



Building an efficient EU risk management system

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Towards an EU system for NAT CAT risk management

Pamela Schuermans, Principal Expert on Insurance Policy, European Insurance and Occupational Pensions Authority (EIOPA)

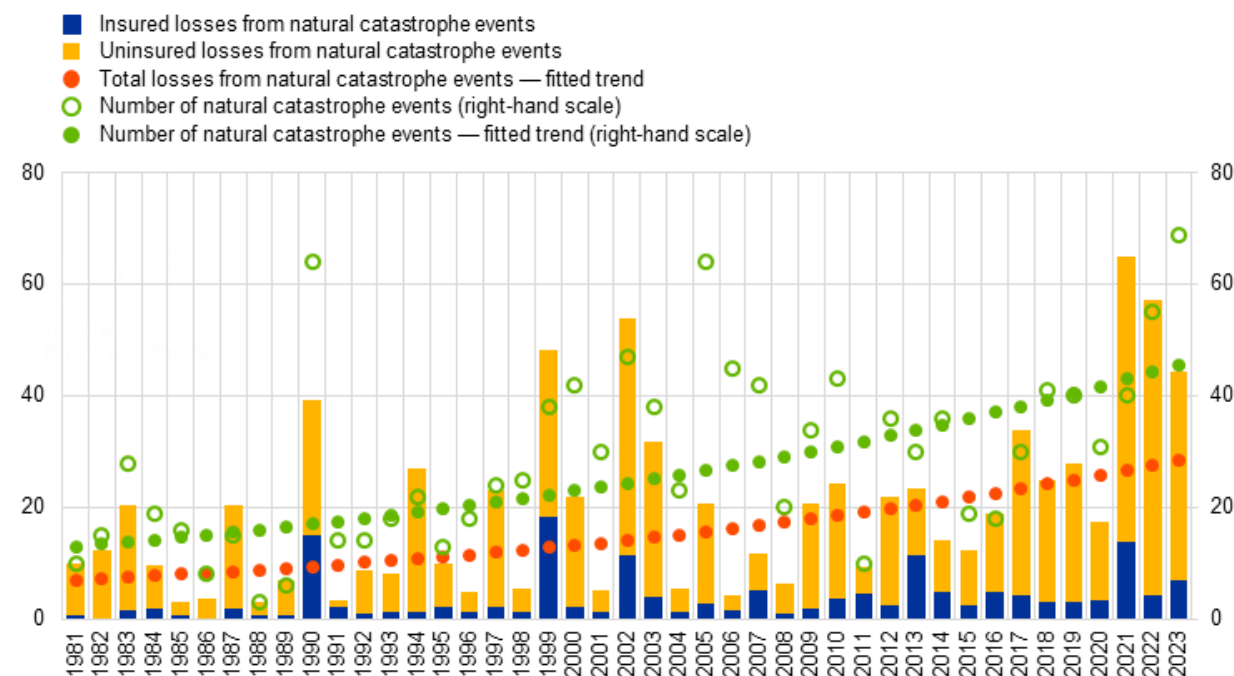
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THE GROWING CHALLENGE OF INSURING NATURAL CATASTROPHES IN EUROPE

- ✓ Europe is the fastest warming continent in the world. **Extreme heat, drought, wildfires, and flooding, as experienced in recent years, are expected to worsen in Europe** even under optimistic global warming scenarios.
- ✓ In the past, only ~25% of the losses were insured against natural catastrophes (NatCat) in Europe. If no measures are taken, the **insurance protection gap will most likely continue to increase** considering the trends for Nat Cat.
- ✓ Low insurance coverage can **amplify the economic costs of disasters**.
- ✓ EIOPA's 2023-2026 **strategy highlights the need to raise awareness** and contribute to finding solutions to address the insurance protection gaps.
- ✓ This is aligned with COM's climate change adaptation strategy and COM's sustainable finance strategy.

