



ARA's Function is to provide solutions to the complexity of agricultural insurance in Argentina



Interview

ARA

(Administradora de Riesgos Agrícolas, S.A.)

Carlos Hoffmann

Agricultural and Livestock Insurance Manager

Daniel Spessot

Property Risks Manager
La Segunda Cooperativa de Seguros Generales S.A.

Our first task was to make the private and public sectors aware of the importance of a tool which serves to stabilise the flow of funds in the farming sector in the face of climatic adversities and to change the axiom that "insurance is an expense" into this new concept that "insurance is a tool".





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Carlos Alberto Hoffmann. Born in 1965, in Helvecia, SF, Argentina, married with three children

- Director of Agricultural Insurance with Sancor Cooperativa de Seguros Limitada since 1999.
- From 1994, in charge of handling agricultural insurance and other business lines (fire, technical insurance etc) .
- From '91 to '94, Assistant Manager of Risks in the Workplace.
- Lecturer at the Universidad Nacional del Litoral, Faculty of Agronomy, in the department of Agricultural Insurance.
- Speaker at international conferences on Agricultural Risks.
- Participant in the Insurance Company Supervisor Training Programme of the World Bank Institute

Daniel Enrique Spessot born in 1949, is married with two children. He lives in the city of Rosario (Province of Santa Fe) Republic of Argentina

- He is currently Director of Property Risks of LA SEGUNDA Coop. Ltda. de Seguros Generales.
- Over his long career in the said insurance company (over thirty years) he has held various positions related to Property Risks including, among others, Marketing Manager of the said company.
- He is a Director of La Segunda Seguros de Personas S.A. and La Segunda Seguros de Retiro S.A.

ARA (Administradora de Riesgos Agrícolas) was created in 2000. Could you tell us about the background to this alliance between Sancor, Cooperativa de Seguros Limitada, and La Segunda, Cooperativa Limitada de Seguros Generales? What level of maturity had agricultural insurance reached in Argentina in order to achieve this agreement?

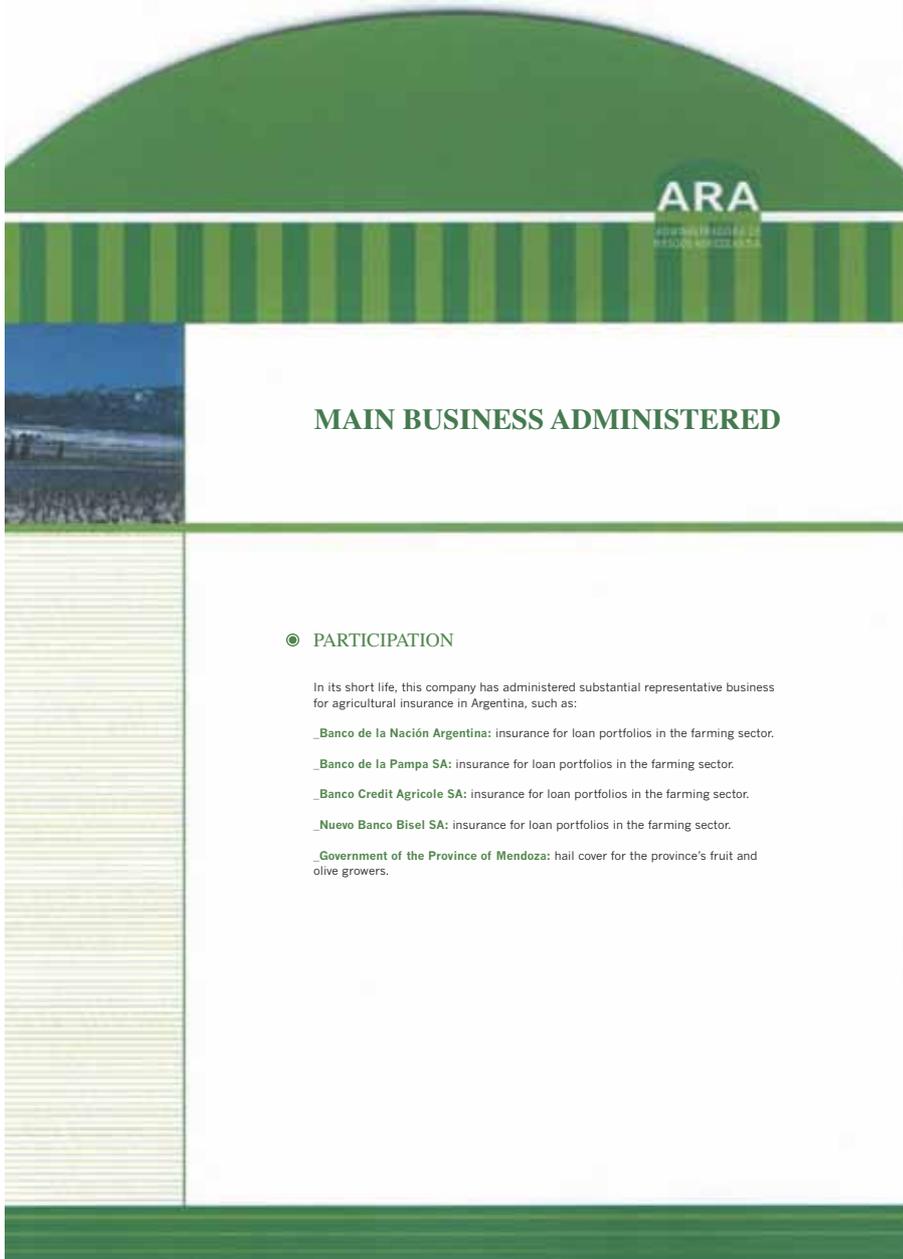
Everything stems from a vision shared by the companies making up ARA (La Segunda, Cooperativa Limitada de Seguros Generales, and Sancor, Cooperativa de Seguros Limitada) regarding the importance that agricultural insurance would take on in our country and the need for a company which could meet the logistical and organisational needs that both private and public bodies could have in relation to the inherent complexity of agricultural insurance.

