



## **Agricultural Insurance Policies in Vietnam**

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### **Introduction**

Agriculture always has an important role in the economy of the country. Implementing the Central Resolution 7 on agriculture, farmers and those living in the rural areas, agricultural insurance is one of the policy priorities, in order to create a tool for preventing the risks in the context that Vietnam agriculture is now having lots of natural disasters, epidemics, while farmers have little risk prevention solutions.

Due to frequently suffering major natural disasters, the risks from the disease of aquaculture, livestock, crops production etc., Vietnam agriculture is a potential market for agricultural insurance activities. However, good intentions and reality are of opposite poles. After many years, not only farmers but even those responsible agencies do not know much about agricultural insurance.

In 2008, natural disasters have caused enormous losses for the agricultural sector. Under extremely cold climate, thousands of cattles were dead, thousands of hectares of rice crops were damaged. Then storms, floods, heavy rains in the Northern Part of the country had damaged agricultural areas whose losses amounted to a thousand billion VND. Farmers were the most heavily affected. Rice could not be sold, rice farmers were in difficult situation ... At present, farmers accounts for 60-70 % of the population. And even until 2020, when Vietnam basically will become an industrialized country, it is estimated that there will be up to 50% of the population whose lives will be based on agriculture.

According Vietnam Farmers Association, the total value of damages in annual agricultural production is large. For example, in 2004, it accounted for 10.5% of the country's GDP. In 2010, 30,000 hectares of rice and cash crops were lost. The total value of damage caused by natural disasters was estimated at 11,700 billion VND. Vietnam is

an agricultural production country, with over 70% of the population living in rural areas, agricultural insurance should have a very large market, but in reality, the situation is the opposite.

This article summarizes the current status of Vietnam's agricultural insurance and evaluates a number of agricultural insurance policies in the country Vietnam. At the same time, from this analysis, the report will provide some policy options to promote development of agricultural insurance to support farmers in Vietnam to help farmers cope with the risks in agriculture.

### **Current situation of Vietnam's agriculture insurance**

Vietnam is a major agricultural producer and is in the top of the world's 3 largest exporters of rice, coffee and pepper. Sixty to 70% of the population live in rural areas and have working activities related to agriculture. Agricultural insurance potentially has a very large market. However, the reality is quite different. Agricultural insurance in Vietnam receives small amounts of investments. Vietnam farmers do not pay much attention to insurance, and the investors, after suffering several failures, do not want to invest in this market.

Agricultural production has potential risks, therefore so far very few insurance companies invest in this sector. In addition, small-scale production practice of farmers makes it difficult to implement agricultural insurance. In fact, the risks involved are often related to crops, and livestock so the losses of farmers need to be "shared" from the insurance company. However, to get to the Agricultural insurance, not all farmers are eligible under the regulations of insurance companies.

According to some economists, a farmer who buys insurance for a cow usually has to spend around 320,000 VND (5% of the insured value). With the new regulations of the State, they will be supported by 90% of insurance premium, i.e. the State will support 288,000 VND, and farmers only have to pay 32,000 VND. If unfortunately, the cow dies due to disease, people who do not buy insurance will only receive a maximum of 800,000 VND but if they pay insurance premiums they will receive compensation of up to 7.2 million, which is more than 200 times its original cost.

However, according to the Insurance Department (Ministry of Finance), the proportion of farmers participating in agricultural insurance in Vietnam is very low, only 1% of the total crop area, 0.24% of cattle - cows, 0.1% of pigs and 0.04% of poultry are insured. Therefore, it is necessary to raise awareness for farmers to voluntarily get insurance for their crops and livestock, sometimes even without the support from the State. But more importantly, it is to help farmers change their production method.

Currently with the method of allocating land plot following the number of family members, every family owns little land plots, leading to lower rates of insurance participation. This is what the insurance companies are concerned because the risks are too high. On the other hand, while there are lower charge rates that make the insurance companies reluctant to invest there are also high compensation costs. Besides, even though farmers' income from agriculture is not high, many families still hesitate to spend money to buy insurance every year.

Currently, in Vietnam, there are many insurance groups coming from the world's major countries: the U.S., Germany, Japan, Canada ... but there is no group investing in agricultural insurance. Natural disasters in agriculture cause significant damages, so the insurance fee is also quite high. Meanwhile, the farmers do not have the ability to pay the fee. As a result, the companies are forced to downsize their insurance scale. Nationally, the proportion of agricultural insurance market is extremely small despite the large market. Due to the high risk for major crops like rice and fruits which are easily affected by climate conditions, the insurance company will not dare to insure.

