



## **Policy Content and the Status of China's Policy-oriented Agricultural Insurance**

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### **INTRODUCTION**

For decades, China's policy-oriented agricultural insurance (POAI) experienced a tortuous course of development. After 2004, the central government introduced The No.1 Document, which proposed to increase support for agriculture. From the beginning, POAI developed rapidly and has made significant achievements. By the end of 2013, the premium income scale of China's agricultural insurance ranked second in the world after the United States and China has become one of the world's most active agricultural insurance markets. This article, focuses on policy content and the development effectiveness of China's POAI.

#### **Definition of POAI**

Agricultural insurance policy is an insurance company market operations which rely on government subsidies and other policy support through premiums for planting, aquaculture economic losses due to natural disasters and accidents caused by direct chemical and physical costs of providing insurance.

#### **Policy development process of POAI**

The No.1 Document of 2004 of the CPC Central Committee and the State Council for the first time explicitly pointed out "To accelerate the establishment of the POAI system, some kinds of agricultural products and regions as the pilot site should first be selected; in some regions with good economic condition, some certain premium subsidy should be provided to peasants who participate in crops and livestock insurance"<sup>[1]</sup>

The No.1 Document of 2005 pointed out "Expand the scope of agricultural policy insurance, encourage commercial insurance agencies that carry out agricultural insurance business" .

The No.1 Document of 2006 pointed out : “Steady progress in the development of POAI pilot work, accelerate the development of various forms, multiple channels of agricultural insurance.”

The No.1 Document of 2007 pointed out: “National financial allocated 1 billion yuan for special subsidies, by supporting local financial funds for the six provinces of the five classes of insurance to be subsidized under the category of crops, and actively provide protection for agricultural production safety.”

The No.1 Document of 2008 pointed out: “Summary for the pilot of POAI conscientiously, around the experiences and practices, and at the same time, expand the scope steadily, determine the subsidy varieties scientifically.”

The No.1 Document of 2009 pointed out: “Accelerate the development of POAI, expand the scope and increase agricultural insurance products, and increase the intensity of the central government premium subsidies for the Midwest. Accelerate the establishment of agricultural reinsurance system and financial support catastrophe risk diversification mechanism to encourage mutual assistance and cooperation in rural development and commercial insurance business. Explore the establishment of rural credit bank insurance interactive mechanism with a combination of agricultural insurance.”

The No.1 Document of 2010 pointed out: “Make efforts to develop agricultural insurance, in accordance with government guidance, policy support, market operation, the farmers on a voluntary basis, establish and improve the agricultural insurance system. Expand the scope of the pilot POAI, government at all levels to give farmers a chance to participate in agricultural insurance premium subsidies, improve agricultural catastrophe risk transfer-sharing mechanism, and explore the establishment of central and local financial support for agricultural reinsurance system. Encourage leading enterprises, intermediary organizations to help farmers to participate in agricultural insurance.”

The No.1 Document of 2011 pointed out: “Encourage and support the development of flood insurance.”

The No.1 Document of 2012 pointed out: “Expand POAI products and coverage, expanding the scope of the pilot forest insurance premium subsidies to support the development of fisheries mutual insurance, encourage local agricultural production to carry out the advantages of insurance. Meanwhile, to improve the agricultural reinsurance system, and gradually establish central government’s financial support for agricultural disaster risk transfer under a decentralized mechanism.

The No.1 Document of 2013 pointed out: “Increase agricultural insurance products; increase agricultural insurance subsidies to the Midwest and producing counties, increase in the proportion of subsidized part of the insurance premium; and promote the establishment of financial support for agricultural insurance under big disaster risk diversification mechanism.”

The No.1 Document of 2014 pointed out: “Increase agricultural insurance support; constantly improve the level of risk to protect the three staple crops; and encourage mutual cooperation in various forms of insurance; regulate agricultural insurance reserve big disaster risk management, accelerate the establishment of financial support for agricultural insurance big disaster risk diversification mechanism.”