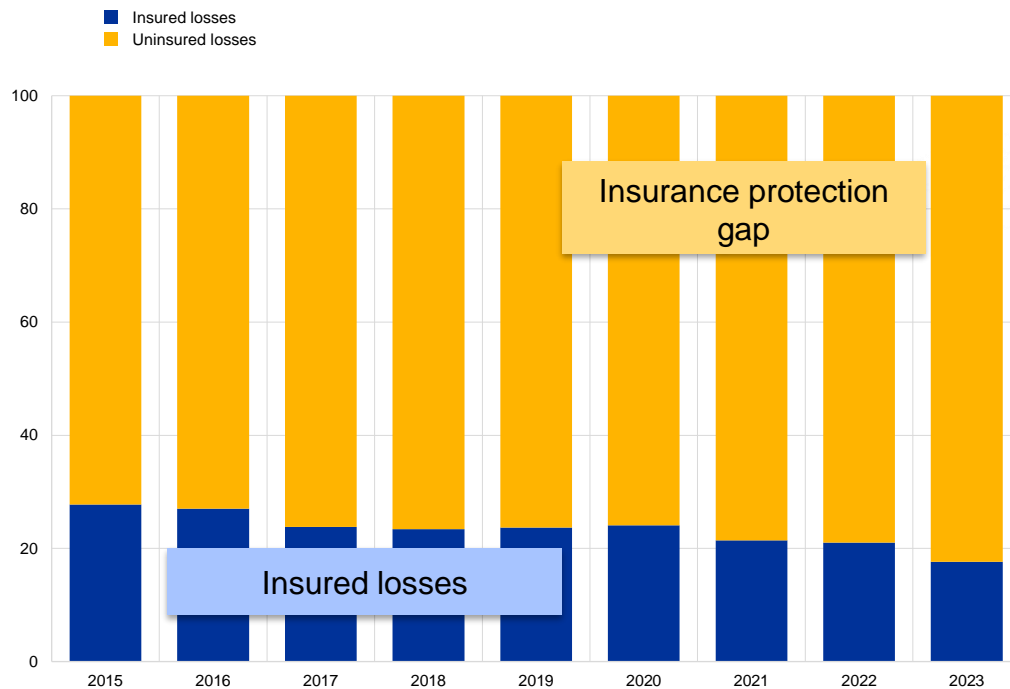
Rising natural catastrophe events and economic losses



Sources: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#) and EM-DAT.

The insurance protection gap reveals a market failure

The share of insured and uninsured losses in total losses caused by natural catastrophes in the EU
(percentage, 10-years moving average)



Sources: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#).

→ Individual insurers and consumers do not factor in broader economic benefits of insurance

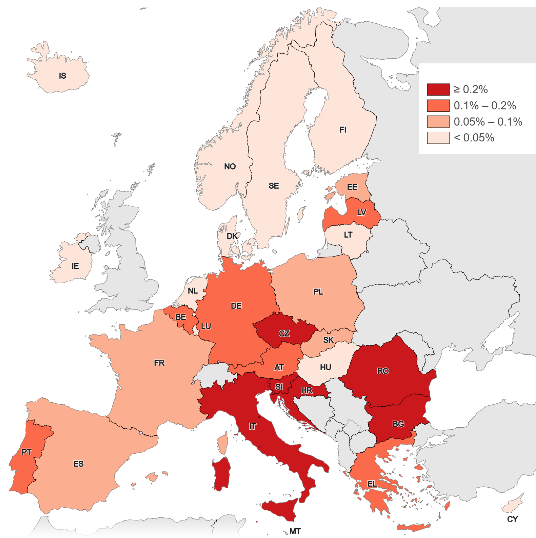
- Faster recovery after disasters
- Less burden on fiscal budgets
- Reduced costs through better risk management

→ **Moral hazard:** expectation that governments cover losses

→ Rising risks lead to increasing public involvement

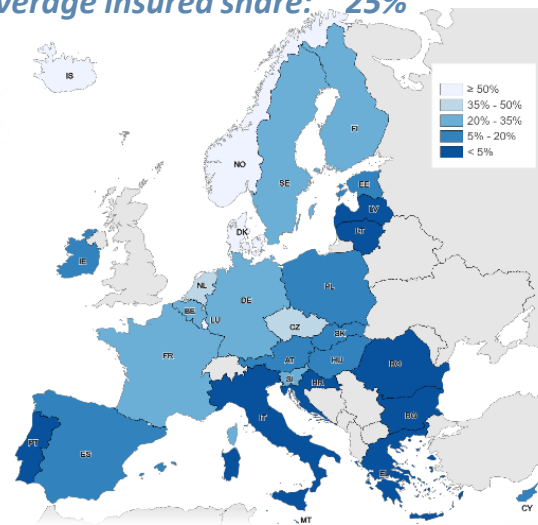
National (re)insurance schemes help improve insurance coverage

Average annual economic losses from five natural perils scaled by GDP across EEA countries (1980-2023; percentages)



