Focus Area 2 - Insurance and use of mutual funds

Reducing farm income vulnerability by enhancing participation in risk management (RM) tools through lower transaction costs

Current Risk Management Tools

Farmers can manage multiple risks using insurance, mutual funds, and income stabilisation tools to protect against income vulnerability.

Transaction Costs

High transaction costs limit accessibility to these risk management tools, particularly disadvantaging small farmers who need protection the most.

Policy Support Solutions

The Common Agricultural Policy (CAP) should provide financial support, simplify procedures, and align rules across Member States to ensure equitable implementation.

This proposal aims to reduce transaction costs associated with RM tools with the aim of making them more accessible and affordable, especially for small farmers, who face multiple risks

Addressing CAP Bureaucracy Barriers

The placement of risk management support within the CAP's second pillar has created significant barriers for farmers. This structure makes it costly for individual farmers to access support, creating uncertainty about support levels and causing delays in assistance delivery.

Move to First Pillar

Relocate RM support from the second to the first pillar of the CAP, though this approach faces acknowledged implementation challenges (Currently coherent only with sectorial interventions).

Guarantee Support Levels

Ensure consistent support in policy planning by applying cap in participation instead on the level of support under budget constraints (on Member State responsibility)

Direct Support to Organized Farmers

Enable farmer organizations (Producer Organizations, Consortia) to receive support directly, reducing individual application burdens (currently out of the CAP rules).

Making Risk Management Accessible for Small Farmers

[Economic] Small farmers face disproportionate challenges in accessing risk management tools: when insured values or risk levels are low, administrative expenses—including marketing, contracting, delivery, and damage assessment—consume an excessive portion of insurance premiums.

This reduces both the profitability for insurance brokers and the affordability for small-scale farmers, effectively excluding an important segment of the agricultural community from vital risk protection mechanisms.

The Problem

Administrative costs represent a disproportionately high percentage of insurance premiums for small farms, making risk management tools financially inaccessible and commercially unattractive.

Solution 1: Cost Transparency

Require **transparency in how insurance costs are structured**, clearly separating administrative expenses from risk-related costs to identify inefficiencies.

Solution 2: Tiered Support

Implement **differentiated support levels**

- higher support (with caps) for administrative costs
- lower support for risk-related expenses—to balance affordability.

Enhancing Mutual Fund Development and Digitalisation

Many farmers **lack knowledge about establishing mutual funds**, which could provide cost-effective risk management alternatives to un-insurable risks.

Current **successful experiences demonstrate that partnerships can significantly reduce transaction costs** and improve operational efficiency in mutual fund implementation.

Successful Mutual Fund Partnerships

- **Collaboration with insurers for damage assessment**
- **Partnerships with Producer Organizations and Defense Consortiums** for member engagement data management

These partnerships have demonstrated effectiveness in reducing transaction costs while improving service delivery.

Digitalisation Opportunities

Though not addressed in the current framework, digital technologies offer significant potential for transforming agricultural risk management:

- Automated data collection and analysis
- Streamlined application processes
- Improved risk assessment through data integration
- Enhanced accessibility for remote and small-scale farmers