



The role of public policy in risk management: The case of the Hungarian Risk Management System

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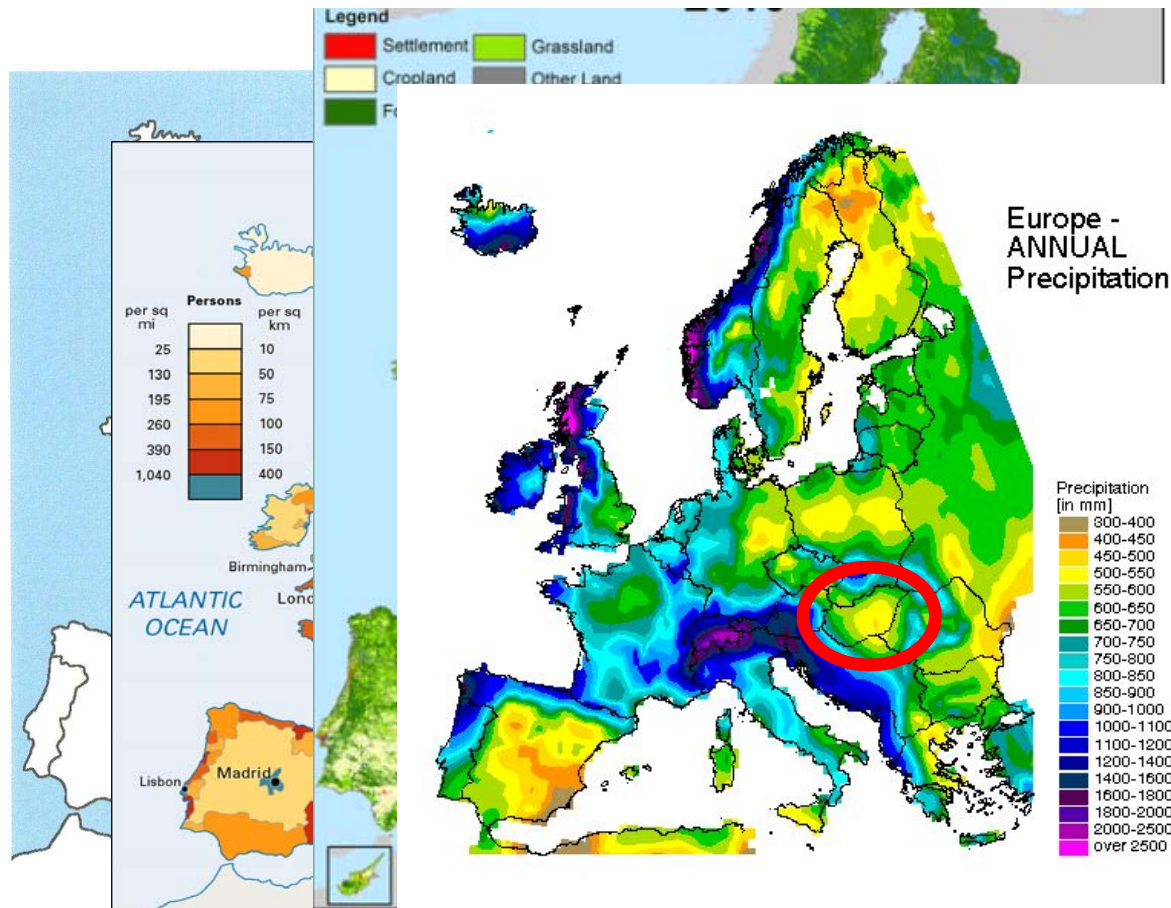
„Risk in the food economy – theory and practice”

Jachranka, 23th to 25th November 2016

Outline of the presentation

- 1. Grounds of high risk exposure in Hungary
- 2. Evolution of risk management tools – an overview
- 3. Management of crop production risks – the MKR
- 4. Operation of MKR between 2012 and 2015
- 5. Future plans developing risk management tools in MKR

Hungary – why so important to tackle risks?

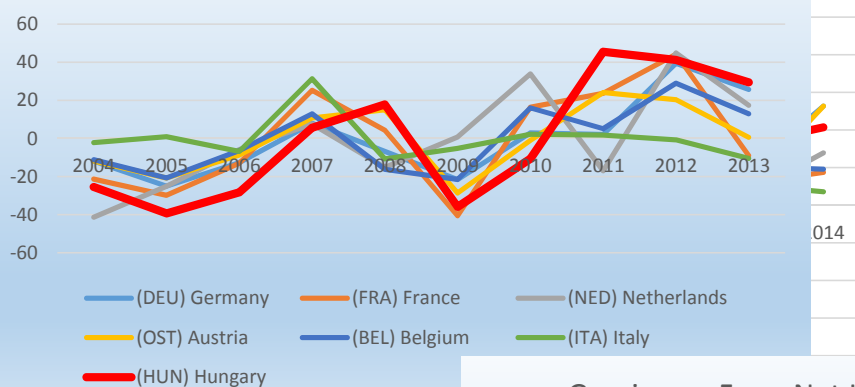


- Landlocked position
- Far from markets
- High cropland ratio – great crop production potential
- Continental/pannonian climate = high crop yield volatility

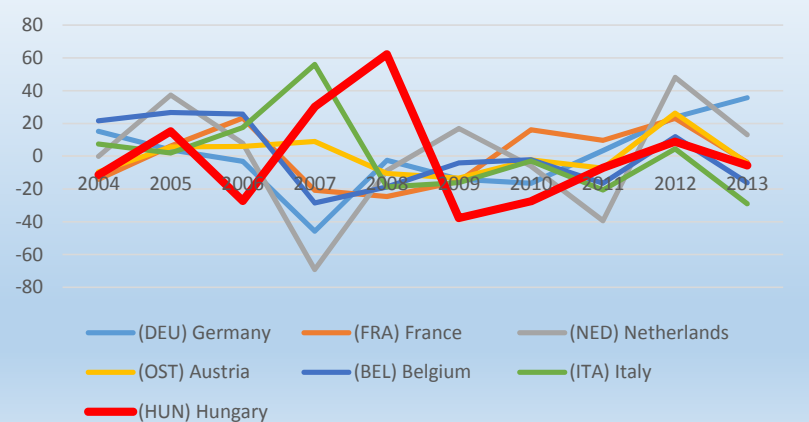
Hungary – why so important to tackle risks?