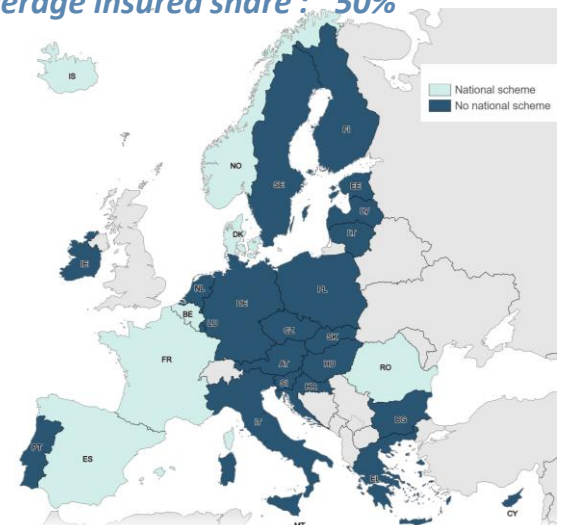
Share of insured economic losses related to natural catastrophes across EEA countries (1980-2023; percentages)

Average insured share: ~ 25%



EEA countries with a national insurance scheme for natural catastrophes (schemes in place as of 2024)

Average insured share : ~50%



Notes: Left panel: The five natural perils are coastal floods, earthquakes, floods, wildfires and windstorms.

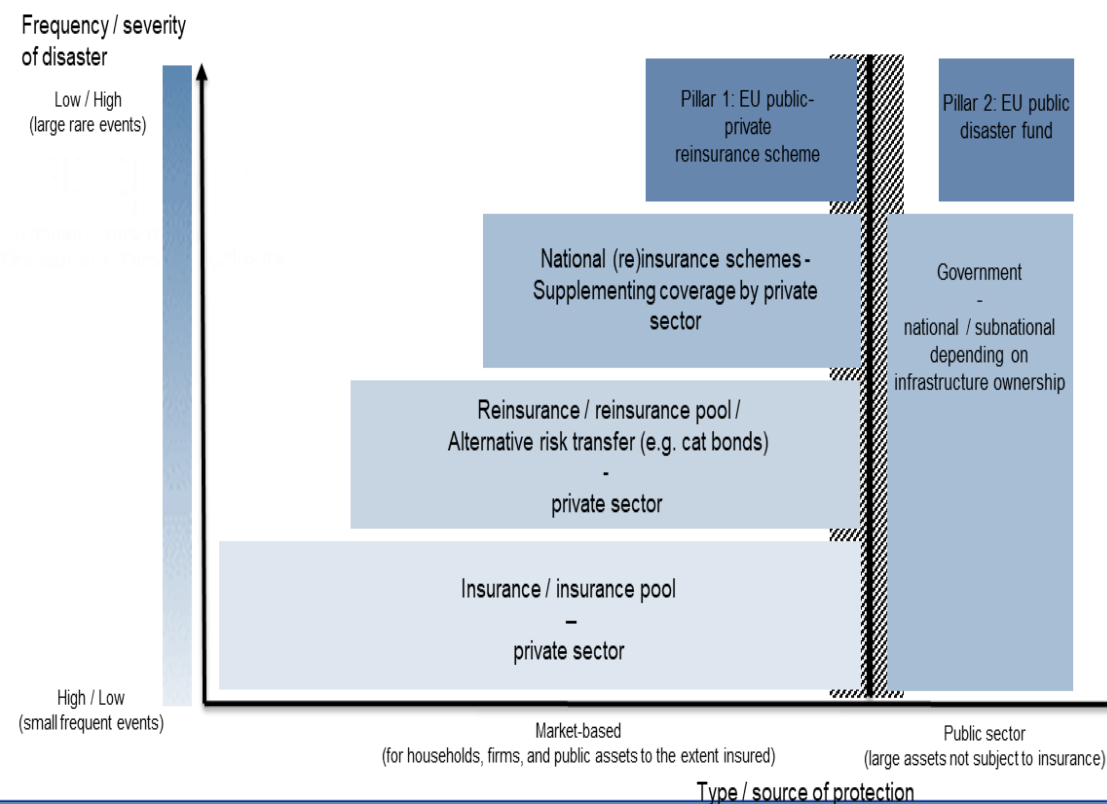
Sources: Left panel: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#) and [Eurostat](#). Middle panel: [EIOPA dashboard on insurance protection gap for natural catastrophes](#), European Environment Agency CATDAT; Right panel: EIOPA and OECD (2021).

