

# **Building Agricultural Disaster Insurance System Needs Depth Participation of Government**

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## **INTRODUCTION**

Agricultural insurance is one of the most effective ways to settle the agricultural risk diversification question around the world. It is also one of the WTO's "green box" policies, which allows agricultural protection. Currently, there are more than 40 countries carrying out agricultural insurance businesses around the world. China is one of the countries most affected by natural disasters in the world, especially the agricultural risks that bring a great loss to the country. The Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China has clearly put forward suggestions like "perfecting insurance economic compensation mechanism and establishing agricultural disaster insurance system" on the document "Decisions on Certain Major Issues about Comprehensively Deepening Reform".

### **1. The importance of establishing agricultural disaster insurance system**

Currently, the establishment of agricultural disaster insurance is imminent, because agriculture is like an "open factory" and severe natural disasters can create loss to almost all agricultural varieties. In the new situation of agricultural production scale and industrialization, major natural disasters have created a serious impact on the sustainable development of modern agriculture, and on how to increase farmers' incomes and rural stability. At the same time, with our country agricultural disaster insurance scale expanding unceasingly, the excess compensation caused by a major natural disaster, is likely to give farmers unbearable loss to risk management institutions. Therefore, to establish agricultural insurance catastrophe risk disperse mechanism is also imminent for the insurance industry.

According to the China insurance regulatory commission from 2007 to 2012, the country's agricultural insurance provided by the risks increased from 112.6 billion yuan to 900.6 billion yuan, with a total of 113 million farmers paying 55.1 billion yuan. China's main agricultural insurance area is above one billion mu, and the insurance amount has exceeded one trillion yuan from January to October in 2013. There is no doubt that agriculture insurance plays a great role in the implementation of the central government rich-peasants policy, dissolving the risk of agricultural production,

stabling farmers' income, and in the implementation of national food security strategy, the macroeconomic regulation and control policy and rural social support.

## **2. Threatens to agricultural disaster insurance system**

Worryingly, however, as the premium scale and coverage spreading, the problem on our agricultural disaster insurance risk diversification mechanism is increasingly urgent. Relevant statistics show that China's natural disaster frequency is 18% higher than the level of the world average. In the 20<sup>th</sup> century, there were a total of 54 natural disasters around the world, eight of which occurred in China. Every year in China the economic loss reaches to hundreds of billions of dollars because of the major disasters. Especially in recent years, in China, agricultural disasters take place more frequently. In addition, the hazard rate is increasing and the degree of loss is higher. Therefore agricultural disaster risks become higher and higher and the sustainable development of agricultural insurance has received a serious threat from disaster risks.

In the face of rapid accumulation of risks, insurance experts and the industry call for establishing agricultural disaster diversification mechanism for them. This voice not only attaches great importance to policy makers, and has been listed in the national reform and development agenda. As an important meeting during the key period of reform and development in China, The Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China has clearly put forward suggestions like "perfecting insurance economic compensation mechanism and establishing agricultural disaster insurance system" on the document "Decisions on Certain Major Issue about Comprehensively Deepening Reformation". When conveying how to learn to implement the spirit of The Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China, the China insurance regulatory commission chairman Xiang Junbo also emphasizes that reform of the insurance industry task should be earnestly implemented, as well as making the concrete scheme of disaster insurance and agricultural insurance. It should also perfect the disaster risk diversification mechanism and build a full range of agricultural risk management system through insurance economic compensation mechanism.

