



## FFTC Agricultural Policy Platform (FFTC-AP)

Available online at: <http://ap.ffc.agnet.org/index.php>

### **Introduction to the Income Insurance System of Japan**

Fumihiko KABUTA, Ph.D.

Professor, National Graduate Institute for Policy Studies (GRIPS), Japan

The following is the translation of section 7 of “Agriculture Competitiveness Reinforcement Program” which was approved by the Agriculture, Forestry and Fisheries and Regions Vitalization Creation Headquarters (headed by Prime Minister Abe) in the Cabinet on 29<sup>th</sup> November 2016. The original document can be found at [http://www.maff.go.jp/j/kanbo/nougyo\\_kyousou\\_ryoku/attach/pdf/index-1.pdf](http://www.maff.go.jp/j/kanbo/nougyo_kyousou_ryoku/attach/pdf/index-1.pdf) (pp.16-24).

#### **INTRODUCTION OF INCOME INSURANCE SYSTEM**

##### **Basic concept of Japan’s income insurance system**

The current agricultural disaster compensation system is not a safety net covering the entire risk of agricultural management. Only the reduction in yield brought about by natural disasters shall be covered and not the price reduction. The target item shall be limited and it does not cover the whole agricultural management.

On the other hand, in order to foster the growth of the agriculture industry, it is necessary to cultivate agricultural managers who can tackle the development of management based on free management judgment.

As a safety net, the agricultural manager of the income insurance system should make it a point to comprehensively respond to all agricultural manager's income without regard to items.

The concrete mechanism of the income insurance system is shown in Appendix 1.

##### **Relationship between income insurance system and similar systems**

With regard to the relationship between the income insurance system and similar systems, while the target farmers and compensation contents of the respective systems are different, avoiding the double subsidy of government expenses, selective subscription shall be adopted so that farmers can use appropriate safety nets according to their management style.

However, for meats of calves, and pigs, as well as eggs that are covered by special system (“Marukin”) that cover not only income decrease but also cost increase, income insurance system shall not be applied. When conducting combined management of them with other items, only the other items shall be covered by the income insurance system.

(Note) Regarding staple rice production in accordance with its demand, measures to fully utilize paddy fields, appropriate provision of supply and demand information, etc. are currently underway, and these measures will continue to be promoted.

## **Basic concept of reviewing agricultural disaster compensation system**

From the viewpoint of improving service to farmers and reducing burdens on farmers by efficient business execution based on changes such as aging of farmers and diversification of insurance needs, the agricultural disaster compensation system shall be reviewed as shown in Appendix 2.

## **Measures for promoting subscription and smooth transition**

In order to build an agricultural production system of “well prepared, don’t have to worry”, accession to the income insurance system or the agricultural disaster compensation system shall be promoted. In particular, with regard to the income insurance system, since it is necessary to secure an appropriate scale at an early stage after the inauguration of the new system, we will promote it precisely in cooperation with related organizations such as JA and the agricultural committee.

Besides, in order to ensure that subscribers of the agricultural disaster compensation system can smoothly transit to the new income insurance system, the following measures shall be taken.

- If the achievement of the “blue return” is for one year at the time of application, we will allow such applicant to join the income insurance system.
- Especially for each package of land method, where many subscribers are currently involved in paddy field, a required transition period is set up before abolition. Farmers can then consider implementing the “blue return” and examining interests of other underwriting methods during that period.

## **Implementing entity of income insurance system, and the ideal way of agricultural mutual relief organization**

The implementing entity of the income insurance system must satisfy the following four requirements.

- To have a business scope that can cover the whole country in order to secure a population.
- Not involved in the price formation, sales etc. of agricultural products in order to fairly operate the insurance system
- To have know-how on insurance business
- Acquire agricultural knowledge

From this point of view, we will prepare the act together with the national organization’s newly established agricultural mutual relief organization.

In order to improve the service to farmers by utilizing the know-how of the private sector, the implementing agency will actively seek technical cooperation with private property insurance companies.

In addition, regarding agricultural mutual relief organizations, in order to improve the efficiency of the agricultural mutual relief organization and strengthen its governance, measures are taken such as conducting inspections by the government, obligations to keep confidentiality when conducting income insurance business, and so forth.

## **Others**

Following these basic policies, we will further elaborate the details and submit the necessary

acts to the next ordinary diet session.

The system will be revised after a certain period of time. There will be measures taken to facilitate the preparing in the future action in the review system.

## **Appendix 1. Concrete mechanism of Japan's income insurance system**

### **TARGET**

In order to accurately grasp the income of individual farmers, whether they are individuals or corporations, those who will make the “blue return” and appropriately manage their business are the one who will be targeted.