- Lower prices
- Greater crop yield variability
- Greater income variability

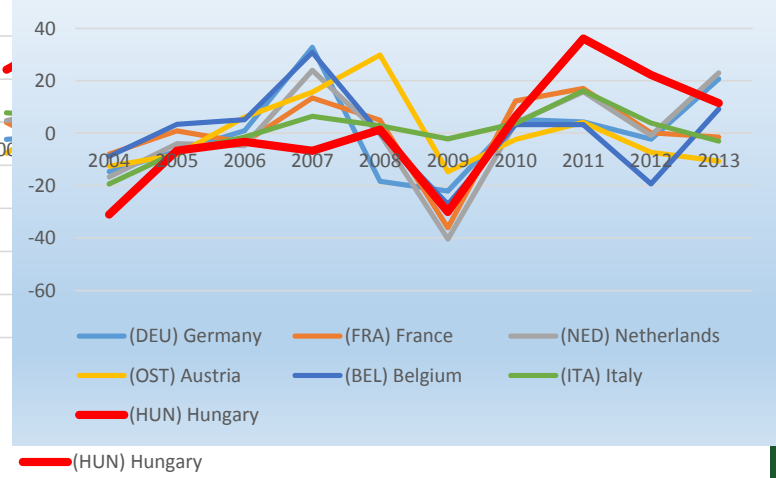
Fieldcrop Farm Net Income deviations from MS's average (in percent)



Granivores Farm Net Income deviations from MS's average (in percent)



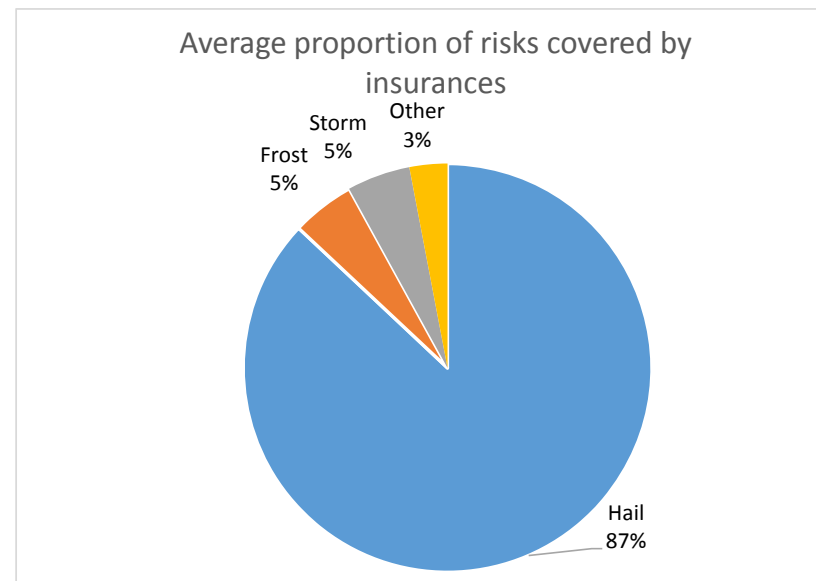
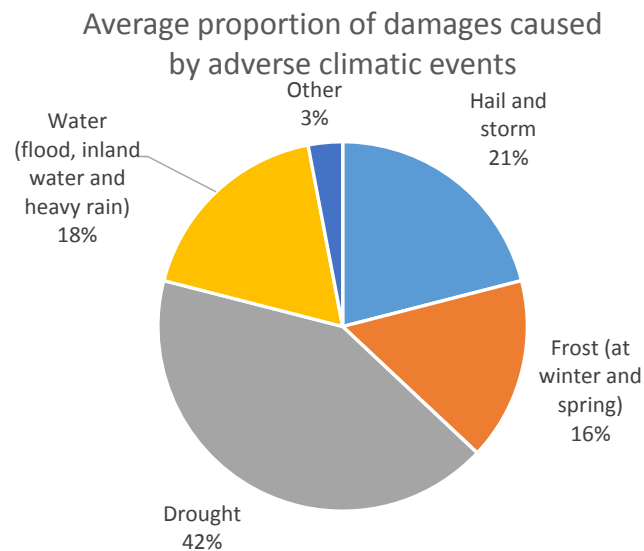
Corn yield deviations from MS's average (in percent)