In 2004, China began to conduct POAI pilot experiment in nine provinces (autonomous regions, municipalities) and it was carried out in the whole nation in 2007. By the end of 2013, the premium income scale of China’s agricultural insurance had ranked second in the world and first in Asia.

### **Main content of the POAI**

(1) Government provides policy support, subsidies, and sets the type of insurance and insurance rates for the national food security like important crops and livestock poultry products.

(2) Insurance Company entered into an insurance contract in accordance with relevant items that are both legal and insured. Insurance company compensate the loss caused by accidents, natural disasters, occurrence of animal disease in the agricultural production process.

### **The characteristics of POAI.**

Agricultural insurance policy is only part of the agricultural insurance. Theoretically, agricultural insurance can cover all agricultural products, but the POAI is generally limited to those relating to the national economy. Some agricultural products for agricultural and rural economic development has also played a significant impact.

Such insurance is often regarded as a strong social welfare, insurance, high operating costs, low comprehensive income, commercial insurance companies are generally unwilling or incapable of operating management, and POAI can only be included in the scope of business. Judging from the national macro-control level, POAI has strong policy implications, reflecting the will of the state and its industrial policy.

### **The development effectiveness of China’s POAI**

#### **Business scale and risk safeguard level swift growth**

With the enhancement of subsidy support from all levels of governments, the business scale and coverage of POAI expand swiftly year by year, From 2007 to 2013, China’s agricultural insurance premium income was from 51.8 to 306.7 hundred million Yuan respectively. In 2013 agricultural insurance provided risk safeguard up to 4070 hundred million Yuan for agriculture, countryside and peasants. At the same time, the premium income scale of China’s agricultural insurance had risen to the second place worldwide and ranked first in Asia.

Agricultural insurance scale. Data show that from 2007 to 2013, China's agricultural insurance covers major crops from 2.3 million hectares increase to 11.06 million hectares; premium income grew from 5.18 billion yuan to 30.67 billion yuan, but in 2006 this figure was only 8.5 billion yuan, the average growth of over 66% in seven years. China had set up

agricultural insurance township (town) level service station 23,000, village service station 280,000, covering about 48% of administrative villages, accumulated provide risk guarantee fund 4.07 trillion yuan, and compensated 75.9 billion yuan to 120 million peasants.

In 2008, China has seven major operating agricultural insurance company and their market share is over 96%. By the end of 2013 the number increased to 23, each province and city have 2-3 insurance companies handling agricultural insurance qualifications; now regional agricultural insurance has covered all provinces, more than 90 varieties of crop insurance, covering agriculture, forestry, animal husbandry and fishery fields.

### **Different types of POAI develop collaboratively and rapidly**

According to the difference of premium subsidy mainstay, China's POAI might be divided into two types, which are central POAI and local POAI <sup>[2]</sup>. Central POAI is that, within the designated area, for the related operation institutions of agricultural insurance guided by provincial level government to develop the specific agricultural insurance business, the central finance provides subsidy for the insured peasants, leading enterprises and specialized cooperative economy organizations according to a certain percentage of premiums. Local POAI is that, only the local finance provides premium subsidy according to a certain percentage of premiums for the insured peasants, leading enterprises and specialized cooperative economy organizations, who insure specific agricultural insurance.

Through the concerted efforts of all levels governments, since 2007 central POAI has proliferated to 23 provinces autonomous regions and municipalities in the mainland; meanwhile, almost all the provinces, autonomous regions and municipalities have carried out various kinds of local POAI adapted to local conditions.

### **Relevant regulations and operation system have been initially established**

Since the POAI pilot experiment, China's government has proposed many times through official documentation to make clear and specific requirements for POAI, and has issued a series of documents to support and standardize its development. It has provided guarantee for expanding the business scope of POAI and promote the diversification of business entities. By the end of 2009, the different kinds of agricultural insurance products of POAI had been more than 160; the insurance companies managing POAI had been more than 20; the management system of POAI had been formed initially, which was composed of commercial insurance companies and professional agricultural insurance companies; the business networks of which had proliferated all over the country; the operation system of POAI had been initially established. As a result, the overall development goal of "low assurance, wide coverage" of policy-oriented agricultural insurance had been achieved.