Possible EU-level approach

Objectives:

- Clarify private and public responsibilities and ensures complementarity of actions taken
- Encourage ex ante risk mitigation
- Ensure efficient use of private and public sector funds for natural disaster payouts
 - Reduce moral hazard
 - Improve insurance coverage
 - Limit public costs after natural catastrophes

Two-pillars aimed at (i) pooling private risks to increase insurance coverage and (ii) strengthening EU public disaster risk management, supplementing national and EU-level initiatives



Key design features of a possible EU-level approach

Pillar 1

1. Broad scope (multiple perils, assets, geography)
 - greater risk pooling & diversification opportunities
2. Public-private reinsurance scheme
 - complements private (re)insurers and national schemes
3. Risk-based premiums
 - no cross-subsidisation, while balancing risk mitigation and affordability
4. Financing through premiums and capital markets
 - not necessarily dependent on public financing
5. Initiatives supporting risk mitigation and adaptation
 - open-source tools, models, data to enhance risk assessment

Pillar 2

1. Builds on EU's current approach for post-disaster relief
 - currently EU Solidarity Fund (pure solidarity, limited size)
2. Risk-adjusted contributions
 - incentivise risk mitigation, while allowing for solidarity
 - pre-agreed national adaptation and resilience plans
3. Mandatory for all EU Member States
 - to maximise effectiveness in terms of risk sharing
4. For reconstruction of eligible public assets
 - assets not covered by private insurance
 - investment in resilient infrastructure
5. Sufficient "skin in the game"
 - payouts meaningful but not above a certain share of national losses

Policy and legal considerations

Proposal acknowledges political and legal realities:

- 1) It requires a [decision at political level](#) with involvement of all relevant decision-makers, notably Member States.
- 2) It is designed to [supplement and reinforce](#) existing national and EU initiatives.
- 3) It would be in compliance with [Treaty on the Functioning of the European Union](#).



Thank you!

<https://www.eiopa.europa.eu>



The Spanish agricultural insurance system: Characteristics, achievements and challenges

Miguel Pérez Cimas, Director of the State
Agency for Agricultural Insurance, Ministry of
Agriculture, Fisheries and Food, Spain

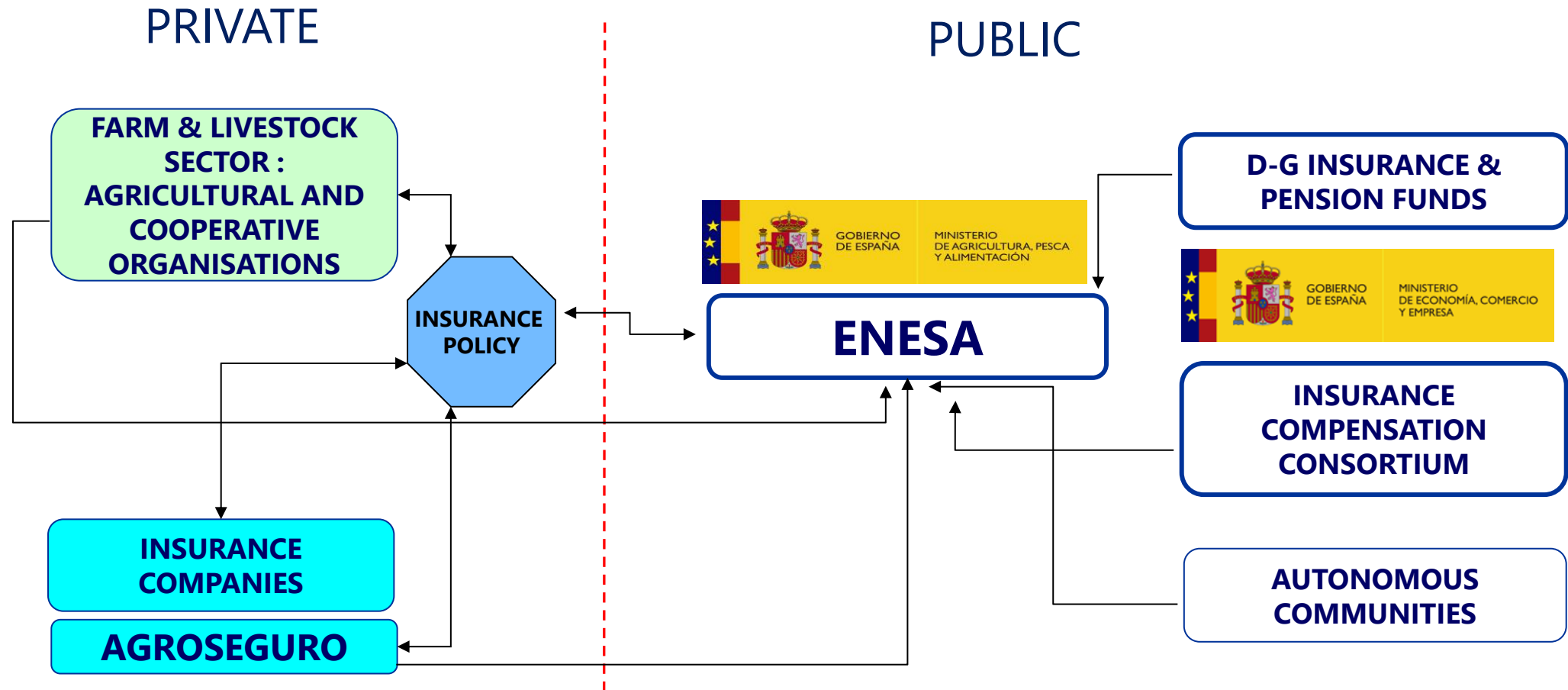
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1. MAIN CHARACTERISTICS

