

# Interview to Antonio Fernández Toraño Chairman of Agroseguro

## “Agricultural insurance has a great future”

**From an international standpoint, the way in which Spain has dealt with the insurance of its agricultural and livestock output is exemplary. The European union could, in the future, use the Spanish model as a base in order to move towards a solution for the European community countryside.**

**According to the Chairman of Agroseguro, the keys to the success of this model are state subsidies, the coalition of private insurers within one company and reinsurance.**



Antonio Fernández Toraño is a graduate in law and the arts. He was born in Madrid in September 1946, he was a lecturer in private international law in the law faculty of the Complutense University in Madrid. He is an accredited inspector of the Insurance Inspection Body and also of the Financial and Taxation Body. A large part of his professional life has been spent in the Directorate General for Insurance, and he has been Chairman of Agroseguro for a little more than two years.

**Question: How is the agricultural insurance system set up in Spain?**

Answer: It rests upon three pillars, and is original in the real sense of the word. One is the state, which gives financial support, and with its budget subsidises 50% of the insurance costs of each season. Another is Agroseguro, whose shareholders equity is held by the private insurance companies - which at this time number 52, each year these may leave or join the body of shareholders or increase or decrease their capital holding if they so wish. The last pillar is reinsurance, which is

carried out through the Consorcio de Compensacion de Seguros.

**Q.: What is the legal status of Agroseguro, and how was it set up?**

A.: It is a stock corporation with private capital. It was set up in April 1980, one year and a few months after the Combined Agricultural Insurance Act was enacted, which was in December 1978. It is quite possibly the first constitutional law, bearing in mind that the Spanish constitution came into force at the beginning of December 1978, and this law was passed a few days

later in the same month. One of the conditions which this law imposed on the development and spread of agricultural insurance, on the part of private insurers, was that these should group together within a single company in order to handle everything related with combined agricultural insurance. This was its origin.

**Q.: When you joined Agroseguro, around two years ago now, what was the company's situation at that time?**

A.: I found a sound company with enormous experience, with a large number of lines of insur-

ance and risks. I saw that it was a small company but with impressive technical credentials. A substantial part of our personnel has more than 15 years of experience, but the paradox is that the average age is very young. There are a large number of graduates amongst our employees, there are a great number of agricultural engineers, actuaries, veterinary surgeons, in other words people who are well able to deal with the functions which we take on.

**Q.: And what are the functions which Agroseguro carries out?**

A.: To act in the name of, and on behalf of, the insurance companies which have provided our capital, in the formulation of agricultural insurance cover, livestock insurance, and also at this moment for aquaculture - marine agriculture. We are also involved in everything related with setting insurance conditions: rates, loss adjusting guidelines, claims settlements. Agroseguro is also in charge of claiming the insurance subsidies from the state.

**Q.: Are there insurance companies which operate outside Agroseguro?**

A.: Yes, but these companies use the same types of covers but do not benefit from the subsidies which the state gives through the combined agricultural insurance system and which, from the private perspective, is handled by Agroseguro.

**Q.: What exactly is combined agricultural insurance?**

A.: It is a type of cover which combines a number of guarantees with regard to risks affecting crops; such as frost, fire, flooding, torrential rain, hail, drought or hurricane winds. There are two types of policies - combined and comprehensive. The combined type applies to each plot of crop, and covers damage caused to the quantity and quality, for

## AN EXAMPLE TO BE FOLLOWED

**Q.: For years we have heard that the Spanish agricultural insurance system is one of the best in the world, how much of this is true?**

A.: Everything. Probably only the systems which exist in Canada, the US and, perhaps, Israel can compare. In terms of systems in which private insurers play an important role, the Spanish system can only be compared with the US system.

**Q.: Will the European Union ever have an agricultural insurance system?**

A.: I think it will. In fact, based on the example set by the Spanish system, at this time there is a very strong movement amongst private insurers and European farmers to adopt an insurance scheme which is subsidised by the state, and as the national states increasingly delegate to the European Union Commission, the aim is that its agriculture budgets should contain an element destined to financing the costs of insurance.