In fact, agricultural insurance is implemented in Vietnam quite early. From the early 1980s, Bao Viet Insurance Corporation had insurance pilot for rice in two districts of Vu Ban and Nam Ninh (Nam Dinh province). In 1997, Bao Viet continued to expand in 16 provinces for rice. After 15 years of implementation of agricultural insurance (since 1983-1998), Bao Viet Insurance Services had been expanded to 26 provinces and cities, providing insurance for 200,000 hectares of rice. But by 1999, Bao Viet had to give up because there was no interest (they collected the premium of 13 billion VND, but they must compensate 14.4 billion VND), other agricultural insurance services (livestock and crops ...) are also in a bad situation. Since 1999, Bao Viet stopped agricultural insurance for rice.

Up to now, the revenue of Bao Viet Group on agricultural insurance is approximately 1 billion VND/ year, accounting for extremely small percentage, which is less than 1% of the total revenue of the Group. Currently, Bao Viet only provides insurance for rubber tree in Central Highlands, Binh Phuoc, Binh Duong, Kon Tum and dairy insurance. However, even if these insurance products have only been implemented in a small scale, their efficiency is limited. Bao Viet is developing an insurance project for catfish and *basa*, but according to officials some in provinces, the conditions of the insurance are too strict.

In 2001, an insurance company with 100% foreign capital investment based in Can Tho Province had activity in the field of agriculture and fisheries. This is the Groupama company from France. They have 100 years of experience and success in their country for these kinds of activities. But Groupama incurred heavy losses due to few customers purchasing their agricultural insurance products. Within six months in 2004, Groupama

only had the revenue of five million VND, which is more than 300 dollars. So this international company had to stop their operations.

For agricultural products that have fewer risks, people do not want to participate in this kind of insurance, but vice versa, as for the ones that have potentially higher risks, then the companies do not dare to invest. Thus, if a company is to implement the insurance business activities, they cannot afford to embrace all the risks, in the field. In order to implement agricultural insurance, it is necessary to have the participation of the State. There is a need for policy support and sharing of responsibilities and risks- among the State – the insurance companies and the people. Currently, the only priority for Vietnam's agricultural insurance is the tax free policy.

### **Agricultural insurance policies**

Agricultural insurance in Vietnam has not yet developed widely and has little support in terms of policy. Decision 315/QD-TTg on agricultural insurance pilot in 2011-2013, was implemented since 2011. And then, in August 2012, Circular 43 was issued to amend some articles of Circular 47 guiding the implementation of agricultural insurance. Besides, in order to remove difficulties for local insurance companies, particularly to ensure maximum benefits for farmers who participate in agriculture insurance such as extending insurance risk coverages, complementing insured target objects, clarifying the process of disclosure and certification so that damage compensation is quickly implemented, on 24 August 2012, the Minister of Finance issued Decision 2114/QD-BTC amending and supplementing a number of articles on fees as well as level of responsibility of agricultural insurance issued by Decision 3035/QD-BTC of the Minister of Finance dated 16 December 2011. This decision complemented ducks as insurance objects and removed catfish from the group of shrimp/fish insurance. The Decision also expanded the scale of insured disaster risks (thunderstorms, tornadoes); insured disease risks for cattle (septicemia), pig (septicemia, cholera), poultry (Newcastle disease, Gumboro and cholera - duck). The Decision 2114/QD-BTC clarified the processes of disease confirmation, ensured the transparency, clarity and facilitated the claim settlement quickly and accurately to the insured people.

### **The pilot program of agricultural insurance**

Agricultural insurance is a form to support farmers to reduce their difficulties when disasters or diseases occur. From July 2011, agricultural insurance was piloted in 21 provinces and cities in Vietnam in 2011-2013 according to Decision 315/QD-TTg of the Prime Minister dated 1/3/2011. Under this Decision, the State will support 100% of insurance fees to poor farmers engaged in agricultural production; support 80% of insurance fees to nearly poor farmers engaged in agricultural production and 60% of insurance fees for other farmers engaged in agricultural production when they participate in agricultural insurance pilot.

In the first years of the pilot, 21 provinces and cities had implemented and signed insurance contracts with 98,594 farmers (of which 88% are poor); total insured value for crops and livestock was 959.4 billion VND, 48.7 billion VND was insurance fees. Of this figure, the rice insurance is leading the number of participating farmers, as well as insured value with 93945 households having signed insurance contracts, total insurance value was more than 664 billion VND, livestock was insured with the value of 74 billion VND, fishery insurance value was 220 billion VND... Preliminary report showed that, after more than a year, the amount of insurance claims was more than 10.8 billion VND and 4 billion VND was compensated, and the rest is continuing to be resolved by insurance companies and other functional agencies.