At that time, only approximately 7% of the country's farmed area had agricultural insurance and there was a substantial lack of an insurance culture in the farming sector, which made it fairly difficult to increase that percentage.

Then, in 2000, two insurance co-operatives and a public limited company decided to combine as a service company designed to provide advice, logistics and experience in handling agricultural insurance.

Thus, La Segunda, La Buenos Aires and Sancor Seguros created ARA S.A. (Administradora de Riesgos Agrícolas S.A.). Afterwards, La Buenos Aires distanced itself from the company leaving only the two co-operative insurance companies with 50% of the capital each.

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What is ARA's philosophy? If it consists of companies which currently account for 40% of hail insurance in Argentina, what added value does ARA offer compared with the rest of the market selling agricultural insurance in Argentina.

The philosophy was to provide services to the farming sector. From that point of view, ARA's function is to provide solutions to the complexity of agricultural insurance in Argentina, from setting up pro-

grammes (both official and private) to the development of logistics systems based on the Internet for example, to encourage the diffusion and use of insurance and offer our support to any official initiative in which agricultural insurance prevails as a tool.

Our first task was to make the private and public sectors aware of the importance of a tool which serves to stabilise the flow of funds in the farming sector in the face of climatic adversities and to change the

axiom that "insurance is an expense" into this new concept that "insurance is a tool".

What other agricultural insurance administrators' models in the world were able to inspire the creation of ARA? What is the functional structure and what manpower does ARA have? Are there any thoughts about including more Argentinean insurance companies in ARA in the near future?

We have based ourselves on models which have been working in Europe for several years (with London head office) as well as USA models. (Rain & Hail).

ARA currently has eight full time and 23 part time agricultural engineers working for it.

It is worth pointing out that the company's full time employees are all women with extensive experience in handling claims appraisals. ARA S.A. is an open company receptive to new partners which share the philosophy that originally guided Sancor and La Segunda in forming it. In this case, it is willing to consider the inclusion of new partners which contribute to its original creation objective.