System structure: private - public partnership

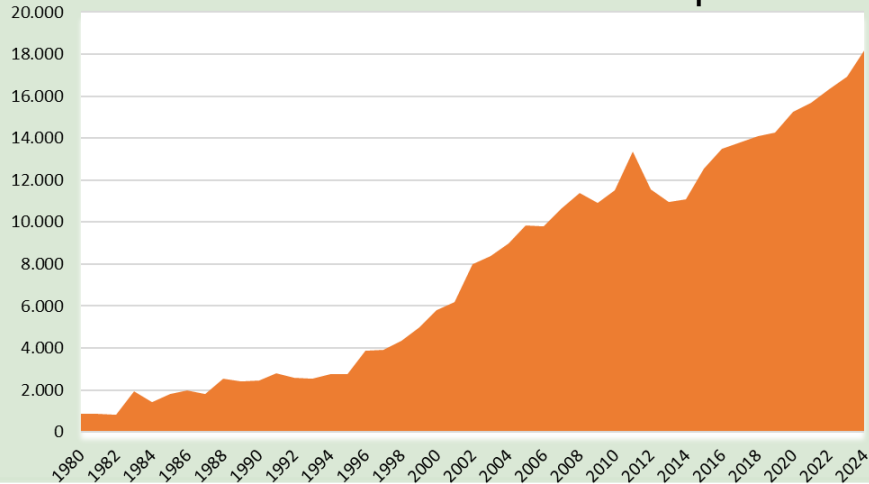




2. ACHIEVEMENTS OVER MORE THAN FOUR DECADES OF DEVELOPMENT

Currently, the Spanish Agricultural Insurance System covers most of the agricultural and livestock productions (45 different lines).

- 6 millions ha.
- 440 millions animals
- > 18.000 million euros insured capital.



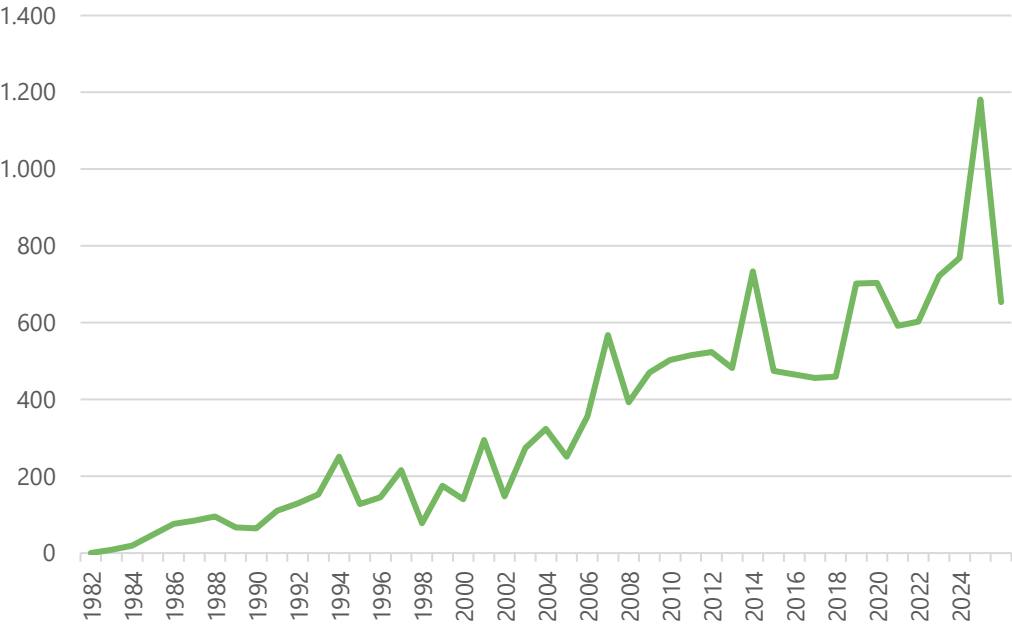
The level of implantation is variable. These are the most popular lines (% insured/insurable)

