



Hacia una gestión  
integral de riesgos

## Insurance as one of the pillars of integrated risk management in agriculture sector<sup>1</sup>

Agriculture<sup>2</sup> is one of Chile's the most dynamic sectors from 2000 to 2016 the value of exports has almost tripled, surpassing US \$ 15 billion. The sector grew 9.8% GDP by 2015 and 4.5% for 2016. This means that we are facing a competitive and modern sector, which uses for its processes the latest technologies in irrigation and post-harvest, logistics and cold chain, which is why we are recognized abroad, as safe and healthy high quality food producers: wine, grapes, walnuts, pears, apples, kiwis, blueberries, pork, etc.

However, when we consulted most farmers, how they do to manage the various risks to which their activity is exposed, whether commercial, by the variation in exchange rates, or by adverse climatic events (extemporaneous or excessive rain, drought, hail, frost, etc.), just to mention some of the risks they are exposed to in their field of activity, it seems that we are facing a gambler instead of an entrepreneur, who regardless of their size, invests hoping that this season it will not rain close to harvest time, or that it will not freeze in the spring, or that there is a drought to provide fodder, or that the exchange rate is maintained or even increased.

There are exceptions, in order to reduce exposure to certain recurring climatic risks, some producers have invested in risk mitigation, such as roofs to help in case of extemporaneous rain; sprinklers or propellers which are to be used to avoid frost, but what about the extraordinary risks or infrequent risks?, some examples I can cite, are in recent memory, the polar frost in 2013 in the central valley, the mudslide in Atacama in 2015 or the fire storm this past summer, which burned more than 400 000 hectares, which strongly affected the finances of affected producers, in most of these three cases producers suffered total or very significant losses which have threatened their chances to remain in the sector.

All these natural phenomena that particularly affect the agricultural sector are due, at least in part, to the variability or climate change we are experiencing and result in adverse events, each one more extreme and more frequent. That is why we need to adopt a holistic approach and continuous management, which translates into the need for producers to take preventive measures on their premises for frequent and limited risks, but it also requires a risk management strategy, allowing to transfer the risk to third parties, to address the risks of intermediate and limited range as well as catastrophic, extraordinary and high level of damage and where the state plays an important role, especially in dealing with more vulnerable producers.

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<sup>2</sup> Agricultural activity includes: agriculture, livestock and forestry



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From the perspective of the state, and particularly from the Ministry of Agriculture, we have been working to address these risks with a policy aimed towards Integrated Risk Management (IRM). Thus, since December 2015 there is a new sector institution that takes care of this issue and seeks to increase the resilience of producers through various tools to better manage the various risks to which agricultural and forestry activity is exposed. Within these tools, we are putting it emphasis on information, monitoring and alerts, such as: the *agro climatic observatory*; the site of the *national agro climatic network*, Agromet; spatial data Infrastructure of the Ministry of Agriculture and the agro-climatic reports, all free tools that can be found on the website: [dgir.minagri.gob.cl](http://dgir.minagri.gob.cl).

The Ministry of Agriculture, through Agroseguros ([www.agroseguros.gob.cl](http://www.agroseguros.gob.cl)) subsidizes up to 60% of the premium or cost of existing insurance to protect the agricultural sector with a focus on commercial producers.

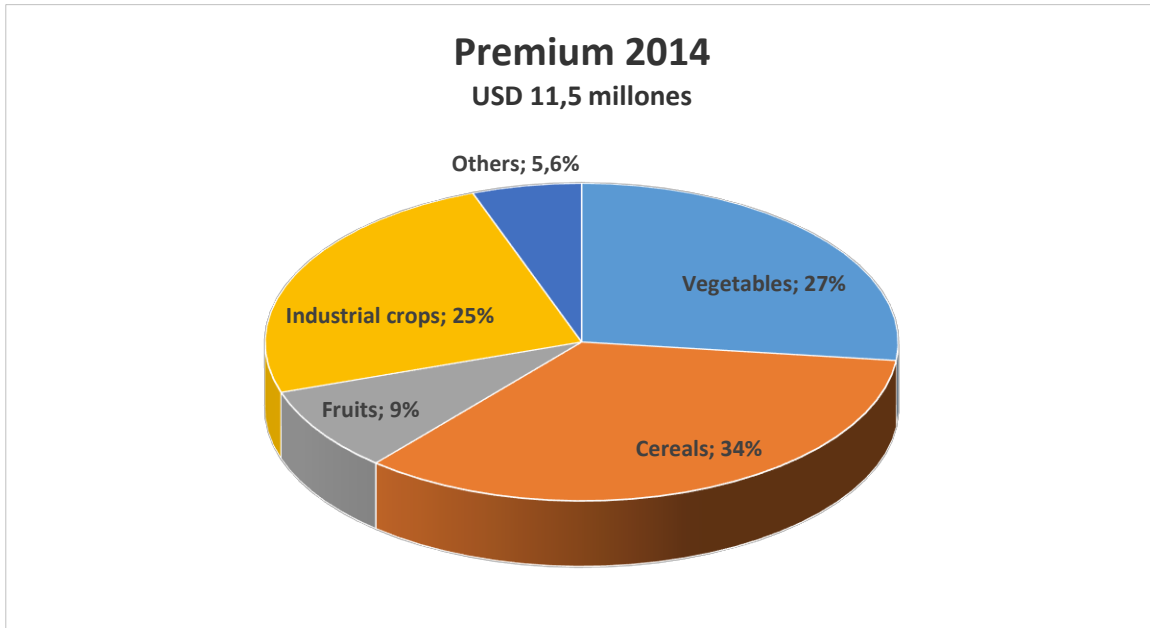
Subsistence producers, which account for 56% of farms and represent only 2.5% of agricultural GDP, traditionally receive compensatory bonds after a catastrophe. Now, the first catastrophic insurance in Chile (innominate and parametric insurance) is being tendered, which will allow the stabilization of the Ministry's budget and will help avoid reallocation of funds. During the last ten years, the Ministry has spent an average of US \$ 11 million to attend emergencies, there have been years when we spent US \$ 1.5 million and others almost US \$ 50.