How would you describe the boundary between the business for which the members of the pool compete individually and the business conducted by ARA since its formation? ARA has piloted insurance projects for loan portfolios to the agricultural sector from the Banco de la Nación, the Banco de la Pampa, the Banco Crédito Agricole and the Nuevo Banco Bisel, and the most recent project, hail cover for regional fruit and olive growers, in other words banks and local government have been your customers until now. Could large



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producers, co-operatives and materials distributors be your future target customers?

The most difficult task we had to face was to explain how two companies which compete in the insurance market, including the agricultural insurance market, were combining for this new project.

The answer was (and is) that, beyond commercial questions, we are motivated by the same philosophy on human values (a fundamental principal of a co-operative company) and on providing tools for the farmer which enable him to run his company with predictability, at least as far as climatic variables are concerned.

The first stages were the difficult task of persuading the Banco de la Nación Argentina to insure its loan portfolio and then also converting agricultural insurance into a loan portfolio stabilisation tool; retaining the farmer as the subject of the loan, because if there were weather problems which reduced his production below certain levels, he would be able to pay off his bank debt which would leave him in a good position to obtain new loans the following year.

Over time, other banks with the same need (Banco de la Pampa, Banco Bisel, etc.) and private materials suppliers (multi-nationals such as Monsanto) were added and so the operation and the reasons behind the creation of this company took on real importance.

Our work is aimed at any company or official sector which may require help in the matter and to which we can provide not only logistics but the know-how possessed by the owner companies of ARA.

Given the size of the farming sector in Argentina and the rest of the MERCOSUR countries, but the very different way in which insurance is developing in each of these countries, how far can Argentinean agricultural insurance go if it stems from, both in terms of business volume and insurance products, a current market of USD 100 million in hail premiums? What advantages does free agricultural insurance present compared with partially subsidised agricultural insurance in Chile, Brazil and Uruguay?

In the first place, agricultural insurance is not subsidised in Brazil (although there is a project for it to be subsidised which is as yet not approved or regulated), neither is it in Uruguay.

We believe that all experiences are valid and enriching but we understand that the current volume of premiums in Argentina would find it hard to grow much without state involvement which would boost some areas. From the private sector we believe that not much more can be done to increase these figures, at least to the level they were in recent years. We are therefore counting on the government to create programmes to provide premiums so that that figure can be exceeded.

As far as products are concerned, we feel we must not expect much more from them. We can only think that the multi-risk cover segment will increase its market share.

When do you think the livestock sector will be ready to take on livestock insurance? What developments do you foresee? What is the current situation with farm machinery insurance? Could this be a target for ARA?

Livestock insurance in Argentina will continue at current levels for the next few years. We do not foresee great demand or high supply from the private market.

There is very little insurance culture in that sector, plus a low level of herd fatalities, which makes expansion in this market difficult.

With regard to farm machinery risks, the market currently has different types of property risk cover that all insurance companies operating in that area already provide normally.

Can you explain to us the hail insurance experiment for fruit and olive growers in the province of Mendoza? Given the likely level of claims, around 50%, what changes can be expected in this formula with regard to producers? What do the principal vineyard and wine cellar owners think about it? Will there be similar initiatives in other provinces for which ARA will bid?

It is a question of insuring the vine, olive and fruit production of a whole province and therefore its producers, where the provincial government and insurance compa-



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nies know how to find a way to deal with a topic as complex as that of insuring the financial losses resulting from hail.

The province set up an active and passive programme to protect its producers:

Active protection by means of incentives to buy and fit anti-hail mesh and with preventing storms by attacking hail clouds with silver iodine, sown at altitude by aircraft contracted by the provincial government.

Passive protection consisted of developing

a system of agricultural insurance for all producers who are members of the RUT (Land Use Register) which the government set up in order to know exactly how production in Mendoza is distributed.

The funds from these three stages of the production sustainability programme developed by the government amounted to 30 million pesos, 12 million of which were intended for agricultural insurance.

The province issued an invitation to tender/auction which was won by a consortium consisting of La Segunda,

Sancor Seguros, San Cristóbal, MAPFRE and Triunfo.