In relation to the standard income, from the viewpoint of appropriately grasping the average income, it is based on a farmer who continues the “blue return” for five years. However, in order to be able to join the blue return including simple method for one year at the time of application, in consideration of the difference from the person who has the blue declaration record of 5 years at that time, measures will be set up such as gradually raising the compensation limit until the achievement of the blue declaration reaches 5 years, upon the start of the system.

To join or not to join the system depend on the choice of farmers (voluntary entry).

### **Method of grasping income**

Farmers should submit tax related documents of a blue return form by self-declaration, along with a subscription application in which the sale price of agricultural products and the like are written or a supplementary form such as document for classifying the sale amount of the “blue return” into each type of agricultural products. Then, the implementing entity checks these contents.

### **Income covered by insurance**

If profit (= income - cost) is targeted, it is necessary to accurately grasp the cost, but the cost can be influenced by individuals, so it is difficult to confirm its rationale. Therefore, aside from profit, the total sales amount of agricultural products produced by farmers shall be targeted<sup>1</sup>.

The method of calculating the sales amount of agricultural products shall be as follows.

- For processed goods, raw materials other than agricultural products shall also be used, so they shall not be included in the sales amount. However, those that are treated as agricultural income in accordance with the tax law such as rice milling, rough tea, salted plum, tatami mats, etc., shall be included in the list of agricultural products. In addition, when processing agricultural products as in the case of the tax treatment, the amount deemed to have sold agricultural products as processing raw materials shall be included in sales amount of agricultural products. Also, inventory shall be included in sales amount of

---

<sup>1</sup> (Translator's note) In this income insurance system, “income” is defined as the total sales amount of agricultural products by farmers, which usually refers to “revenue”.

agricultural products as in the case of tax treatment.

- Subsidies are to be revised or eliminated by policy decisions, and they are not suitable for insurance, therefore they shall not be included in the sales amount. However, since the direct payment grant of field crops and the quantity payment for the sweet resource crops are to be paid for compensating the deficits, and those are handled integrally with sales amount. Therefore those shall be included in the sales amount.

## **TARGET FACTORS**

### **Target factors**

From the purpose of the system, in addition to natural disasters, income reduction inevitable by farmers' management efforts such as price reduction shall be compensated. However, in order to ensure the fairness of payment of insurance claims, careless production and intentional bargain sales etc. shall be excluded.

### **Measures to prevent unfair payment of insurance**

In order to prevent unfair payment of insurance, farmers shall notify the implementing entity at the occurrence of an accident such as a disasters, and the implementing entity shall carry out a field survey if necessary.

In addition, if there is injustice, insurance shall not be paid, and if there is serious injustice, insurance subscription after the following year shall be prohibited.

## **INSURANCE COMPENSATION CONDITION**

### **Standard income**

The idea of setting the standard income as the reference for compensation shall be as follows:

- Since we use individual income of farmers, we basically make average revenue (5 out of 5) as reference income from the viewpoint of preventing intentional lowering of income;
- However, in the case of expanding the farming acreage of the year from the past or in the case where the record of a certain upward trend can be confirmed in the past revenue amount, etc., the standard income shall be revised upward up to the expected income based on the current farming plan; and
- If the expected income based on the current farming plan is expected to be lower than the average income for five years, the expected income shall be set as the standard income.

### **The upper limit of compensation and payment rate**

- If a slight decline in the standard income were compensated, the administrative cost increases and the insurance premium also should increase. Therefore, we shall compensate if this year's income falls below 90% of the standard income (in case there are "blue return" records of five years or more).
- In addition, payment of 90% (payment rate) of the amount below the compensation limit shall be paid in order to prevent neglecting management efforts after it became clear that the income of this year is lower than the compensation limit.
- In order to allow farmers to select compensation conditions in consideration of insurance

premium burden, compensation limit amount and payment rate shall be set with multiple options under a certain upper limit.

### **Method of compensation**

In order to prevent insurance premiums from becoming an excessive burden to farming management, it shall be basically based on a combination of overthrowing insurance method and accumulation insurance method. Also, we shall make it possible to select the type of compensation.

### **Insurance premium and reserve fund**

Insurance premiums and reserve funds shall be set as common to all farmers.

In order to reduce the burden of insurance premiums for farmers, insurance premiums shall be set for each risk stage, and insurance premium rates for those who receive less insurance money shall be gradually reduced.

The government shall subsidize 50% for premiums and 75% for reserve funds.

In order to reduce the burden on farmers and to promote the participants, we will consider building a preferential tax policy such as taking the same measures as part of the existing agricultural disaster compensation system.

### **Subscription and payment timing**

In order to avoid troubles and costs for farmers by making it a simple mechanism consistent with the tax system, insurance subscription and payment timing shall be as follows:

- Income calculation period shall be from January to December for individuals and business fiscal year for corporations;
- As a general rule, farmers shall apply for subscription before the start of the income calculation period, and pay insurance premiums and reserve funds; and
- Compensation money shall be paid after tax return and the income calculation period (March to June of the following year for individuals).