Source: EU FADN, Eurostat

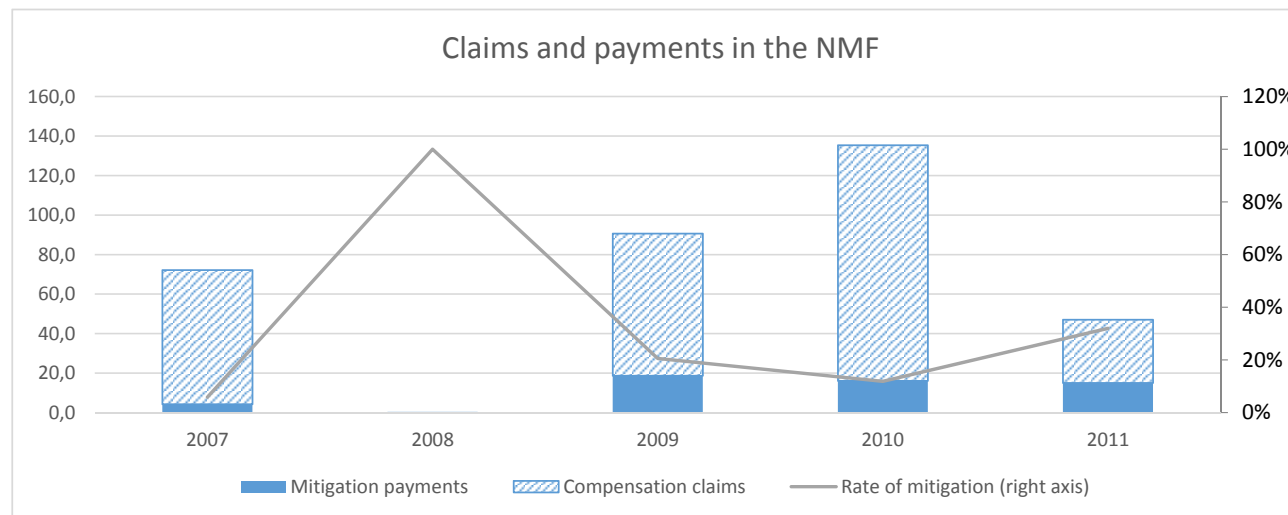
Evolution of production risk management scheme in Hungary

- I. step – 1997-2003 – 30 % flat rate subsidy to insurance fees
- Problems: continuous mismatch between risks covered by insurances and damages caused by risks, only 30-40% penetration



Evolution of production risk management scheme in Hungary

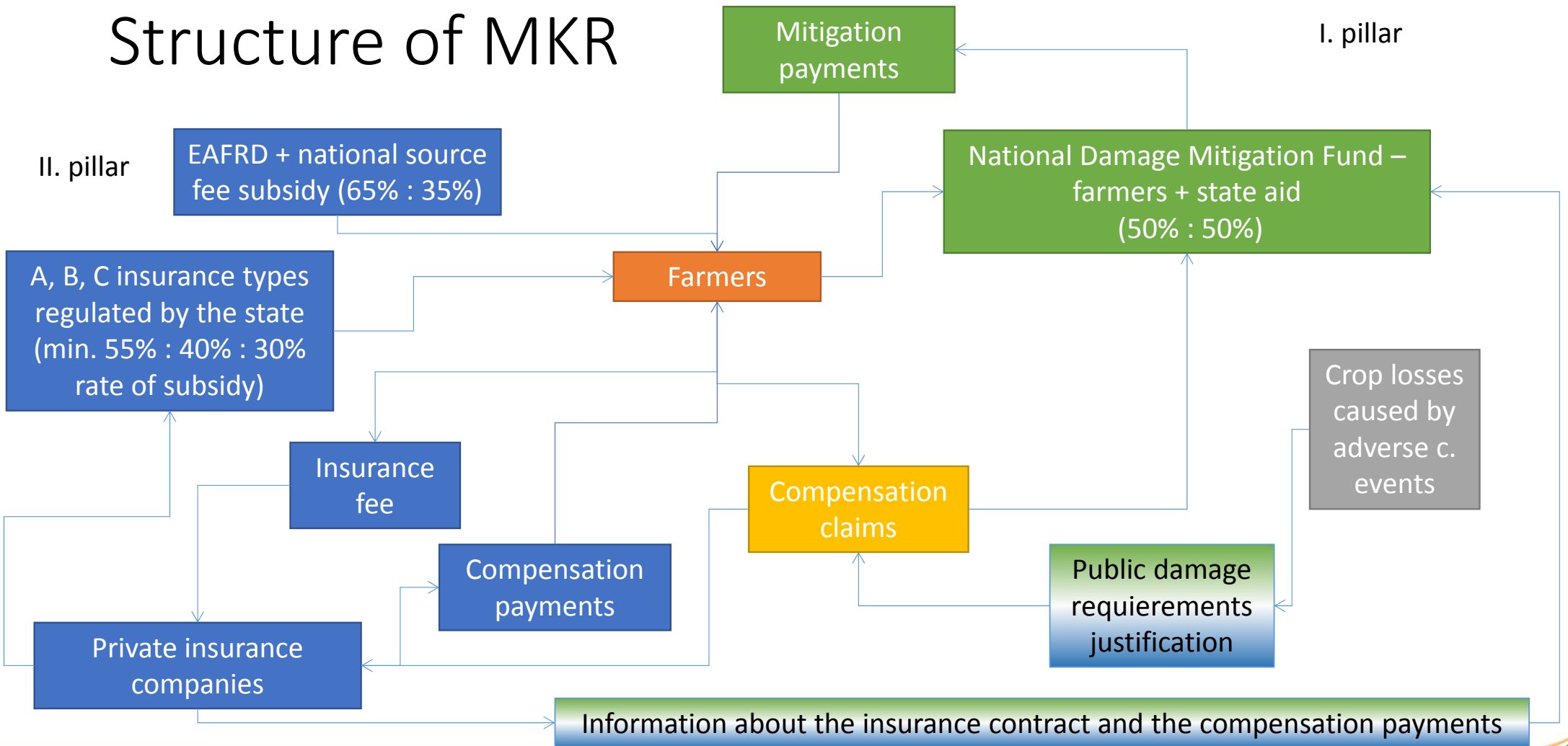
- II. step – 2007-2011 – National Damage Mitigation Fund against all risks
- Problems: low penetration, very high compensation claims vs. low rate of damage mitigation, high administration burden, reduced number of insured farmers



