Minutes of the first meeting of the Partnership on risk management

12 dicembre 2013

Director General **Giuseppe Cacopardi** (Ministry of Agriculture, Food and Forestry (Mipaaf) - Department of Rural Development) introduced the topic (PPT available at www.reterurale\gestionedelrischio) by explaining in detail the risk management tools included in the new rural development Regulation for the period 2014-2020. In particular, the Director outlined the purpose of the three main measures of the toolkit (insurance, mutual funds and income stabilisation tool), which are aimed at supporting effective risk management in a context in which farmers are exposed to economic and environmental risks as a result of climate change and increasing price volatility. The Director noted that Italy has a long-term experience of insurance support (Decree no. 102/2004 – "National Solidarity Fund"), whose functioning and results will be assessed by the ex-ante evaluator, INEA, along with other contextual factors. The Director has finally explained that, following the agreement in the State-Regions Conference, the financial resources allocated to the risk management toolkit will actually be activated only in 2015 as regards insurance, as year 2014 will still be covered in the framework of the first pillar (in accordance with Article 68 of Council Regulation (EU) No 73/2009). For this reason, the "Insurance Plan 2014" as recently approved by the State-Regions Conference, is also being presented; this will act as a bridge between the new and the current system.

Mr. **Mauro Serra Bellini** (Acting Head of DISR VI - Crisis Management in Agriculture, Mipaaf) provided insights into the National Solidarity Fund (FSN). Functioning, strengths and weaknesses of the current system have been presented in relation to the ex-ante and ex-post interventions, with particular emphasis on the innovative aspects of the agricultural Insurance Plan 2014. The plan contains the following main elements: abandonment of contributions to premiums for monorisk insurance; higher aid intensities for the subscription of insurance contracts that provide wider risk coverage; differentiation between catastrophic and systemic events; aggregation among homogeneous events; the overcoming of the centrality of hail risk (the full presentation is available at www.reterurale\gestionedelrischio).

Ms. **Alessandra Pesce** (Head of Structural and Macro-economic Research, INEA) examined the results of the context analysis and the needs that emerged during the first phase of the ex-ante evaluation that INEA is conducting. After explaining the working method, Pesce focused on the macro and micro indicators, such as the evolution of agricultural income in Italy, the main economic aggregates, climate variability, etc. She then proceeded to the evaluation of types of businesses whose income is particularly at risk, and provided an overview of existing public policies in the field of risk management, especially with regard to subsidized insurance. Also based on the outcome of interviews and surveys, Pesce concluded with some reflections, emphasizing the needs to adopt a long-term perspective and to pay attention to factors such as regional disparities and the potential effects of risk management measures on farm size and single sectors. Moreover, she considered important establishing a direct link with the regional rural development programmes, integrating the tools with each other effectively (risk management, income stabilization policies, supply chain policies) and spreading the culture of risk management: this will also bring about positive externalities when it comes to aggregating the supply and accessing credit (the full presentation is available at www.reterurale\gestionedelrischio).

Concluding the first session of the meeting, Director Cacopardi invited stakeholders to provide inputs to the debate by posting ideas and suggestions to the email address gestionedelrischio@mpaaf.gov.it. The debate was then opened.

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Several participants noted the good functioning of the subsidized insurance system in Italy, based on a strong partnership between the Ministry, insurance companies and consortia, and how this represents a best practice model in Europe (Ania, Confagricoltura).

Region Campania highlighted the importance of promoting the diffusion of education and information in the field of risk management, together with the possibility to somehow reward insured farmers, or those participating in a mutual fund, in the context of other rural development measures, e.g. investments. It was also noted that insurance practices can lead to positive effects in collateral areas such as in the banking sector. Experience has shown, in fact, that a greater solvency has improved companies' rating, thus facilitated access to credit (the Guarantee Fund issued by Ismea was mentioned as an example in this respect); in this perspective, it would be useful to involve banks in the debate on risk management. Along the same lines , Confagricoltura reiterated that, especially in view of a national programme, it is essential to invest to effectively disseminate the culture of risk management, and of the related tools made available by public policy.

Reaffirming the satisfaction of the affiliates about the system of subsidized insurance, Italia Ortofrutta considers mutual funds a potentially valid instrument, although the calculation of income as envisaged in the Regulation could prove complicated. In addition, the mechanisms of the second pillar could lead to longer premium settlements in comparison to the first pillar. Similarly, it was remarked that a mechanism of ex post payments, as envisaged by the new rural development Regulation, could result in delays in compensation for the damage with respect to the start of the next crop cycle. Finally, Italia Ortofrutta explored the possibility for consortia to be final beneficiaries of insurance support.

Condifesa Trento asked whether the insurance support and mutual funds shall be alternative, whether it would be possible to insure individual crops within the same holding and if there was the possibility to use indexes to identify costs of production. It was pointed out that, in Trento, most companies are micro-enterprises (<2ha), although they are often organized into cooperatives.

In relation to mutual funds, Legacoop remarked that the initial capital has to be large enough to provide farmers with the guarantee that, in case of drop of income, it would be sufficient to compensate for the losses incurred. A revenue mutual fund in the testing phase revealed additional needs in relation to structuring and implementation, such as a multi-sectorial approach to counter the systemic nature of catastrophic events and a timely communication of benchmarks by Ismea. In addition, it was noted that any compensation received in previous years by those farmers who participated in experimental mutual funds should not be taken into account for the purpose of income calculation.

Unaproa expressed interest in mutual funds, where organisations could play a central role of managers and catalysts, and recognised that the establishment of parallel regional and national mutual funds could be a feasible option to implement the measure.

The expected increase in the number of holdings which get an insurance should not undermine the current insurance system, said CIA: therefore, it is necessary a thorough analysis of the sector and of the reasons why such geographical concentration has occurred in Italy. Given the context, it is desirable to keep separate the two main domains at stake, the one focused on the insurance market and the goal of increasing the number of the insured farms, the other focused on the start-up of mutual funds, whose mechanisms should be simple and efficient.

The priority for farmers is the reduction of insurance premiums, highlighted Coldiretti. Hence the preference for a national programme for risk management, which would ensure a consistent critical mass and allow exploiting the synergies between the different tools.

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Ms. **Graziella Romito** (Head of DISR II - Rural Development Programming, Mipaaf) clarified that the beneficiaries of the risk managers measures must be active farmers as defined in the first pillar. Consortia and other types of organisations could nonetheless play a role in terms of management. She also explained that special attention will be given to make the tools efficient. This will be done, for example, by simplifying the administrative procedures of the IT system on the basis of the model of agri-environmental measures, for which payments are carried out in a more timely manner than it is the case for other measures. In response to clarifications regarding the possible differentiation of the levels of support, Romito added that modulation options are being assessed concerning aid intensity rates, type of insurance, accompanying measures such as knowledge transfer and information, type of beneficiary, e.g. preferential rates for SMEs, or type of area. She also reminded that, in the second pillar, the annual financial allocations and targets can be adjusted in a flexible manner.

In relation to the financial resources that will be devoted to risk management measures, Director Cacopardi recalled that the total EAFRD budget allocated to Italy for the period 2014-2020 amounts to around EUR 10.4 billion, that is around EUR 21 billion taking into account the co- financing share. It was also stressed that the negotiations on financial allocations to individual regions and to any national programme were still in progress. The current FSN envelope and the funds available under Article 68 of Council Regulation (EU) No 73/2009 will be taken as a reference for the initial allocation.