The steering of the consortium was in the hands of La Segunda in the first year, that responsibility rotating each year between La Segunda and Sancor Seguros who have a majority holding in this operation with 58% of the risk.

In this first year, 117,000 hectares were registered in the Land Use Register and 11,000 fruit growers were insured, which meant ARS 64 million (EUR 18.30 million) of assets at risk.





2,000 claims were dealt with and ARS 4,1 million (EUR 1.17 million) worth of compensation paid to the affected producers one month before the date laid down in the policy conditions.

ARA is the company responsible for the logistics of the whole operation. In order to meet such a challenge it took on local labour (eight agricultural engineers) who worked in the local offices that the Provincial Contingencies Department has in each oasis into which the province is split as well as in the city of Mendoza, in order to support the 21 loss adjuster agricultural engineers who were also taken on by ARA to determine the losses suffered by each producer member taking part in the operation.

Ultimately, it has been a success for us to have managed to combine the official needs with the private insurance initiative and to be able to take forward this programme which we hope will be the first of other experiments we want to repeat in other Argentinean provinces, always with the watchword of carrying out programmes which are sustainable in time and which can withstand not only inclement weather but also changes in government.

We are currently in the process of organising the second year of the programme, and therefore the changes which will have to be made to the programme for the coming year have not yet been finalised.

Do commodities producers or producers of agricultural produce for export feature among ARA's objectives? If



the state subsidies part of the premium and the Emergencies Law is repealed, do you think that every producer will be entitled to a subsidised insurance premium?

We encourage programmes with government subsidies but we do not believe that the Emergencies Law has to disappear: both tools must be complementary since the state cannot privatise its obligations.

With regard to the obligation to join programmes that the government is developing, we believe in this concept insofar as it will compel insurance companies to accept 100% of the risks without any possibility of applying underwriting restrictions, since there are areas and productions which are difficult to insure and that is where the state must apply the obligation to insure. ■



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Combating hail in Mendoza, Argentina.

2004-2005 figures produced by the Minister of Economy of the government of Mendoza, Laura Montero

- ▶ The average annual cost of hail protection campaigns in Mendoza from 1999 to 2004, then carried out by a foreign company, was about EUR 5,000,000 or EUR 18.2 per affected hectare.
- ▶ Hail protection work carried out in Mendoza in 2004-2005 with aircraft and local technical control was estimated at about EUR 3,000,000, but finally came to EUR 1,300,000 or EUR 4.96 per affected hectare when management of resources was optimised.
- ▶ The remainder of the budget was used to capitalise the system, in other words to acquire telecommunication and radar equipment and services, various computer programmes and chemical products with which to conduct the fight.
- ▶ The Mendoza Ministry of the Economy has already set aside EUR 2,750,000 to continue the active fight against hail next season, 2005-2006, with its own aircraft.
- ▶ The hail protection insurance programme for vine and fruit tree owners will be continued as well as the granting of subsidised loans in order to install hail protection mesh.
- ▶ The extensive and innovative Mendoza experiment is supplemented by the scientific research being carried out using hail metres, sheets which are sensitive to hail impact which, together with an appropriate statistical and geographical analysis, can measure the effectiveness of the fight against hail.

agenda

COURSES ORGANISED BY MAPFRE RE (2006)

Course	Date	City	Country
First personal insurance symposium	19-21 March	Santiago de Chile	Chile

COURSES ORGANISED BY ITSEMAP Technological Services MAPFRE (2006)

Course	Date	City	Country
Safety in the transport of hazardous goods. The Safety Consultant.	21-23 March	Madrid	Spain
Fire safety regulations in industrial establishments (R.D. 2267/2004 of 3rd December)	4-5 April	Madrid	Spain
Safety in the transport of hazardous goods. The Safety Consultant.	4-6 April	Toledo	Spain
Practical fire fighting course.	6-7 April	Madrid	Spain
Tools and techniques for assessing environmental risks in industrial establishments.	19-20 April	Madrid	Spain



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