Evolution of production risk management scheme in Hungary

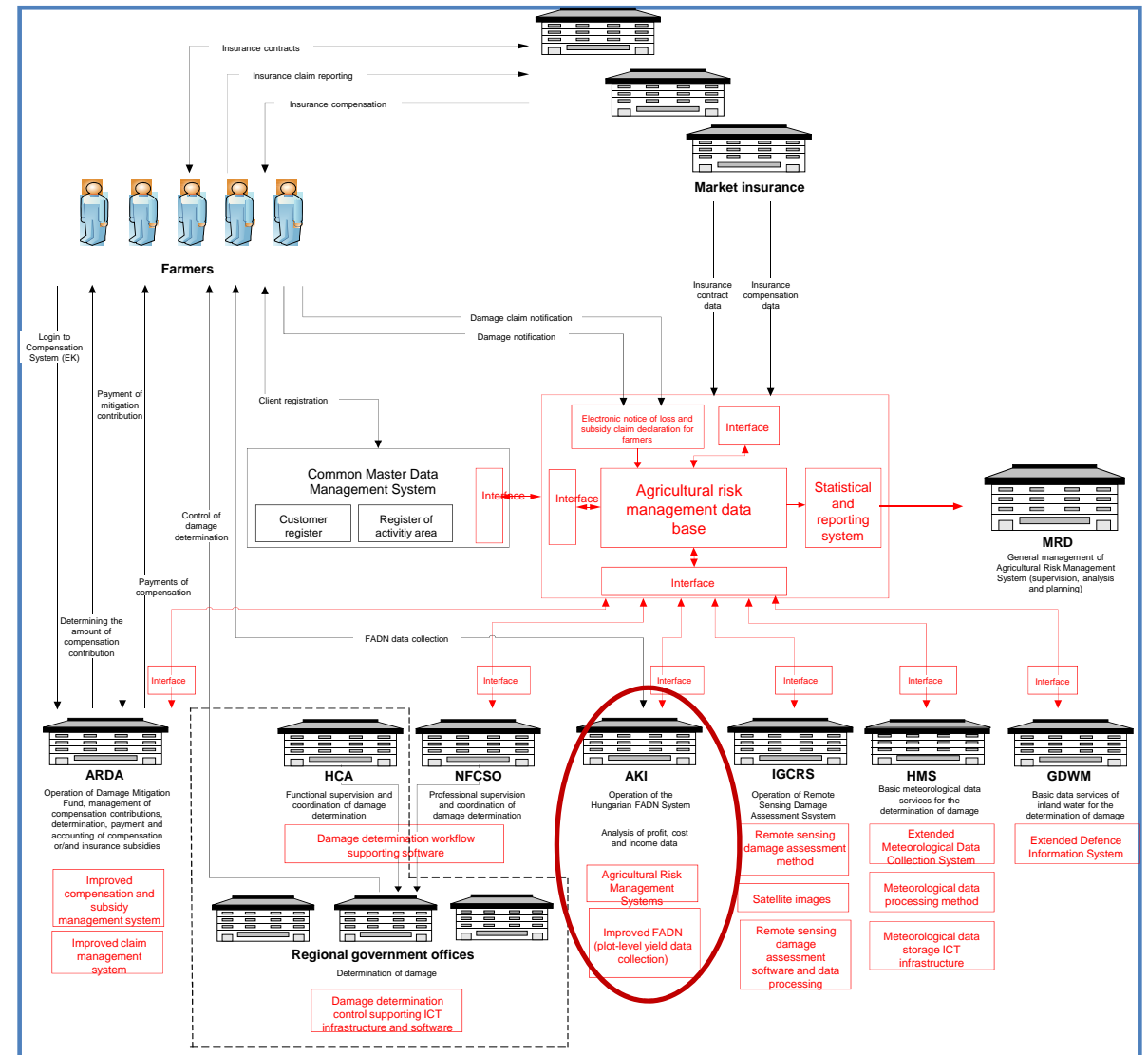
- III. step – since 2012 – Agricultural Risk Management System (MKR)
- Two pillars: I. pillar – Compulsory National Damage Mitigation Fund
 - Mitigation over 15% loss of farm level AND 30% loss of crop level by all climatic risks*
 - II. pillar – Voluntary insurance subsidised by the state
 - Compensation over 30%/50% loss of crop level by 8 risk types*
- Common risk definitions, common reference crop yields
- Interdependencies – only 50% of mitigation payments without insurance, the compensation payment is deductible from mitigation payments

Structure of MKR



Operation of MKR

- Members of the system:
 - 77 thousand farmers
 - 11 insurance companies and mutual funds
 - 19 regional government offices
 - 8 central offices and institutes



