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Revisiting the demand for crop insurance: evidences from the Italian market

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REVISITING THE DEMAND FOR CROP INSURANCE: EVIDENCES FROM THE ITALIAN MARKET



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INTRODUCTION

Risk management policies in agriculture have been significantly modified during the last decades⁵ and play a prominent role in EU agriculture. In Italy the subsidies regulated are stimulating a rapid evolution of the insurance market. Preliminary studies^{2,3,4} on crop insurance in Italy have shown that insurance contracts are far from being widely adopted as a stable tool of risk management: a majority of farms rarely carry insurance contracts for consecutive years. To date, little empirical work has addressed the dynamics of such an emerging market.

RESEARCH QUESTIONS

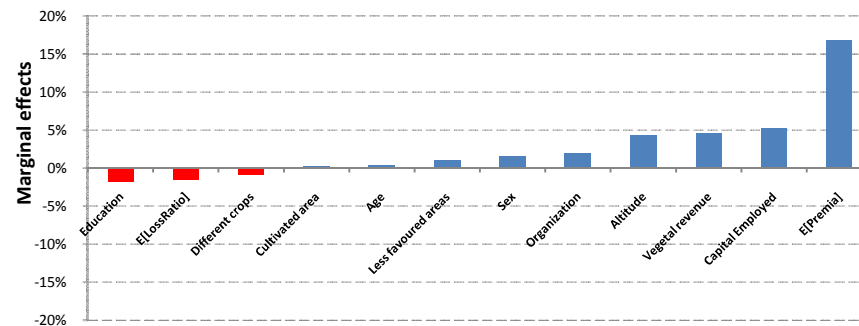
The study seeks to address the following questions:

- what are the frictions that seem to limit the **adoption** of insurance contracts?
- why are farmers so reluctant to maintain continuous coverage in the program? Which are the determinants for **entry** and **exit** decision?

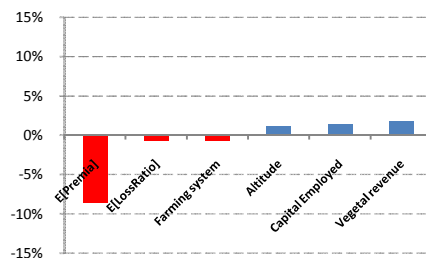
METHODS AND RESULTS

We investigate the Italian crop insurance market by mean of a panel of 26228 observations extracted from the *FADN* databank. Three probit specifications allow to explore the determinants of adoption, entry and exit decisions: $P_{i,t} = \Phi(X_i, B, Z_{i,t}, \Gamma)$

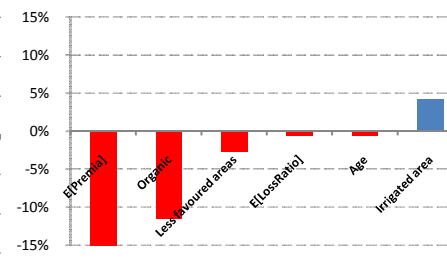
Determinants of adoption



Determinants of entry



Determinants of exit



The larger the capital employed per hectare (*omitted*) the lower the adoption rate. Increases in capital employed, vegetal revenue and irrigated area are entry disincentives; increases in cultivated area and crop diversification incentivize entry decision.

CONCLUSIONS

- The **adoption** rate increases in capital-intensive and risky agricultural regions.
- Irrigation and crop diversification are substitutes for crop insurance
- High premia and loss ratios tend to inhibit **entry** and **exit** from the insurance market.
- Large farms and farms in marginal areas are very likely to enter the market and re-insure over time.

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FURTHER INFORMATION

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