

Finance and accounting

Agricultural insurance mechanisms through mutualism: the case of an agricultural cooperative

*Mecanismos de seguro agropecuário via mutualidade: o caso de uma cooperativa agroindustrial**Mecanismos de seguro agropecuario por medio de mutualidad: el caso de una cooperativa agroindustrial*

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Abstract

The aim of this article is to verify how the mutualism model is applied in cooperatives to mitigate risks. We conducted a single, holistic case study of an agribusiness cooperative in Paraná State. The data were collected from June to September 2014. Four applications of the mutualism model were identified, specifically to mitigate risks of weather for grain (corn, beans and soybeans) farmers, death by lightning, brucellosis and tuberculosis for cattle farmers and the volatility of prices for pig farmers. Through the mutualism model, it was observed that cooperatives find solutions for their specific agribusiness sector problems. Cooperative companies are the managers and coordinators of the entire insurance mechanism to address the risks involved in their activities or/and the activities of their members. The mutualism model has been effective for covering common risks. However, like regular insurance, it proved to be ineffective in the case of catastrophes.

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Resumo

O objetivo desse artigo foi verificar como o sistema de mutualismo é aplicado em uma cooperativa para a mitigação de riscos, como opção à contratação de seguros tradicionais. Para tanto, foi feito um estudo de caso único, holístico, em uma cooperativa agroindustrial no Estado do Paraná, com dados levantados entre junho e setembro de 2014. Foram identificadas quatro aplicações do mutualismo na cooperativa estudada, especificamente para mitigação de riscos de intempéries para produtores de grãos (milho, soja e feijão); para mitigação de riscos da volatilidade de preços de suínos; e para a mitigação de riscos de morte por raio, brucelose e tuberculose (bovinos). Foi verificado que por meio da mutualidade as cooperativas constituem soluções para problemas próprios do seu meio e específicos do setor do agronegócio. As cooperativas são coordenadoras e administradoras de todo o mecanismo de seguro mútuo para atender aos riscos envolvidos em atividades desenvolvidas nelas e/ou pelos seus

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cooperados. O mutualismo se mostrou eficaz em diversas situações identificadas de sinistros. Entretanto, a exemplo das formas de seguro tradicionais, em caso de catástrofes o sistema não alcança a cobertura necessária.

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Palavras-chave: Seguro; Mutualismo; Gestão de riscos; Cooperativas

Resumen

El objetivo en este estudio fue verificar cómo se aplica el sistema de mutualismo en una cooperativa con el fin de mitigar el riesgo, como una alternativa al contrato de seguro tradicional. Para ello, se llevó a cabo un estudio de caso único, holístico, en una cooperativa agroindustrial ubicada en el estado de Paraná. Los datos fueron recolectados en el período comprendido entre junio y septiembre de 2014. Se identificaron cuatro aplicaciones del mutualismo en la cooperativa estudiada, específicamente para mitigar los riesgos de las intemperies para productores de granos (maíz, soja y frijoles/porotos); para mitigar los riesgos de la volatilidad de los precios del cerdo; y para mitigar los riesgos de muerte por rayos, brucelosis y tuberculosis (de vacunos). Se encontró que, por medio de la mutualidad, las cooperativas constituyen soluciones para problemas propios de su entorno y específicos de la agroindustria. Las cooperativas son coordinadoras y gestoras de todo el mecanismo de seguro mutuo para hacer frente a los riesgos involucrados en actividades desarrolladas en las mismas y/o por sus afiliados. El mutualismo se muestra eficaz en diversas situaciones identificadas de siniestros. Sin embargo, como en las formas de seguro tradicional, en caso de catástrofes, el sistema no alcanza la cobertura necesaria.

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Palabras clave: Seguro; Mutualismo; Gestión del riesgo; Cooperativas

Introduction

In farming activities, such as planting crops and raising animals, risks are a serious factor. According to Börner (2006), risks in agriculture stem from a number of origins: risks to production (climate, pests, sanitary factors, etc.); risks involving prices/market (fluctuating prices and/or demand, etc.); institutional risks (government actions or lack of government actions, regulations, etc.) and personal/human risks (accidents, disease, etc.). For some types of risks there are efficient means of protection, made available on the market or by the government. However, for other types, farmers become the exclusive risk takers (Moreira, Souza, & Duclós, 2014). Due to the variety of risks and their origins in agribusiness and the inherent particular conditions of each type of farmer, there is no single, common managerial strategy that can be used by all farmers to mitigate them, and a variety of tools are required to manage them (USDA, 2007).

For farmers, managing risks means determining combinations of actions that represent different levels of risk and return (Gomes, 2000). Some strategies aim to reduce risk, such as diversification of activities. Others aim to share and/or transfer risks, such as future contracts, production contracts and insurance (Moreira, 2009).

For risks associated with climate and/or sanitary problems, there are tools that help to foresee the occurrence of these risks and analyze their possible impact. However, many of the strategies and tools are often inaccessible to farmers, especially those who operate small farms. Insurance, particularly agricultural insurance, could be the right tools for addressing risks of production, but there are a number of difficulties that face both

insurance companies and farmers. These include high premiums (economically unfeasible), low involvement of government policies (subsidies), imminent exposure to catastrophes, lack of regulation agencies to guarantee legitimacy and maintain a historical and statistical database and complexity in administrative organization (experts, technicians, control mechanisms) (Ozaki, 2006).

An alternative to purchasing traditional insurance is mutual insurance. In this type of mutualism, the interested parties form groups with the same goals to establish a financial fund or seek a commitment that can compensate for future losses in their shared activities. Normally, it falls to cooperatives to organize, manage and monitor this type of insurance.

Agricultural cooperatives play a fundamental role in mitigating the risks of agribusiness (Moreira, 2009). As a cooperative becomes the agency that represents the interests of the cooperative members and works directly to organize the production chain, concern over the possible impacts of risks, both internal and external, is the frequent object of evaluation in the management of cooperatives, along with seeking solutions to mitigate them.

Therefore, the aim of this study was to verify how the mutualism system is used by a cooperative to mitigate risks. For this purpose, the case of a large agricultural cooperative in Paraná State is presented, where mutualism is organized and applied to crops (grains) and livestock (pigs and milk production). As these activities are different in nature, the forms of mutual assurance are also different and involve different sources of risks, such as climate conditions, sanitary risks and the market, as will be shown throughout the article. The next section looks at the central concepts addressed in the

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