

# **Agricultural insurance in China takes off with government support**

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## **Introduction**

Agricultural insurance plays an important role in stabilizing farmers' income and stimulating investments in agriculture. The market for these products has taken off since the Chinese government began to subsidize premiums.

### **Part I: The evolution and policies of agricultural insurance in China**

**Initial and stagnant stage:** There was little agricultural insurance business in this stage. After the establishment of the People's Republic of China (PRC) in 1949, the original People's Insurance Company of China (PICC), a State-owned insurer, learned from the former Soviet Union and offered a trial agricultural insurance in the early 1950s. In March of 1953, PICC decided to "re-consolidate urban business, close rural business, rectify institutions, make steady progress on solid base". There was nearly no agricultural insurance at the end of 1953. In October 1958, the National work conference on finance and trade in Xi'an suggested that after the establishment of people's communes, there was no need for insurance, and all domestic insurance should be suspended immediately except some international business. All domestic insurance business was suspended till 1980.

**Operated on commercial basis stage:** During this period, the government didn't have supportive policies, and agricultural insurance was provided on total commercial basis. After the Third Plenary Session of the 11<sup>th</sup> Central Committee of the Chinese Communist Party in 1978, China began to implement household-responsibility system and abolished the people's commune system. In April 1979, the State Council issued a directive that "gradually resumes domestic insurance business". Cargo insurance, enterprise and household property insurance firstly recovered, then did the agricultural insurance in 1982.

Most agricultural insurance products were rarely profitable and insurers were reluctant to sell them, only the state-owned insurer PICC and the Xinjiang Corps Insurance Company (set up in 1986, currently known as China United Property Insurance Company) insisted on it. Agricultural insurance suffered long-term loss, which was made up by other sections of business in the company. For example, the average loss ratio of agricultural insurance during 1982 and 2000 was 104.88%, with a conservative estimate of 20% expense ratio, and the combined ratio reached 124.88%. Agricultural insurance had been experienced growth for years, reaching a temporary peak in 1992, and then shrank with the reorganization in 1996 and shareholding reform in 2003 of PICC, which paid more attention to profit. In contrast to

the boom in premium volumes from other life and non-life insurance products, agricultural insurance premium fell by 50% between 1992 and 2002, from CNY 817 million to CNY 3 million. At the end of 1992, agricultural insurance premium accounted for 2.57 % property insurance premium, but in 2002 this number was down to 0.66%, and 0.35% in 2004.

**Policy-supported stage:** Chinese government supported agricultural insurance with some methods, of which premium subsidy was the most important. As demand for more agricultural output grew, China was increasingly faced with a challenging situation: arable land was limited and crops production was threatened by floods, droughts and typhoons. Chinese government has recognized the importance of the agricultural sector to the economy and to the social stability. The “Three-dimensional Rural Issues”, which cover agriculture, rural area and farmers have been given high priority on the government agenda. In 2004, the CPC Central Committee and the State Council wrote in the *Opinions on Some Policies of Increasing Farmers’ Income*: “To accelerate the establishment of policy mechanism of agricultural insurance, and to choose part products and regions for pilot projects, qualified places may provide certain premium subsidy for farmers who purchase planting and livestock breeding insurance.” Later the China Insurance Regulatory Commission (CIRC) initiated Policy Agricultural Insurance Pilot Project in Shanghai, Heilongjiang, Jilin, Inner Mongolia, Anhui, Xinjiang, Zhejiang, Sichuan and Hunan.

Since 2007, the government has fostered agricultural insurance through subsidies. The CIRC has stated that the development of the agricultural insurance should be “guided by the government, supported by policies and operated by the market, with voluntary participation by farmers.” The central government had spent CNY36 billion on agricultural insurance subsidies from 2007 to 2012, local governments also provided subsidies, and it brought rapid growth of agricultural insurance. The premium in 2007 was CNY5.33 billion; it increased to CNY30.66 billion in 2013, making China the second largest agricultural insurance market behind the US. Subsidies make agricultural insurance premiums affordable for a large group of farmers and allow them to profit from insurance payouts in case of a bad harvest. Agricultural insurance was offered by leading property and casualty insurers such as PICC and China United, as well as by specialized agricultural insurers such as Anxin (Shanghai), Sunlight (Heilongjiang), Anhua (Jilin) and Guoyuan (Anhui).