Covered risks in MKR

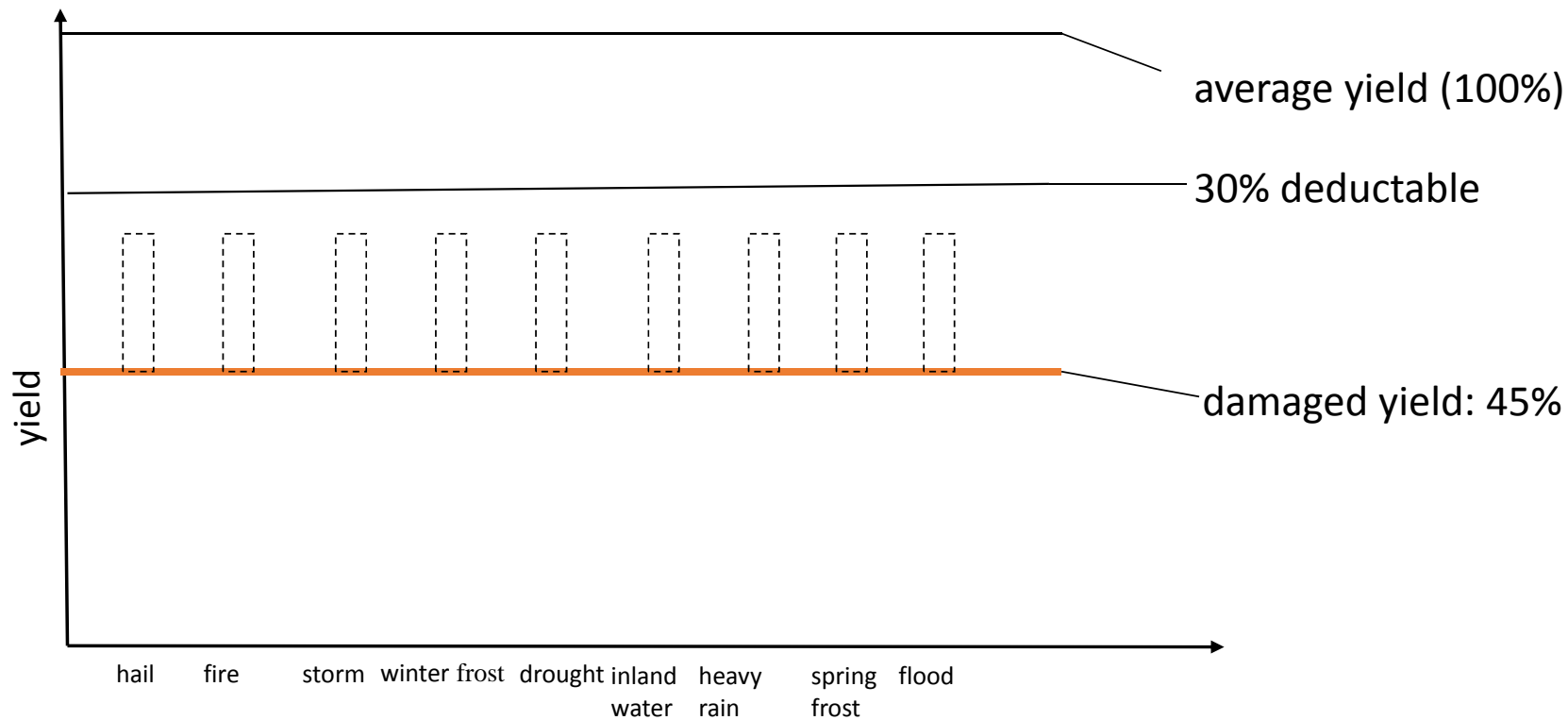


Wheat, 2010 June in inland water



Risks	Hail, Storm, Fire	Winter/spring frost	Drought	Heavy rain, flood	Inland water
I. pillar	>15% farm level, >30% crop level				
II. pillar	>30% crop level	>50% crop level	>50% crop level	>40% crop level	-
Private add. i.	>5% to <30% crop level	-	-	-	-

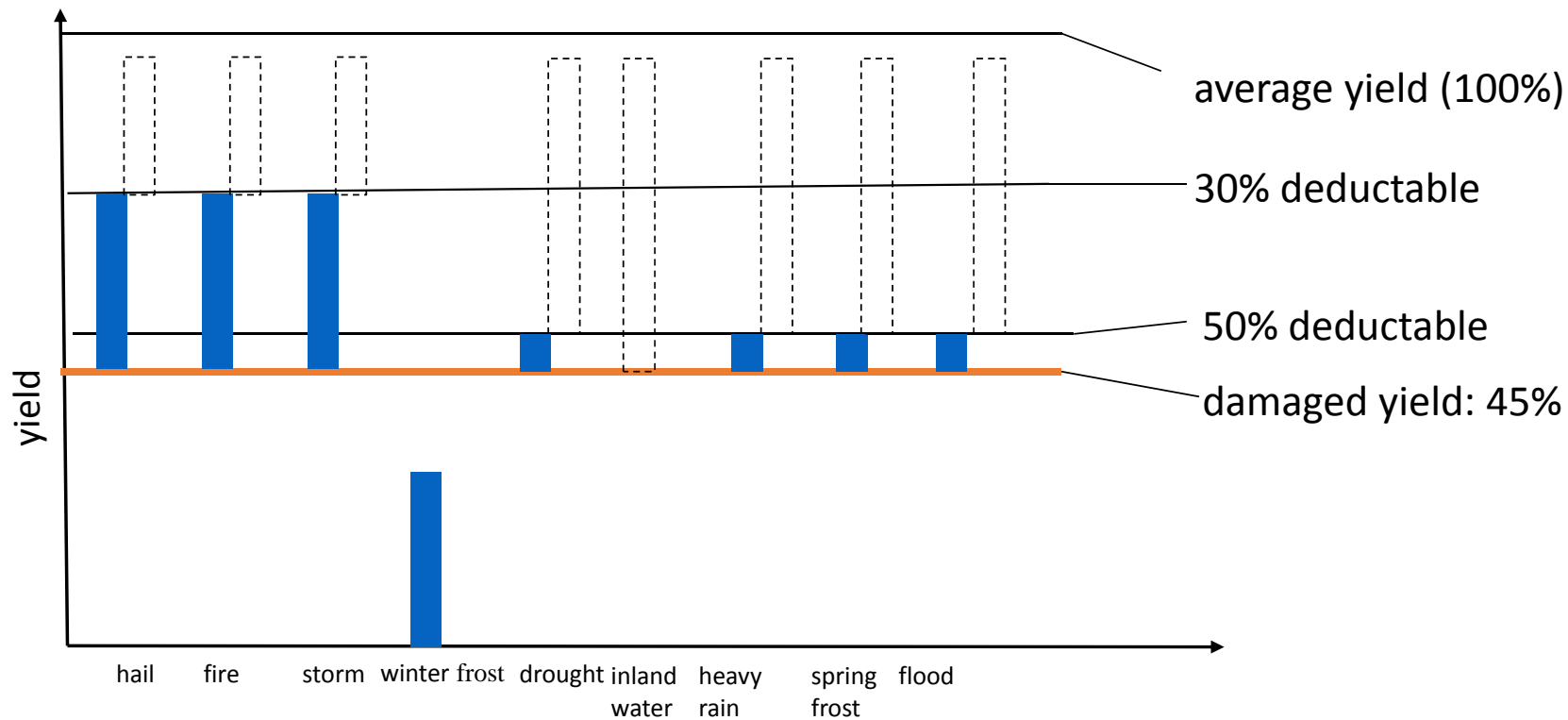
Payment versions in MKR



- I. pillar without insurance

▭ damage mitigation
(reduced by 50%)

