Farmer Participation in Hog Insurance: Case from China

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China is the world’s largest pork producer and consumer. Given the risks involved in hog production, the Chinese government typically offers subsidies to producers who suffered from loss due to hog disease and natural disasters. However, subsidies are not the most effective way to address the risks. As an alternative approach to deal with the risks in production, hog insurance complements government subsidies. It is also a “green box” policy permitted by the WTO. The Chinese government is paying increasing attention to agricultural insurance including hog insurance. Up to June 2009, a total of 153 million heads had been insured and payment was made to over 7 million heads/times (China Insurance Regulatory Commission 2009). However, despite the promising role of hog insurance in China, government officials, hog insurers, as well as academic researchers are not satisfied with the current rate of participation from producers, particularly small producers. The key research question to be addressed is given the strong encouragement from the government and high subsidies to the premium, why farmers do not participate in hog insurance. This study offers insights to this question by explaining factors affecting farmers’ participation and willingness to pay (WTP) for improved insurance policy terms.

Data came from a major hog producing province in China – Hubei Province. In-person surveys were administered in 5 townships in the province between October and December 2012. A stratified sampling approach was used to cluster all townships in these counties. A total of 5 clusters were generated and one township was randomly chosen in
each cluster. Within each of the 5 selected townships, all hog producers were surveyed. The survey returned a total of 536 usable samples.

Besides questions regarding scale of hog production, current insurance participation, and demographic information, the key question asked in the survey was what combination of hog insurance premium and coverage was preferred by producers. In the past studies on farmers’ preference of hog insurance, premium and coverage were examined separately. This is the first study that asked producers to jointly consider the level of premium and coverage since from the perspectives of insurance issuers, premiums constitute their revenue and they must be considered jointly with the coverage level these institutions can offer. Producers were given a series of premium/coverage combinations to choose from. What was not revealed up front was that the ratio between premium and coverage was determined exogenously after consulting with major insurance providers in China.

Preliminary results show that the most limiting factor in farmer participation in hog insurance was the low coverage level. Producers were willing to pay a significant higher premium than what they are currently asked for in exchange of a higher coverage. It was even more so for male producers. Contrary to most previous studies, insurance premium alone was not a significant determinant of their participation in hog insurance. More important factors included scale of production and past experience with insurance claims. To motivate producers, government-assist education programs are crucial and producer trust in insurance provides also proved to be important.