In order to regulate agricultural insurance activities, protect the legitimate rights and interests of the parties engaged in agricultural insurance activities, the *Agricultural Insurance Regulations* were issued and came into force in March 1, 2013. The *Agricultural Insurance Regulations* involves important issues such as insurer’s qualifications, supportive policies, catastrophe risk management, and the two chapters "agricultural insurance *contracts*" and "*business rules*" which distinguish agricultural insurance from other insurance products.

Affected by global warming, the probability of weather-related extremes increases, and regional and basin-wide risk is gradually exposed. The Heilongjiang flooding in 2013, Liaoning drought and Hainan two typhoons in 2014 are examples. Insurance companies made massive payments in these provinces. In order to deal with catastrophe risk, China

Agricultural Insurance and Reinsurance Community was set up on November 21, 2014, sponsored by 23 insurers operating agricultural insurance and China Property & Casualty Reinsurance Company Ltd..

**Part II: Introduction to the subsidies policy---take Anhui as an example**

Agriculture varies greatly in different parts of China. The governments offered subsidies to different products. In 2013, the central government offered subsidies for 15 kinds of products. In Anhui, the central and provincial government offered subsidies to eight kinds of agricultural insurance products--rice, corn, cotton, wheat, rape, soybean, cows and breeding sow, and encourages county and municipal governments to support insurance for characteristic agricultural products, greenhouse vegetables, fruits and fattening pig for instance. However, what the county and municipal governments could do was limited because of tight budget. The subsidies is shown in Table 1.

Table 1. The coverage, premium, and subsidies of agricultural insurance in Anhui

	rice	corn	cotton	wheat	rape	soybean	cow	breeding sow
Coverage(CNY)	330	250	340	270	270	170	6000	1000
Premium#(CNY)	19.8	15	20.4	16.2	12.15	10.2	360	60
Percentage of subsidies								
Central government	40%	40%	40%	40%	40%	40%	50%	50%
Provincial government	30% for major wheat producing areas in northern Anhui, and 25% for the other areas.						25%	25%
County/ municipal government	10% for major wheat producing areas in northern Anhui, and 15% for the other areas.						15%	5%
Farmers	20%	20%	20%	20%	20%	20%	10%	20%

#The premium rate is 6% for all products, except 4.5% for rape.

**Part III: Need for increase premium subsidies**

In recent years, Chinese government continues to enhance the development of agricultural insurance, and premium subsidies cover more and more areas and products. However, according to the willingness of farmers, there is still need to further improve the level and scope of the subsidies.

The main reason is that the coverage is generally lower than what the farmers expected, which dampens the enthusiasm of farmers. Take rice for example, an area of one mu paddy can yield 600 to 1000 kilograms of rice, calculated in medium price, that is CNY900-1600. The rice insurance only covers the direct materials cost, the highest coverage just CNY300 or over, no more than one-third of the earnings, making the compensation in bad harvest unattractive. The higher coverage requires higher premium, and more subsidies.

Furthermore, there is demand for more insurance products subsidized by government. In 2013, the central government offered subsidies for 15 kinds of products, which is far from being able to meet farmers' demand. Fruits, vegetables, chickens, ducks, aquaculture, which are important for some local farmers and the economy, totally rely on the subsidies from local

government. The subsidies are limited, therefore, can't encourage farmers to participate in the insurance program. The first document of the central government in 2014 put forward that *“encourage insurance companies to provide insurance for characteristic and competitive agricultural products, local government provide subsidies according to its fiscal capacity, central government provide support with rewards program instead of subsidies.”* It will mitigate the problem to some extent.

Finally, the premium subsidies are provided through “central government, provincial government and county/municipal government matching funds system”, that is, if the county/municipal government can't provide subsidies, then the central and provincial government will not provide subsidies. Some county/municipal governments with tight budget are not willing to make efforts in agricultural insurance program, leading to low coverage rate in these areas. The first document of the central government in 2014 put forward that *“gradually reduce or eliminate county government's premium subsidies in major grain-producing counties ”*. This is a necessary action, and it will surely will promote agricultural insurance in these areas.

### **Conclusion**

Agricultural Insurance for China, a large agricultural country, is a very important way to decentralize agricultural risks. Currently, agricultural insurance develops into a stagnant, shrinking dilemma. The biggest contradiction is between the urgent need of majority of farmers and the reluctant attitude of the commercial insurance companies to get involved in this area. The premium subsidy can be a reasonable expenditure of the budget, more affordable, and more controllable.

To focus on promoting the insurance industry to play a greater role in agricultural protection and disaster reduction, agricultural insurance, county insurance, new rural cooperative medical insurance should be developed, and the central and provincial financial subsidy standards for agricultural insurance should be improved.

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