- Bananas/Tomate in Canary Islands (100%)
- Persimmon (82%)
- Garlic (80%)
- Fruit trees (75%)
- Arable crops (60%)
- Wine grapes (56%)
- Egg poultry (77%)
- Meat poultry (48%)
- Beef cattle for breeding and production (31%)

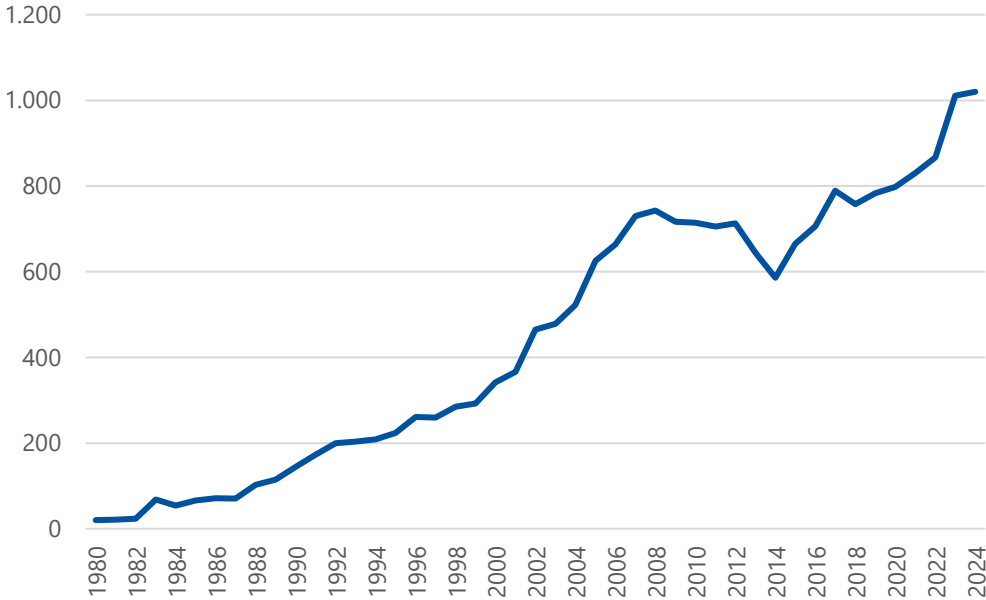


3. CURRENT SITUATION

INDEMNITIES (M€) 1980-2024

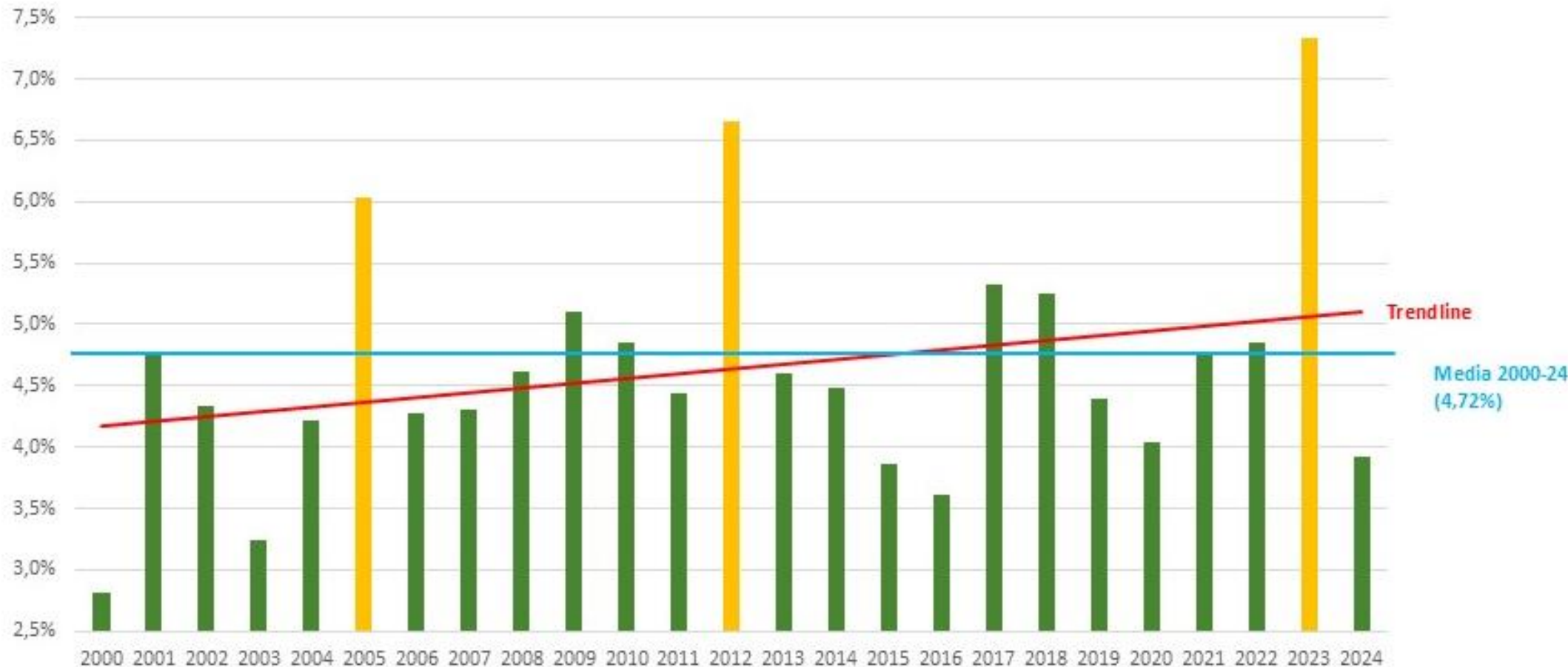


TOTAL PREMIUM (M€) 1980 -2024





4. EVOLUTION OF THE MEDIA RATIO "CLAIMS/INSURED CAPITAL"



FUTURE OUTLOOK AND CHALLENGES:

Ensuring the sustainability of the System



AGRICULTURAL activity

- Climate Change is increasing the need for robust risk management tools.
- Agricultural insurance plays a key role in safeguarding farm viability and resilience.

INSURANCE systems

- It is essential to maintain a sustainable and operational insurance system that provides adequate coverage at affordable costs for the farmers.
- The EU presents a highly diverse landscape of agricultural insurance schemes, which requires tailored approaches to ensure cohesion and effectiveness.

EXCEPTIONAL measures

- While the system remains solvent in most years, catastrophic events generate severe financial stress and test its resilience.
- Exceptional public support may be required to reinforce the system during such events.
- This idea is aligned with recommendations 5 and 6 of the fi-compass study.

FUTURE OUTLOOK AND CHALLENGES:

Ensuring the sustainability of the System



A Common Agricultural Insurance Fund

- A common fund, based on jointly agreed parameters, could act as a financial backstop to national systems in cases of extreme and exceptional loss events.
- The fund would cover claims exceeding a pre-defined threshold, promoting financial stability in the agricultural insurance systems.



Advantages of this Approach **Compared to Ex Post Emergency Aid:**

- Compensation is in line with actual losses and assessed by qualified professionals.
- More efficient payment processes.
- Reduces the strain on national insurance systems in years of catastrophic losses, thereby enhancing long-term sustainability.
- Contributes to more stable premiums, increased uptake of insurance products, better-protected farms, and a reduced dependency on ex post emergency aids.