Up to now, although the number of households participating in the insurance program accounts for only 3% of eligible households for agricultural insurance, the total insured paddy area accounts for only 2.8 of the total area, and the number of livestock and fisheries farmers participating in the insurance program is low. But this is the initial positive result, which contributes to better social welfare policy. According to the Ministry of Finance, as of 30 April 2013, the pilot agricultural insurance was implemented in all provinces and cities with 234,235 households participating in the insurance contract, of which 80.8% are poor, with over 5,437 billion VND insured values for crops, livestock, fisheries. Total direct insurance fee revenue is over 303 billion VND.

The rice area which has been ensured cover 34,622 hectares, with insurance value of over 664 billion VND. The participating households were 93945 in the provinces of Binh Thuan, Dong Thap, Nghe An, Thai Binh, Ha Tinh, Nam Dinh, An Giang. As for livestock insurance (implemented in Bac Ninh, Dong Nai, Nghe An, Vinh Phuc), the total number of insurance livestock were 1,700 heads of cows, 79,800 heads of pigs and 621,000 heads of poultry, the total insured value was 74 billion VND. In term of fisheries (implemented in the provinces of Bac Lieu, Soc Trang, Tra Vinh), the total involved area was 1,324 hectares, the total insured value was 220 billion VND, with 1,995 insured households.

In Nam Dinh, in 2013, the number of farmers participating in paddy insurance contract increased to 19,300 households compared to 2012 with only 6,400 households, which consist mainly of poor households. Increased number of households participating in agricultural insurance reflects the change of the policy in time, which make farmers more interested in insurance products. In Tra Vinh province, so far, Tra Vinh Bao Minh Insurance has made a total of over 113 signed contracts including catfish, white shrimps, black tiger shrimps insurance, with total premiums of nearly 10.2 billion VND. According to the Steering Committee on agricultural insurance pilot in Tra Vinh Province, as for catfish insurance, there were high numbers of farmers and a total area involving in the insurance

In more than one year of implementing the agricultural insurance pilot, the Ministry of Finance, Ministry of Agriculture and Rural Development, Committees of provinces and

cities actively cooperated with the press agencies to introduce agricultural insurance pilot. The mass media such as Vietnam News Agency television, Vietnam online government Television, VTV, VOV and local news agencies, newspapers have been actively coordinating with ministries and localities for promotions. The information of the media agency has contributed to agricultural insurance policy, to raise awareness of the agencies or people in the implementation process to let the policy come to life in a practical way, which reflects the difficulties and obstacles in practice to get appropriate solution. Not only the media press but also the insurance companies have also actively cooperated with communal committees in the provinces to implement the pilot in terms of organizing promotional activities, introducing and guiding agricultural insurance products to farmers.

Agricultural insurance actually helps farmers to cope with risks caused by natural disasters, storms, floods, epidemics, as well as contribute to new rural development program.. Besides, it confirmed that this is the right program and it is an important solution to thoroughly solve hunger eradication and poverty reduction and develop sustainable agricultural and rural areas.

### **The difficulties in the implementation process**

Although agricultural insurance is new, with little experience in the world, and the agricultural sector always has high risk of natural disasters and epidemics, agricultural insurance has been implemented fairly and drastically. But in the process of pilot implementation, there are many difficulties arising from the practice.

Under current regulations (Circular No 47/2011/TT-BNNPTNT and Decision No 3035/QĐ-BTC), there are many common diseases affecting farmers' production but have not been included in insurance regulations. These are blight, rice blast (for rice); septicemia, liver fluke, pleurisy (for cattle and buffaloes), cholera, septicemia (for pigs), and some unknown diseases (for shrimps, fish). In addition, the certification of disease to enforce the compensation is confused in many places, and there is lack of specific regulations and guidelines; the rate of compensation determined based on old days of shrimps is not reasonable; animal insurance process lacks specific guidance; compensation level is inappropriate. The basic principle of insurance is consensus, monitoring and flexibility. However, Vietnam's companies have not done this yet. For example, the coverage for cattle insurance is not reasonable when it is applied only for foot and mouth disease, septicemia while there is no insurance for other diseases. This led to a situation where in 33 households in Hanoi had insurance but were not compensated when their cows died because the disease did not meet the definition of compensation regulation. Or the determination of damages on rice is based on the commune average yield, however, many communes have large areas so some households had real damages but were not compensated; insurance claim process is slowly resolved, therefore, shrimp farmers in Bac Lieu had to wait for almost one year but still not getting their insured money.