However, in order to cope with the cash flow between the occurrence of damage and payment of compensation, easy-to-use loans through simple screening shall be available.

### **Government reinsurance**

Government shall confirm twice in order to ensure that compensation is received by farmers even in unexpected circumstances.

### **Others**

After the system is implemented, we will continue to accumulate data and continue to examine the improvement including how to deal with enormous damage by understanding the needs of farmers.

## **Appendix 2. Review of Japan's agricultural disaster compensation system**

### **TREATMENT OF MANDATORY SUBSCRIPTION OF AGRICULTURAL PRODUCTS MUTUAL AID**

Based on the fact that the premise of the system itself is changing, such as the abolition of the Food Management Act, and that all of the management stabilization measures such as the income insurance system are all voluntary subscription systems Mandatory subscription system of agricultural products mutual aid shall be shifted to voluntary subscription system.

### **TREATMENT OF HARVEST MUTUAL AIDS SUCH AS AGRICULTURAL PRODUCTS, LIKE FIELD CROPS, AND FRUIT TREE MUTUAL AIDS**

#### **Underwriting method**

- Although the one-stroke system and the tree-unit system are currently popular systems, it is difficult to continue evaluating damage assessment by farmers and so-called “crop cutting” for the future. Therefore, from the viewpoint of reducing the burden on farmers by implementing an efficient system, those shall be abolished after establishing a necessary transition period. At the time of the transition of the system, a mechanism shall be set up to pay mutual aid as a 50% reduction without requiring “crop cutting” for fields with a reduction of crop yield of 50% or more for all offsetting and semi-offsetting methods of agricultural products mutual aid. By doing this, it is possible for a farmer who has previously joined the one-stroke system to make a smooth transfer. Furthermore, as a cost-less option, a new method, region index method, that pays mutual aid using statistical data shall be created.
- Because it is difficult for farmers to predict future risks, the specific risk method of fruit mutual aid shall be abolished after establishing the necessary transition period for launching the system. For the same reasons, the option of short-term subscription only for the period covered by the horticultural facility mutual aid shall be abolished after establishing the necessary transition period for launching the system.

#### **Compensation ratio**

In order to enable farmers to select compensation conditions taking into consideration the burden of insurance premiums, as in the case of agricultural products mutual aid, multiple options shall be set under a certain upper limit to the compensation ratio of field crops mutual aid and fruit tree mutual aid.

### **TREATMENT OF LIVESTOCK MUTUAL AID**

From the viewpoint of improving services to farmers and reducing burdens on farmers by implementing an efficient insurance system, the following mutual aid for livestock shall be reviewed:

- By separating livestock mutual aid between death mutual aid and disease mutual aid, farmers shall choose compensation for only one mutual aid and different compensation ratio for both;
- The amount of compensation for fatal accident shall be evaluated on the value of assets at the time of the accident but not the initial cost, and the value of certain livestock may increase day by day such as in fattening cattle;

- We shall abolish the current system declared by farmers every time livestock change is made, and simplify the system to declare an annual feed plan at the beginning and adjust the premium at the end of the term;
- Government reinsurance compensation is now a mechanism to pay for each mutual aid accident. However, like the other mutual aid, we shall change this to a method of paying when annual mutual aid payment exceeds a certain level;
- The mutual aid compensation of the current disease incidents does not lead to the incentive for reducing accidents by compensating all medical service expenses other than the first visit. Therefore, after establishing a transitional period necessary for publicizing the system, the system, that sets a certain self-burden on the entire medical service cost including the initial medical examination fee, shall be changed;
- In principle, accidents within two weeks after the introduction of the livestock cannot claim mutual aid, but we shall thoroughly inform the cases (trauma etc.) that can be claimed. In addition, livestock traded between mutual aid mutual participants can claim because the feeding situation of livestock is checked by the mutual aid association before the livestock is introduced; and.
- When a livestock merchant purchases from a farmer who subscribed to mutual aid and it is diagnosed as cattle leukemia at slaughterhouses, it is subject to mutual aid compensation as in the case of farmers who ship the livestock.

### **TREATMENT OF INSURANCE PREMIUMS**

With regard to premiums, in order to reduce the burden on farmers, all mutual aid associations shall introduce a system for setting premiums by risk stage, which is currently implemented in some mutual aid associations.

We shall abolish the return for no claim system, which is implemented for each mutual aid association and has a small incentive to reduce accidents, after establishing a necessary transition period. When return for no claim shall be made during the transition period, as fishery mutual aid, both farmers and government shall be refunded.

Date submitted: Nov. 15, 2017

Reviewed, edited and uploaded: Dec. 19, 2017