### **Main problems in the development of China's POAI**

#### **The unmatched phenomena between risks safeguard level and government subsidy capability is serious**

Why can China's POAI achieve such rapid development? The most important impetus comes from all levels of governments' strong financial support. But the undeniable fact is that some partial local authorities have treated it wrongly as an achievement project. In order to quickly expand the business scale and coverage of POAI and improve risk safeguard level, they

established the insurance coverage and subsidy level that surpassed the local economy development levels and government financial subsidy capabilities. The result is that the phenomenon of government owed premium is serious, so that the receivable premium rates of insurance companies are very high.

### **Low awareness of the POAI**

《China's agricultural insurance market demand report》relates to the country from 31 provinces found that the reasons why 64.46% of households buy agricultural insurance that township and village cadres propaganda and mobilization; 16.45% of households buy agricultural insurance because the state provides premium subsidies to buy; 7.14% of households feel that understanding POAI is an effective way to compensate for the loss before they go and buy agricultural insurance. The main channel of the respondents who were peasants who buy agricultural insurance is the village unified purchase. This is considered convenient but not conducive to raising awareness of peasants' insurance, and had a negative impact on peasants' understanding agricultural insurance product.

Peasants interviewed regarding agricultural insurance terms claim to know the extent of the areas to be improved. The reason peasants did not buy agricultural insurance, 33.85% of people believe that compensation is too low, a lower level of protection for agriculture. 12.94% of households considered to determine the losses, compensation program is too complicated, 9.82% of households believe that the loss is unlikely, is not necessary, 1.85% of households considered unlucky and refuse to buy insurance. The level of protection of agricultural insurance is not high, claims procedures are complicated, peasants' insurance awareness is not high is the main reason why there is hindrance in the popularity of agricultural insurance.

### **A lower amount of Compensation**

From the POAI effect to compensate peasants for losses, 35.4% of households considered it insufficient to make up 30% of the loss, 30.54% respondents think that POAI can make up 30%-50% loss, 19.38% respondents think that POAI can make up 50% o-70% of loss, that 9.45% respondents think that POAI can make up 70% -90% of the loss, and only 5.24% is thought that can compensate for more than 90%. To some extent, the current POAI is mainly to cover the cost of the loss, it is necessary to increase agricultural insurance products in order to provide high-level protection.

### **POAI product range is difficult to meet the needs of peasants**

Respondents demand for crop insurance peasants amounted to 85.3%, the demand for livestock insurance accounted for 50.7%, followed by prices of agricultural insurance, accounting for 18.1%. This indicates that the current crop insurance on the insurance market is not enough to make peasants satisfied. The insurance company may be appropriate to increase the planting, aquaculture insurance product categories. Peasants interviewed for innovative agricultural insurance products demand survey showed that the highest percentage of yield insurance needs, up to 36.32%, followed by the traditional cost of insurance and the new income insurance, accounting for 29.91% and 24.91%, the price of insurance only 8.86%.

## **CONCLUSION**

China's POAI emerges as the times require and has rapidly developed. It has played an important role in stabilizing agricultural products market and farmers' income, enhancing the international competitiveness of agricultural products, promoting the development of modern agriculture and so on. The contributions should not be underestimated and policy objectives have been achieved remarkably. However, in the development process some prominent issues were also exposed and has seriously restricted POAI's healthy and sustainable development.

In the future development and exploration of China's POAI, firstly, all levels of governments should more deeply understand the significance of POAI, continually play the leading role, and set the management and development objectives of POAI adapted to local conditions. Secondly, the governments should encourage those qualified insurance companies to participate in the development of POAI through multi-channels approach in order to build nationwide and multidisciplinary involvement in risk dispersion and transfer mechanisms, especially for catastrophic risks. Thirdly, the government should formulate and perfect the corresponding law system to create a favorable operation environment for sustained and healthy development of China's POAI.

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