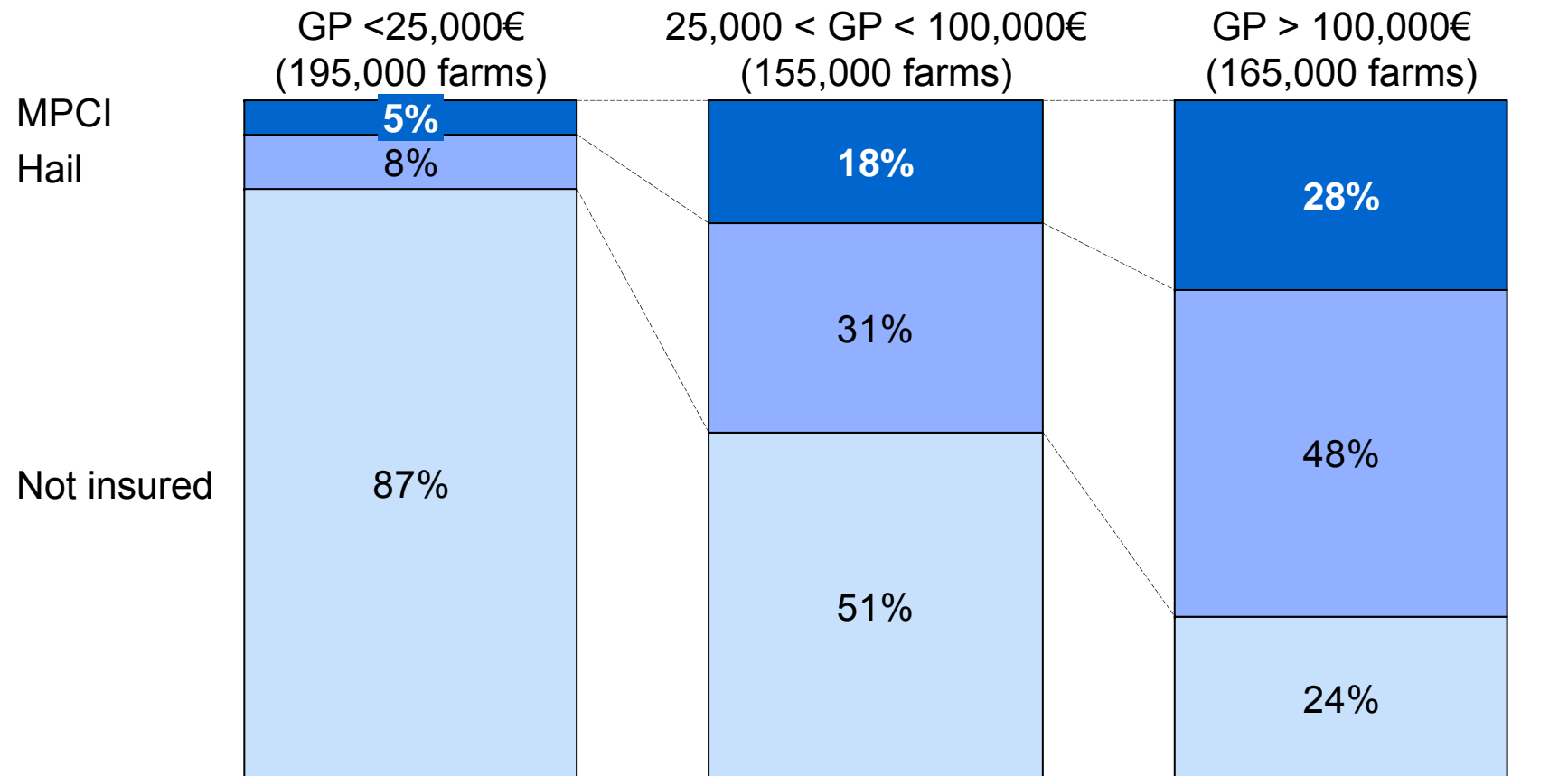


Fruit and vegetables



Crop insurance – Small farms stay out of the program

According to Gross Product by farm



New directions

- **New types of crop coverage**

- Revenue insurance
 - Pilot experiences, already made or in preparation
- Gross margin insurance
- Weather indexes : problem with European Union

- **Livestock, pig and dairy productions**

- Forage, pasture and rangeland
 - State reinsurance
 - Indexes
- Epidemic diseases and environmental damages
 - “sanitary and environmental risk Fund” recently created
- Gross margin insurance

- **New DPA (savings account) will develop**

- **Permanent disaster payment program must be more restricted**

Key lessons

- Need to reinforce **French Public - Private Partnership**
 - The three partners (government, farmers, insurers) have to strengthen their own commitment
 - For example, no equivalent to RMA or ENESA (the Spanish RMA) in the French Ministry of Agriculture
- **Government support as a reinsurer** has still to be obtained
- **“Green box” constraints** (30 % limit for deductibles and losses) – European Union against innovation?
- Promote information and training through **intermediaries** (farmers unions, cooperatives, banks and mutual groups)
- **Customization of agricultural insurance** program is requested. Offer a broad selection of standardized insurance products
- Building an agricultural insurance scheme **takes time**
 - It is a long term effort ...