In addition, the insurance pilot was implemented slowly and not in all provinces. Number of households participating in the agricultural insurance was not much, insured agricultural area was not big, and there was low percentage of aquatic insurance. Aside from the province having good implementation such as: Nghe An, Binh Thuan, Dong Thap, Thai Binh, there are still other provinces having slow implementation, of which six provinces have no insurance contracts yet such as Hanoi, Hai Phong, Ben Tre, Thanh Hoa, Binh Duong, Ca Mau.

Agricultural insurance is a new, complex type which have incomplete policy mechanism. Central and local agencies, insurance companies also have difficulties in implementing this type of business, because the scope of insurance activities is large; agricultural production has small and scattered scale and natural disasters and epidemics frequently happen. The complicated changes in climate, weather, natural disasters, epidemics vary over time, so are the changing situation of market prices, agricultural inputs, and animal feeds. They affect significantly to the pilot implementation of agricultural insurance. In many places, people are not keen on participating in crop and animal insurance or some farmers, agricultural organizations just engage the farmers for testing and, in some cases, they even choose the insurance products that are considered high-risks. The insurance enterprises participating in this program also themselves recognized that, agricultural insurance products are still not compelling. This is the reason why there are few farmers who voluntarily buy insurance products. Only those are supported by the pilot program, then they participate in insurance activities. The Finance Ministry has also noticed this problem and they are asking the insurance companies to consider to rebuild products rules more appropriate to market conditions.

Although circular 47 has been implemented since 2011, until August 2012, when Circular 43 was enacted to amend some articles of Circular 47 which guides the implementation of agricultural insurance, the insurance companies then were wary in implementing its related activities. So, actually the pilot implementation process was only about 1.5 years (pilot ends is in 2014). That's not counting too many agencies for implementation, too many steering boards from central to local, when in fact there are only some officials and businesses involved. Insurance certification procedures are also complex, making it difficult for farmers and businesses. For example, if a farmer wants to confirm a dead cow, he must get 5-6 signatures of certification, including the signatures of the chairman of the Commune's People Committee while not all community leaders have veterinary qualifications. Also, there is lack of medical testing and disease certification facilities in the local areas that have outbreaks for insured crops and animals which are difficult to diagnose if they got inflicted with diseases.

Besides, the scope, objects, and geographical area of agricultural insurance products are quite extensive. On the other hand, agricultural production in Vietnam is fragmented and with small scale production, is often affected by natural disasters or diseases. Each province has different conditions while technical facilities, information technology

systems of the local and insurance businesses are limited. Meanwhile, the number of responsible officers are also limited. They have little experience in implementation of new types of insurance business (they are mainly new officers and switch from other departments). Therefore, insurance companies face many difficulties in controlling, minimizing the risks and assessing the damages in the form of checking, identifying, assessing insured objects, insurance risks, supervising insured objects, monitoring the compliance of processes, production standards, cultivation, etc.

During pilot implementation, studying arising issues from practices and ideas reflected by responsible people, the management agencies have continued to improve the rights of the insured people. Specifically, this is true for raising paddy productivity levels that are covered by insurance of up to 90% of commune average rice yield and applying this to all provinces that implement the insurance pilot for rice farming (instead of 80% as stipulated in Decision 3035/QD-BTC). Along with that, the insurance premium was reduced from 4.97% - 20% of the general premium applied specifically to paddies in each province. With farm animals, this premium was reduced from 10% to 50% of the premium which is applicable for each specific animal. The insurance premium for dairy cows was raised to 60 million VND instead of the previous 35 million VND. The new regulations have added benefits for the insured people so they have expressed their excitement, confidence in agricultural insurance policy of the State, and they wish agriculture insurance will continue to be implemented in a larger scale for a longer time.

The pilot of agricultural insurance in some areas for certain types of agricultural and aquatic products are also part of Decision 23/QD-TTg, which approved the project "Development of rural trade in the stage 2010 - 2015 and orientation to 2020" of the Deputy Prime Minister Hoang Trung Hai, signed on 6 January 2010. This is also part of the goal towards national food security issued by the Government last year.

