The Policy and Pilot Plan: Top-Grafting Pears for Crop Natural Disaster Insurance in Taiwan, R.O.C.
Outlines

- Introduction
- Natural-disaster relief system in Taiwan
- Pilot Plan for Crop Natural Disaster Insurance in Taiwan
- Cautions and Improvements of the Top-Grafting Pear Pilot Plan
- The Policy objectives and future directions for the Crop Natural Disaster Insurance in Taiwan
- Conclusion
Introduction

– Taiwan implemented the **agricultural natural disaster relief system in 1991**
– Proving **cash relief** and low-interest loans to the farmers to recover from natural disasters.
– The cash relief grant is **about 10%-20%** of input cost.
Introduction

– The average expenditure in the recent 10 years (2005-2014) is about NTD2.75 billion (USD86 million).
– In the recent decade (2005-2014), the relief fund budget takes up about 40\% of the actual average expenditure.
– The amount of government aid to farmers takes up about 25\% of the agricultural natural disaster losses.
CASH RELIEF FOR CLIMATIC DISASTERS IN CROPS, 2005-2014

CASH RELIEF FOR NATURAL DISASTERS IN CROPS, 2005–2014
Introduction

- **Two main problems to resolve:**
  - Farmers complaining about cash relief not enough.
  - Natural disaster relief fund insufficiency.
- **In 2015, COA has carried out the Pilot Plan for Crop Natural Disaster Insurance.**
Natural-disaster relief system in Taiwan
Content of Natural Disaster Relief

- Definition of a natural disaster:
  - Typhoons, foehns, tornadoes, heavy rains, incessant rains, hail, cold, droughts, or earthquakes, etc.
  - Pest or Bird damage are not included.
Losses exceeding 20%: farmers whose losses from natural disasters have been identified to exceed 20% are granted.
- **Subjects of relief:**
  Natural persons, rather than legal entities.

- **Not be granted relief:** the use of land, water, and facility are not allowed by rules

- **The same crop in the same production season shall be granted relief just no more than once.**
  But Crops that are newly planted are considered as different production seasons. (Short-term vegetables)
Natural-disaster relief insufficiency

- Limited disaster relief fund

- All agriculture natural disaster relief funds are covered by the central government.
- The relief funds takes up only about 40% of the actual average expenditure.
- The shortages is by adjusting the budgetary expenditure.
High administrative costs

- In any case, a farmer suffering more than 20% losses is granted.
- Involving at least 4 government agencies for evaluating losses, announcing relief, assessing losses, check, review.
- The schedule for cash relief to the farmers takes about 44 days to complete.
- Affected routine work to agencies.
Disaster losses identification disputes

- The use of land, water, and facility are not allowed by rules.
- Those holding opposing views about the site identified disaster losses rate.
- Disputes and cause conflicts between the government and the farmers.
Insufficient relief

- The government’s relief amount only accounts for about 25% of the total agriculture disaster losses.
- The cash relief can lessen farmers’ economic loss, but they still need to cover 75% of the losses of their own.
Pilot Plan for Crop Natural Disaster Insurance in Taiwan
1. Current Situation of Agriculture Insurance in Taiwan.
2. Difficulties in Crop Natural Disaster Insurance in Taiwan.
3. 2015 Pilot Plan for Crop Natural Disaster Insurance in Taiwan.
4. 2015 Top-grafting Pear Policy Content.
1. Current Situation of Agriculture Insurance in Taiwan

- **Livestock insurance**
  - Insurance for cow deaths, insurance for pig deaths during transport, and insurance for pig deaths.
  - In 2015, subsidies granted to livestock raisers amounted to NTD170 million (USD53 million).

- **Fishing vessel insurance**
  - The fisherman with not exceeding 100 tons of power:
  - In 2015, subsidies granted to fishermen amounted to NTD52 million (about USD1.6 million).
2. Difficulties in Crop Natural Disaster Insurance in Taiwan(1)

- The structure of agriculture does not conform to the basic insurance principle of the law of large numbers:
- Risk diversification is difficult through insurance:
- Difficult to specifically assess agriculture nature disaster losses:
2. Difficulties in Crop Natural Disaster Insurance in Taiwan(2)

- Existing insurance operators lack professional agricultural catastrophe investigation personnel:
- Cash relief is free of charge:
3. 2015 Pilot Plan for Crop Natural Disaster Insurance in Taiwan(1)

– COA chose 10 suitable crops for early pilot plan items
  • Taiwan’s first crop natural insurance policy became available in 2015.

– Public premium subsidy:
  • The central government subsidize 1/3.
  • If possible, the local government subsidize 1/3.
  • Maximum amount granted not exceeding NTD30,000 (about USD1,000)
The pilot plan is due to be conducted for three years.