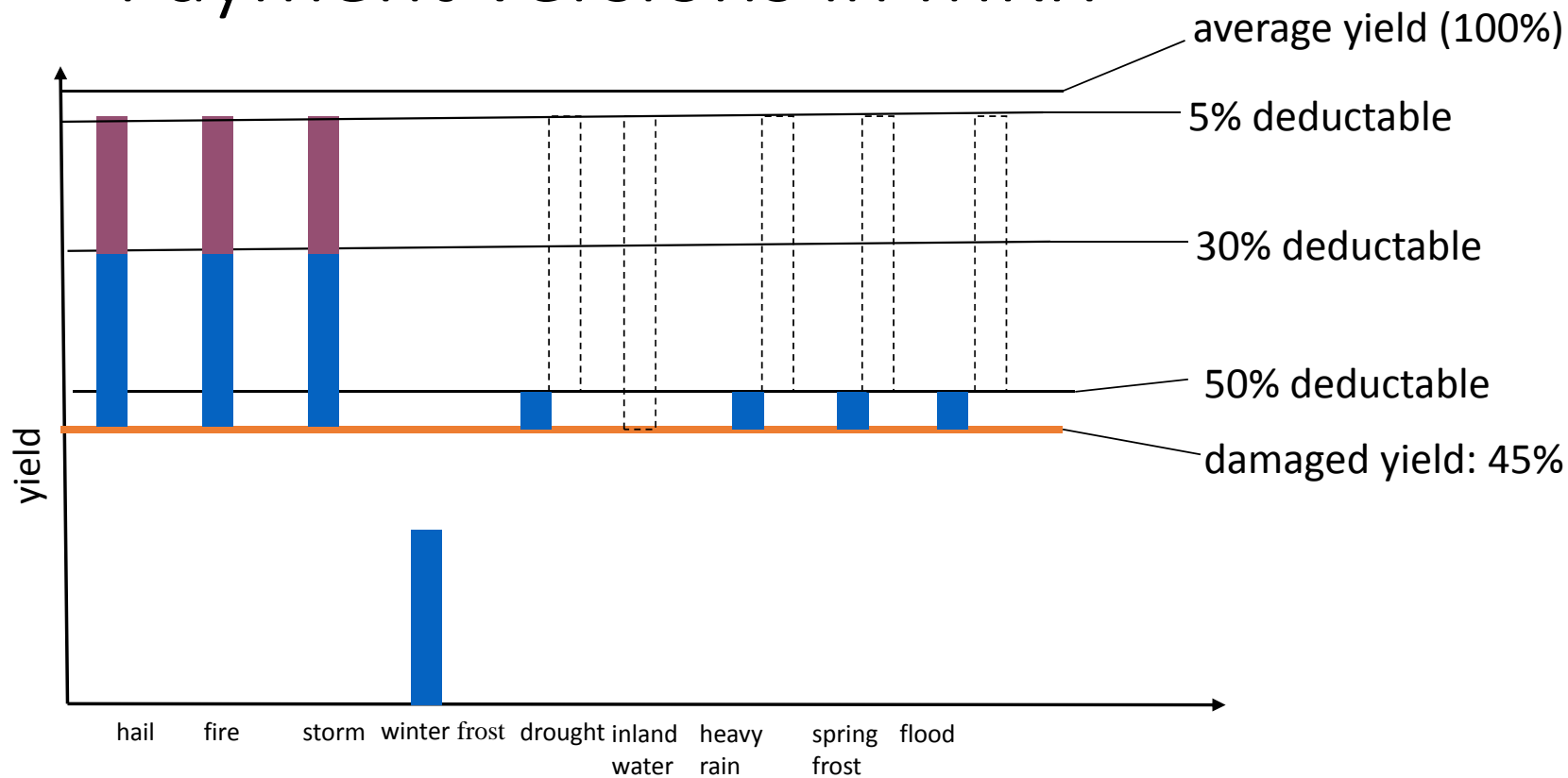
Payment versions in MKR



- I. pillar
- II. pillar
 - A insurance

□ damage mitigation ■ A i. payments

Payment versions in MKR



- I. pillar
- II. pillar
 - A insurance
 - +private additional i.

damage mitigation
 A i. payments
 Private add. i. payments

Main indicators of the first pillar (2012-2015)