Today, the number of people participating in agricultural insurance have been increasing in many provinces. The compensation for participants is done quickly following the regulations, creating trust for the people on insurance policy. This confirms the correctness of the policy of the Party and State and it is believed that this large undertakings will continue to promote efficiency in life, mitigating the consequences of natural disasters, epidemics to farmers in agricultural production, supporting the development of "agriculture, farmers and rural areas".

## **CONCLUSION**

The provinces who have been selected to implement insurance pilot insisted that agricultural insurance is right and necessary to support agricultural producers. This helped to actively resolve and compensate the financial damages due to diseases or

disasters and contribute to ensuring the stability of rural social security, promoting agricultural development. Lessons learned from the agricultural insurance pilot include the coordination of all levels and sectors, which often grasp the actual implementation given the situation, and being timely to adjust policy and mechanism and put solutions which is consistent with practical production. For example, in the process of implementation, the Central Steering Committee promptly advised the Government to allow the adjustment of the scope, object, insurance premium rates for the provinces which having effective implementation.

Initially, the implementation of agricultural insurance in Vietnam, requires a lot of adjustment from the policy system to performance. To promote the development of agricultural insurance in Vietnam, the policies related to agricultural insurance needs to cover many aspects. First, it is needed to enhance the role and perception of farmers in agricultural insurance. Farmers association can be invited to participate in the Steering Committee of the agricultural insurance in each province. Awareness of farmers is a major barrier to the successful implementation of agricultural insurance. Many economists and insurance companies acknowledge that it is difficult to remove the barriers. If awareness of farmers is good on agricultural insurance, even without state support, they will voluntarily participate. Agricultural insurance is a good policy but for its success, in fact, the most important thing is the perception of farmers. Until now, farmers have fragmented production and do not have the habit of buying insurance. Principles of participating in agricultural insurance is that farmers deduct part of the profit to the insurance company in case of risks but most farmers do not understand the benefits.

It should be done actively in such a way for agricultural insurance to go continuously, because aside from changing the awareness of producers, and developing the legal framework, it is not easy to encourage the insurance companies to participate. In addition to mechanism of supporting premium for people, we should also consider support mechanisms for insurance companies in case of large losses which may affect the overall development of the business.

Insurance coverage requires to have reasonable adjustments. It needs to have diversification of insurance packages, with different fees, different coverages, which gives farmers more options when participating in agricultural insurance programs. At the same time, the government should regulate the support, and products, insurance packages, and business objects should be decided by enterprises and insurance buyers. In addition, it needs to encourage the model wherein implementing agricultural insurance is associated with outputs purchasing business. The damage assessment should be implemented by a third party as an independent unit.

In order to successfully implement agricultural insurance, it also needs to make good public-private partnership (PPP), in which farmers play the most important role. The

insurance is adjusted for each region, the private sector (insurance company) is responsible for generating revenue, improving services, enhancing competitiveness and increasing customers; the State is responsible for leadership, administration and issuing support mechanism.

Regarding management solutions, in some countries, the government has asked the insurance companies to ensure a reasonable proportion of income from insurance premium from crops, livestock insurance or from rural areas. Normally, this proportion will increase to a certain number, based on the company's operating year. That method is now being applied in India. Second, there may also be priority for insurance companies specializing in providing insurance services on agriculture or having more than 50% of revenues from these services. Third, the mutual insurance model or self- insurance mechanism for certain kinds of risks are encouraged. According to this model, the people participating in insurance contract is also the insurer, thereby contributing to reducing costs, attracting those who really need insurance, while ensuring fairness in the paying fees as well as damage compensation. By doing this, people who are engaging in the same field and profession and having common risks (such as shrimp, catfish farmers) can jointly establish and operate management. Fourth, it is compulsory to buy insurance for certain common risks or the risk that have essential meaning for daily life and production of the people. However, to avoid negative reactions from the people, it needs to implement this solution very carefully.

It is clear that without customers, no type of business can succeed. The problem is that the government should have support policy in their competence. However, due to the fact that agricultural insurance takes too many risks, there should be kind of reinsurance or state support. For example, insurance companies should have responsibility for the commercial common risks while government sponsors for several types of catastrophic risks.

Besides, the cooperative group, cooperatives or joint-stock companies should be established to create stable agricultural products with good quality. On the other hand, there is a need to change techniques, production methods, planting schedules to minimize risks. Farmers should organize their production in the form of large scale farm, then the insurance company will just sign contracts with a representative so it is convenient for the management and evaluation for compensation. This will create the assurance in controlling the levels of risks.

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