**Q.: Can the Spanish system really have so much of an impact?**

A.: More than one might think. In these two last years in which I have had the opportunity to present the Spanish system in Europe, as did my predecessor, Esteban Tejera, representatives of the Italian insurers asked for our help and we are already working with them. We have very close collaboration with the French insurers. We are at present analysing Cyprus's system, and we will soon give its authorities our conclusions and recommendations in order to improve their system. It should not be forgotten that Cyprus is a candidate to become a member state of the European union in the near future.

example in fruit trees or tobacco. The comprehensive cover is a policy which covers all the plots which make up a farm, and, specifically, the shortfall between the guaranteed harvest and the actual harvest. This insurance, which is expensive, only has two lines operational at the present time, the most important of which is the comprehensive dry winter cereals policy.

**Q.: Could this comprehensive cover be competition for the futures markets?**

A.: Not exactly. In the way that it deals with both harvest quantity and quality it might seem like a futures market, but the thing is that agricultural insurance deals with very complex matters which go further and those

purely financial aspects. The Spanish agricultural insurance system only covers output; it isn't the fact that it rains or hails, that there are non-foreseeable frosts or hurricane winds -and it is difficult to forecast the weather in Spain- it is that, in addition to this, one must know the land, the type of crop, its characteristics and complexities.

**Q.: What differentiates Agroseguro from the state agricultural insurance company - ENESA?**

AFT. It is essential to understand the differences between these two institutions in order to understand the Spanish system of cover. As I have already mentioned, Agroseguro is a public corporation whose capital is



spread amongst a group of insurers, amongst which is the Consorcio de Compensación de Seguros. For its part, ENESA is an autonomous body which is dependent on the Ministerio de Agricultura, Pesca y Alimentación. It is responsible for transmitting the Ministry of Agriculture's policy with respect to the cover of extraordinary and catastrophic damage in agriculture, livestock and forests. We have very good relations which are very close and constant. Logically, each one defends its interests: ENESA those of the Ministry of Agriculture in terms of political policy etc., and Agroseguero those of the Spanish private insurance

sector; it gives advice, sets technical insurance criteria, etc..

**Q.: What volume of insurance premiums does Agroseguero handle annually, and what is your loss experience?**

A.: 1998 closed with the Pts37,950 million; this year we hope to reach Pts39,200 million. The loss ratio varies enormously. It is normally very high, whether due to storms or droughts. In 1996 the loss ratio was 53%, but in 1997 it was 117% and in 1998 it was 84%. The loss ratio is improving because the cover conditions have been tightened, rates have been adjusted and risks are being controlled.

**Q.: What would be your summary of Agroseguero, its success stories and the main stages it has gone through?**

A.: Perhaps the greatest success that we have had is that we have been in existence for almost 20 years, which is the longest period of time which an agricultural insurance system has ever existed in Spain, and we have extraordinary prospects for the future. As far as the stages go, I would differentiate between three: since the establishment of Agroseguero until 1990 or 1991, where the main achievement was setting up a structure which would allow survival. Another stage goes until 1997, and saw the consolidation of the system through the improvement and introduction, year by year, of new lines of crops, by separating experimental lines from viable lines. In the last stage there has been a generalised improvement in the covers and guarantees which are offered, and a consolidation in the international recognition of the system.

**Q.: What prospects does agricultural insurance have in areas such as Latin America?**

A.: It has a great potential throughout the whole world. For example, the Spanish system is relatively well known in Latin America, but it is not easy to transfer there because of political, financial and technical difficulties. This system would easily fulfil their needs, in a continent where agricultural insurance has exceptional prospects. Chile is studying the possibilities of setting up combined agricultural insurance. Mexico is perhaps the country which has moved furthest down the line. The problem in Latin America is that there they work through private insurers which operate independently and offer tailor-made policies to their large clients, and these clients insure specific risks and crops, because reinsurance normally requires that the covers are well delimited. ■