During the pilot phase, the natural disaster relief system and crop natural relief system coexist.
4. 2015 Top-grafting Pear Policy Content (1)

- **Insurance policy:**
  - The *indemnity type*
  - Government disaster relief Top-Up Based (relief *Top-Up Based*)
• **The indemnity type:**
  - subject-matter insured is top-grafting pears (pome).
  - The underwriting perils include: typhoons and heavy rains.
  - During the insurance period, the insurance company shall pay the claims according to the degree of damage stated in the contract.
4. 2015 Top-grafting Pear Policy Content (3)

- **Government disaster relief Top-Up Based**
  - Contains top-grafting pears (pome) and pear spikes.
  - Natural disaster perils include typhoons, heavy rain, and low temperature.
  - Without having to assess disaster losses.
  - Similar to “index policy” practices.
  - Only offer one-time claim.
### Table. Top-grafting pear crop insurance merchandise details

<table>
<thead>
<tr>
<th>subject-matter insured</th>
<th>Natural disaster perils</th>
<th>Insured type</th>
<th>Maximum claim amount/fixed amount (NTD; USD)</th>
<th>Coverage</th>
<th>Insurance period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top-grafting pears</td>
<td>Typhoons, heavy rains</td>
<td>Indemnity Based</td>
<td>(1) NTD350,000 (About USD10,900) (2) NTD250,000 (About USD7,800)</td>
<td>The insurance company shall compensate the insured with regard to top-grafting pears damaged due to typhoons or heavy rains during the insurance period in accordance with the agreed degree of damage stated in the contract.</td>
<td>From November 1 to October 31 the following year</td>
</tr>
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<td></td>
<td></td>
<td>Government disaster relief Top-Up Based</td>
<td>(1) NTD$60,000 (About USD$1,800) (2) NTD90,000 (About USD$2,800)</td>
<td>1. The degree of top-grafting pear damage at least 20% incurred by the insured due to low temperature or typhoons or heavy rain during the insurance period. 2. The insurance company shall claim the insured according to the agreement in the contract when the insured has been granted “cash relief” from the government in accordance with the provisions in the “Guidelines for agricultural natural disaster relief”.</td>
<td>From November 1 to March 15 the following year</td>
</tr>
<tr>
<td>Pear spikes</td>
<td>Low temperature</td>
<td>Government disaster relief Top-Up Based</td>
<td>(1) NTD$30,000 (About USD900) (2) NTD60,000 (About USD1,800)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. 2015 Top-grafting Pear Policy Content (4)

- **Government agricultural technical consultation and assistance in the pilot phase of assessing disaster losses**
  - Taking agricultural technical advice consultation.
  - Providing a **model for assessing disaster losses and assessing site disaster losses for indemnity during the pilot phase.**
• **District Based Segmentation**

  ➢ Statistically estimating the situation of population damage **by using damage samples**.
  ➢ The production areas are classified by town and administrative regions.
  ➢ The greatest advantage lies in reduced disaster loss assessment costs.
Members on assessing disaster’s losses includes 3 members:

- Insurance company representative
- COA local agricultural research and extension station representative
- Agriculture and Food Agency (AFA) Branch (Office) representative
- If necessary, senior experienced farmer may be invited to join the team.
4. 2015 Top-grafting Pear Policy Content (7)

- **Premium Subsidies from the Government**
  - The central government subsidize 1/3.
  - The local government subsidize 1/3.
  - Maximum amount granted not exceeding (above) NTD30,000 (about USD1,000).
Cautions and Improvements of the Top-Grafting Pear Pilot Plan
Statistics show as of the end of March 2016 show the total insured area of 50 hectares, accounting for 1% of the total production area.
A review was conducted to find the causes:

- The **coexistence** of the crop natural relief system and the natural disaster insurance system.
- Farmers consider **premium** rates to be too high and procedures to be complex.
Cautions and Improvements of the Top-Grafting Pear Pilot Plan(3)

- Farmers have concerns for insurers
- Private-owned insurance companies have inadequate sales channeling and lack knowledge about farmer’s planting habits.
The Policy objectives and Future directions for Crop Natural Disaster Insurance in Taiwan
-The Policy objectives for Crop Natural Disaster Insurance

- Every year, unconfirmed disaster relief funds for disaster losses are converted into fixed insurance premium expenditures.
- The disaster relief system shall also be reviewed and adjusted accordingly.
The Future Directions for Crop Natural Disaster Insurance in Taiwan

- Agricultural insurance should head towards the direction of project legislation planning. (making agriculture insurance law)
- Disaster relief and disaster insurance measures should be adjusted appropriately.
Other measures of agricultural subsidies may be supplemented in the future. Consider to assist insurance companies in distributing agriculture insurance risks. Discuss more and set up agriculture related natural disaster relief and insurance funds.
Conclusion

- The crop natural disaster insurance will be one of the important risk management tools for farmers in Taiwan.
- Expand crop pilot plan items. In 2016, pilot plans for mangoes, pears, agricultural facilities, rice, etc.
- Evaluating to set up agricultural insurance act legislation.
Thank You