THANKS FOR YOUR ATTENTION

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AIAG – EU agricultural insurance market



- **AIAG**

- Promotes since 1951 worldwide exchange between agricultural insurers and reinsurers (crop and livestock)
- 110 members from 30 countries and 5 continents
- Organizes congresses and loss adjustment seminars as well as a livestock working group

- **EU agricultural crop and livestock insurance market**

- **Estimated Premium Volume**
> 4'000 M. EUR
- **Market Participants**
Multiline insurers and specialized mutual insurance companies operate in the sector.
- **Support Schemes**
Agricultural insurance support schemes vary significantly among EU Member States.
Need for bottom-up policymaking (building on national systems) for future changes.
- **Market Penetration**
The proportion of insured farms and farmland (insurance penetration) differs greatly between countries

Climate warming – Adaptation, prevention – Tools, digitalization



- **Climate warming**

- Causes more frequent, intense, prolonged and widespread extreme weather events
- Increases crop yields and farmers income volatility
- Recognized as a major challenge and actively addressed by agricultural insurers

- **Examples of adaptation and prevention**

- Improved water management, irrigation
- Hail nets and frost protection
- Soil conservation
- Crop diversification
- Use of climate-resilient crops

- **Analytical tools and geolocated data from satellites, weather radars and ground stations enable**

- More accurate risks assessment, better rate calculation
- Support for loss adjusters, improved payout determination and fraud detection
- Monitoring of appropriate soil conditions, sowing and harvesting dates

- **How Digitalisation helps**

- Reduces costs and increases processing efficiency
- Data entry should occur only once; standardized formats are essential
- *Goal:* Seamless data exchange between farmers, insurers, and the state
- *Goal:* Full digitalization of insurance policies, loss notifications, claims settlements, state subsidy management and processing

Considerations on moral hazard



- **Moral hazard in crop insurance**

- **Definition**

Moral hazard in crop insurance refers to the risk that farmers may alter their behavior after obtaining insurance in ways that increase the likelihood or severity of a loss

- **Examples include**

Reduced care or attention to crops, planting riskier or non-location-adapted crops, delayed preventive or corrective actions

- **Why it matters**

Moral hazard has always been a critical concern for agricultural insurers

Managing it effectively is essential for ensuring the long-term acceptance, financial stability, and sustainability of agricultural insurance systems

- **How agricultural insurers address moral hazard**

- Field loss adjustment, inspections and audits
 - Use of small-scale meteorological data for measuring damage reporting thresholds
 - Use of satellite data and remote sensing to monitor farming practices and detect fraud
 - Use of delivery notes or official harvest data
 - Deductibles and co-payments to ensure shared risk
 - Premium differentiation based on past behavior, yields and risk profile
 - No-claims discount systems based on damage history
 - Incentives for risk-reducing practices (e.g. use of hail nets, irrigation, drought-tolerant seeds)

Takeaway statements and considerations



- **Clear increase in extreme weather events – Agriculture heavily affected**
 - Well-developed risk management system is essential
 - Agricultural insurers are an important part of this system
 - **Public-private partnership (PPP) as part of a premium-subsidized crop and livestock insurance system – Best answer for actual and future challenges**
 - Farmer takes a share of the premium and the risk
 - Farmer has a legal right to compensation – independent of the political situation
 - Objective and fast loss assessment, payment
 - Premium subsidies are supporting farmers – participation in risk management is increasing
 - Predictable budget for the state
- Reminder: Clarity, transparency, trust and continuity are key to the success and acceptance of agricultural insurance PPP schemes.

Takeaway statements and considerations (2)



- **Global trend towards higher crop insurance subsidies**

Global Agricultural Insurance 2007-2024e (M. EUR)

2007	Country	Premium	Share of global premium	Premium subsidy	2024e	Country	Premium	Share of global premium	Premium subsidy
	USA	7,600	56%	45%		China	21,300	37%	80%
	Japan	990	7%	49%		USA	18,500	32%	65%
	Canada	980	7%	50%		India	4,700	8%	85%
	Spain	700	5%	72%		Canada	2,500	4%	60%
	China	610	4%	41%		Japan	1,150	2%	50%
	Italy	340	2%	73%		Brazil	1,100	2%	40%
	Russia	280	2%	50%		Spain	1,050	2%	40%
	France	220	2%	61%		France	850	1%	70%
	Mexico	130	1%	44%		Italy	800	1%	70%
	South Korea	80	1%	37%		South Korea	700	1%	80%
	Top-10-Countries	11,930	87%	48%		Top-10-Countries	52,650	90%	72%
	Premium-Worldwide	13,660	100%	44%		Premium-Worldwide	58,200	100%	n.a.

- **Already 130 countries with agricultural risk management** (2007: 64 countries)
- **Agricultural insurance premium more than tripled since 2007**
- **Expansion of premium subsidy** (top 10 countries Ø 2024e: 72%, 2007: 48%)



Thank you!

Contact: pascal.forrer@hagel.ch



Thank you!

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