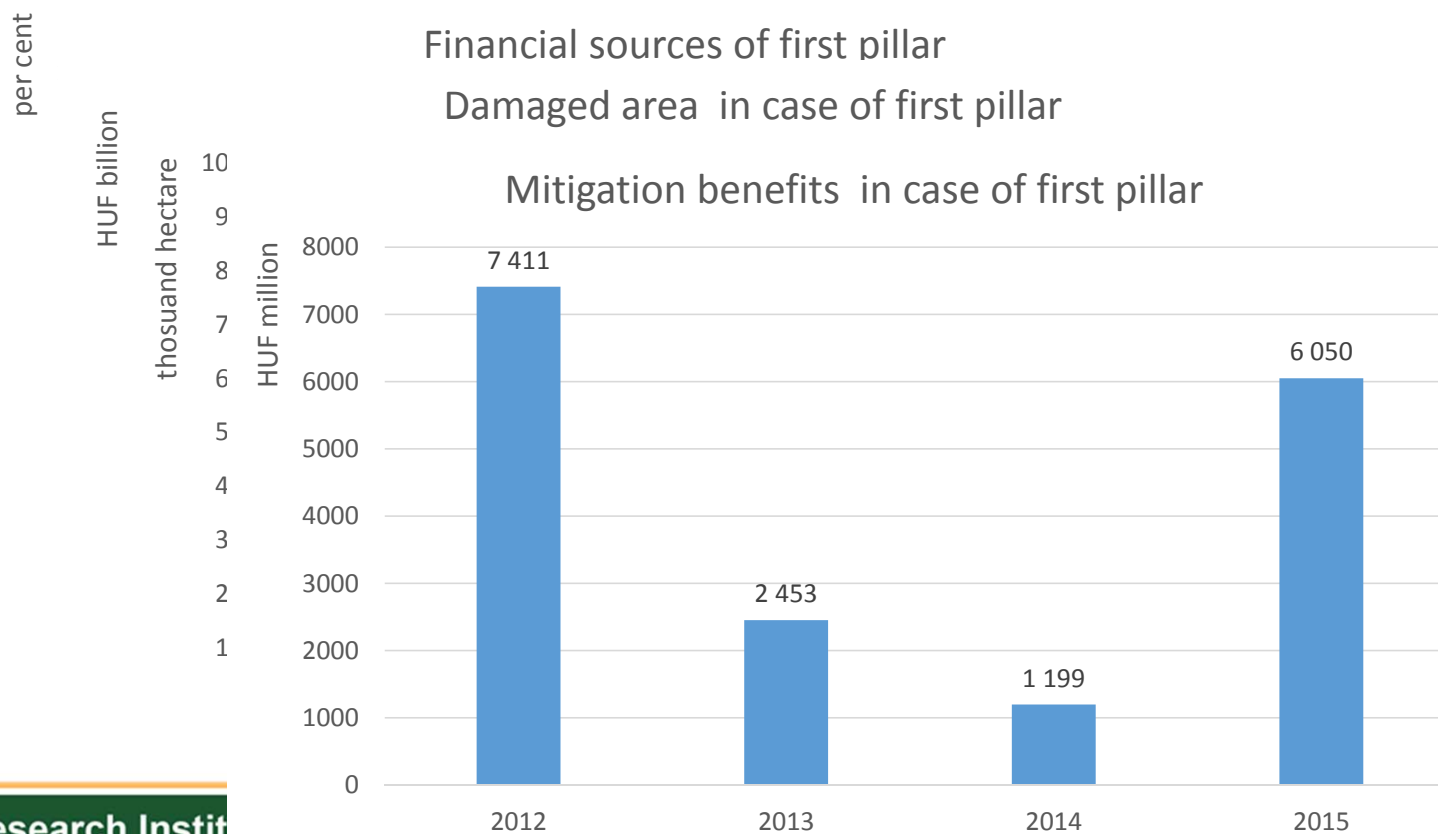
Number of agricultural producers

The proportion of agricultural area covered by first

Financial sources of first pillar

Damaged area in case of first pillar

Mitigation benefits in case of first pillar



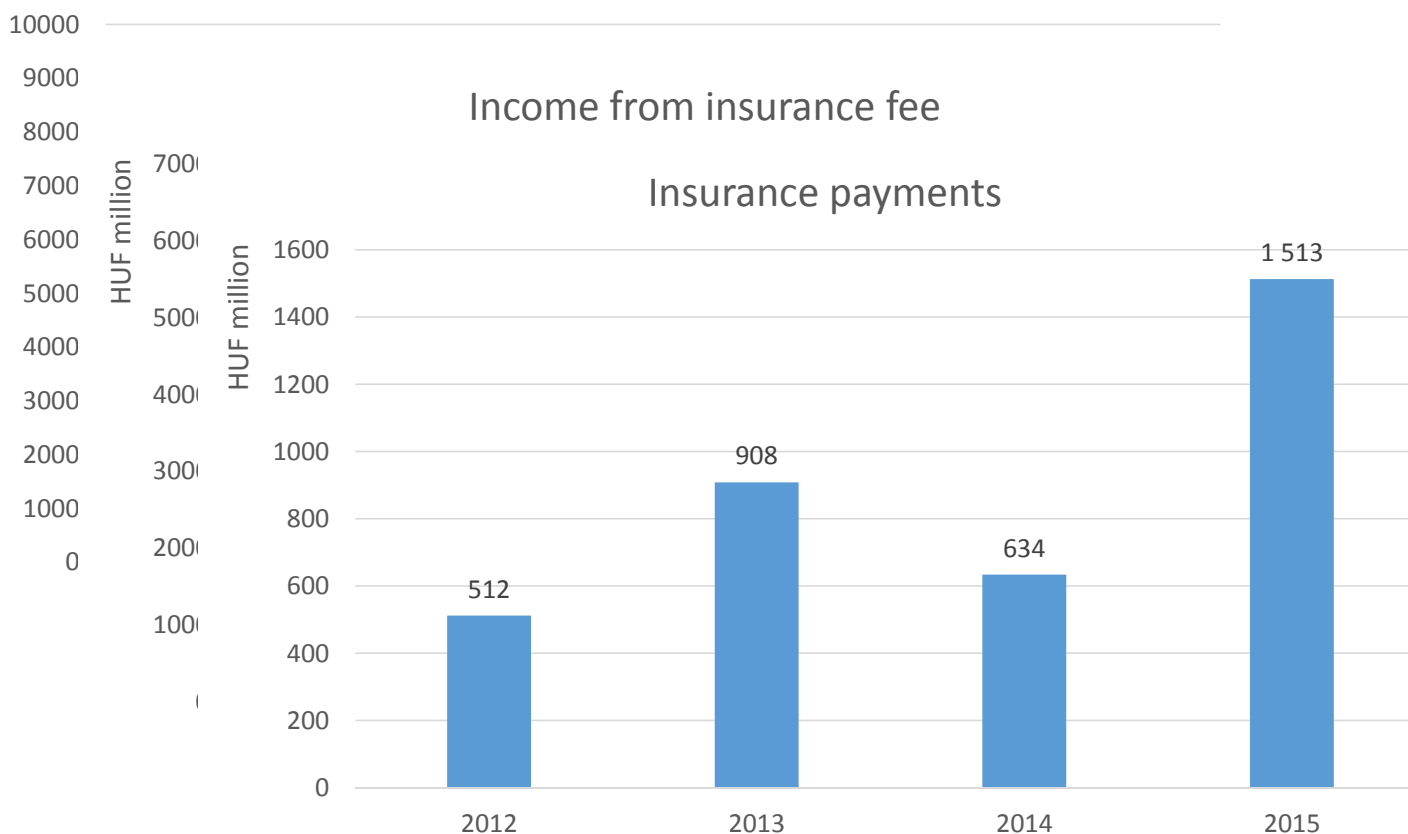
- Number of participants has been changed in the period of 2012-2015. Members covered **66,6 per cent** of producers in 2015.