## **3. Actions to establish agricultural disaster insurance system**

In reality, how should China establish agricultural disaster insurance system? Specifically, we should perfect several aspects on structure and organization system basics. First of all, we should build such a province-central two-level agricultural disaster risk insurance fund, with paying reinsurance limit of indemnity. Among them, the insurance and reinsurance companies bear the liability to pay compensation within the loss ratio of 150%. When it is above the limit and the loss ratio is between 250 % and 300%, provincial fund pays for the loss. When it is up to the loss ratio of 500 %, the central fund pays for the loss. But no matter which level fund pays for the loss, it should comply with the principle of limited compensation. And then we should implement the rate differential principle. In order to avoid local finance "one subsidy transforms to the other side", the company must pay attention to the risk according to local conditions

and implement product differentiation rates. There are aspects of preferential tax. Agricultural disaster insurance itself is a kind of policy tools, and most of the countries have duty-free policy on the agricultural disaster insurance business. In addition, we should consume the management fee and insurance premium subsidies. In almost every country, the agricultural disaster insurance fees are managed by governments, as well as insurance premium subsidies is charged by the government, which is common. In case of serious disasters, it should also get the support of the government when the agricultural insurance reserve accumulation is not enough to pay reparations.

Up to now, China should not only attach importance to the local level in the construction of agricultural disaster risk management system, but pay more attention to the central level. When the central level of disaster risk management system is established, local agricultural insurance management risk can spread across the country, and the agriculture insurance and sustainability management lever will be greatly improved. And when we learn the experience about establishing the agricultural insurance disaster risk management system from abroad, the central government and provincial finance should make more contribution, such as the central government should provide reinsurance, set up the disaster risk reserve fund, or allow the provinces or insurance companies to use market financing mechanism and so on. In addition to this kind of system supply, it also needs support from the fund. If we do not have these points, it is impossible to fulfill our mission on the establishment and the improvement of the agricultural disaster insurance risk management.

#### **4. Some experience from aboard**

Currently, the policy's horn has sounded, but how to perfect agricultural disaster insurance together—how to make the concrete scheme of distributed system and how to effectively implement policies to ensure sustainable development of agricultural insurance, have become the focus of society from all walks of life. Based on the experiences of other countries on agricultural insurance disaster risk management models, the agricultural disaster insurance diversification mechanism of most countries is perfected in its original form and are based on the basics of the architecture of agricultural insurance system. The efficient agricultural disaster insurance system operation is closely related to the government's vigorously support and the deep engagement. Most countries whose agricultural insurance business is carried out better, set up the agricultural insurance as a part of social security from the beginning, such as the United States and Japan, which have specifically regarded agricultural field as the policy insurance. The French government stipulates agriculture insurance as policy insurance in the formulation of its agricultural insurance law.

The large agricultural insurance risk loss ratio is high and the general commercial insurance company finds it difficult to separate the agricultural insurance disaster risks, therefore governments set business rules, carry out the premium and the fiscal and taxation policy support, such as making business expense allowance to provide proportional reinsurance and excess of loss reinsurance guarantee, such as making

special legislation, which deeply involves the agricultural insurance disaster risk management system construction, and takes the role of the final applicant in the agricultural insurance disaster risk management system, despite different national conditions. In addition, the agricultural insurance as a kind of agricultural development and protection system, also has a high level of dependence on relevant laws, thus whether the Federal Crop Insurance Law in the United States, Agricultural Disasters Compensation Act in Japan and the Agricultural Insurance Law in France and so on, they all provide a strong backing for the stable and healthy development of agricultural insurance.

## **CONCLUSION**

It is necessary to stress that “the hand of government” is powerful, and its power is equally worthy of respect when under the guidance and care of “the hand of government”. From the perspective of the development of world agricultural insurance, there is a better way to establish the policy-oriented agricultural insurance system, especially when it can have government support. But this does not mean that it must be carried out on the pattern that all the operation and management missions are directly charged by the government. The government directly operates agricultural insurance, which will not only do contrary to market economic system and is not conducive to the transformation of government functions. It also leads to inefficient, moral hazard and adverse selection, even system transformation is hard to solve. What's more, the property of the country's agricultural insurance company and corporate governance structure will complicate problems such as agricultural insurance business in the long run. Therefore, we should emphasize our government’s deep participation, but at the same time, the commercialization of agricultural insurance operation mechanism must also be confirmed.

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