It should be noted that in 2016 the insured amount exceeded US \$ 356 million, 37% more than just two years ago. Meanwhile, the premium increased from US \$ 11.5 million to US \$ 13.9, representing a growth of 24.5%. This has resulted in a substantial improvement in the efficiency of the use of public resources, since now for every \$ 1 put by the State, via Agroseguros, they secure \$ 54, while the year 2104 was \$ 44.

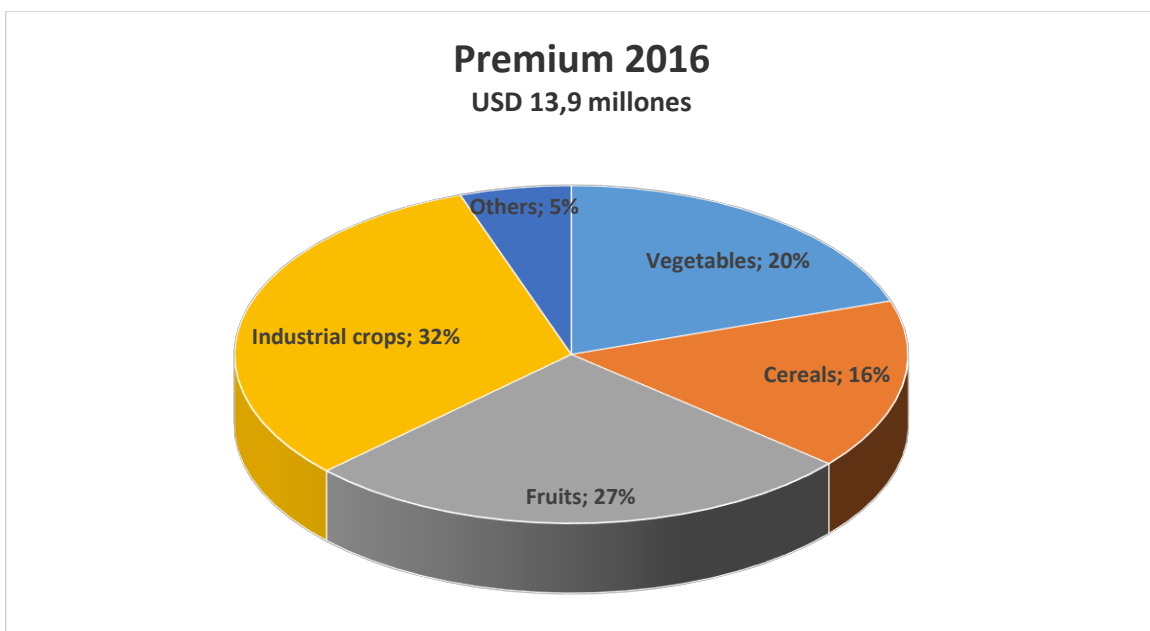
However, despite the significant expansion in commercial insurance coverage in recent years, much remains to be done. We are talking about only 12.5% of the farms, which represent 7.4% of agricultural GDP, with about 80,000 hectares. As a result, the work with producers is focused on adopting integrated risk management strategies, which will allow for a more competitive and resilient sector, since with better information, investing in mitigation and transferring the Risk for less frequent but intense events that damage production and/or destroy investment, can substantially reduce the risks faced by the agricultural sector, thus allowing to reduce the discount rate of any project, thereby increasing investment and allowing the farmer access to greater and better financing conditions in the banking sector, because in addition to what has already been mentioned, the insurance can be used as collateral and be endorsed to the credit grantor.

As a final reflection, it would be good to think, to promote IRM, both at the level of government and producers, for example: making it compulsory to have a climate insurance to develop productive activity, which would also reduce substantially the rates of the same; or when the risk assessments of the different countries are carried out, to consider in their

evaluation the existence of catastrophic insurance and/or national and sectoral institutions on Disaster Risk Management.



**Source:** Own elaboration, based on SISA - Agroseguros.



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