- Increasing financial sources

- The weather conditions were in 2012 and 2015 more unfavourable that resulted in greater damaged area and higher mitigation benefits

Main indicators of the second pillar

Number of insurance contracts



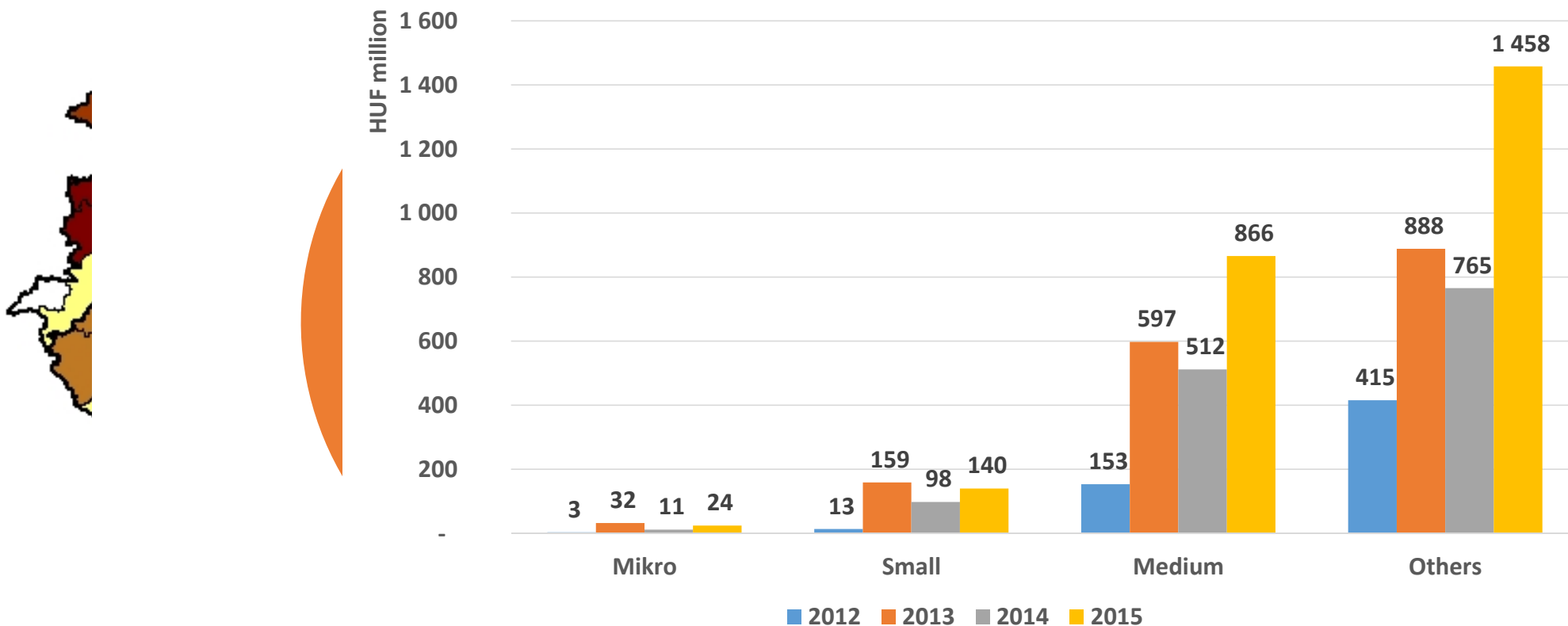
- Number of insurance contracts significantly increased
- Income from insurance fee also significantly rose
- The insurance payments were the highest in 2015 because of unfavourable weather conditions

Insurance payments 2012 and 2015



Insurance payi

Insurance payments by sizes (2012-2015)



Future plans developing risk management tools in MKR

- Establishment of III. pillar – Income Stabilisation Tool
 - Target groups: dairy, pig and poultry farmers – they couldn't be members of pillar I. and II.
- Reforming of „pillar IV.” – subsidised credits for damaged farmers
 - Connection of occurrence of damages and crediting of farmers
- Establishment of „pillar 0.” – the hail protection system covering all the country
 - Installation of ground generators

AMTF – team of 12 members, 1 year mandate (2016)

H. Giesen A.L. Paumier D. Dobbin A. Babuchowski I. Samir Phil Hogan C. Veerman E.V. Cabrero A. Juhász T. Iwarson L.Fresco
DE - pork FR - cereal IE – milk PL – ex-MoA SK – Chamber DG-Agri NL – ex-MoA ES-MoA HU-AKI SE- StockExch NL-WUR

Task: report with concrete legal and policy advice

http://ec.europa.eu/agriculture/agri-markets-task-force/index_en.htm

Risk management is a priority conclusion of AMTF

- Mandatory inclusion of measures in MS RDP
- Monitoring and evaluation systems that map all relevant data linked to the occurrence of risks.
- Minimum thresholds applying to crop losses for insurance purposes could be revised to make the tool more attractive to users.
- EU co-financing of reinsurance schemes should be assessed.
- Resource shift towards an integrated risk management policy at EU level.
- Possibility of using simplified loss calculation and reimbursement options.
- Set up an EU platform allowing the exchange of best practices of MS
- Including tax averaging.

Thank you for your attention!