Review of Agricultural Insurance Development in the New Period in China

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Abstract Agricultural insurance is a great support for agricultural modernization in the new period. It plays a role of "stabilizer" in consecutive increase of yield and constant increase of farmers' income. This paper elaborated current situation of agricultural insurance development in China in the new period, analyzed existing problems, and came up with pertinent recommendations.

Key words Agricultural insurance, New period, China, Premium subsidy

1 Introduction

On February 25, 2016, the Ministry of Agriculture and China Insurance Regulatory Commission jointly held the Forum of Insurance Serving Agricultural Modernization. Agricultural insurance is a great support for agricultural modernization in the new period. It plays a role of "stabilizer" in consecutive increase of yield and constant increase of farmers' income. The development of modern agriculture has more intense demand for agricultural insurance. It is required to accelerate the demand-oriented agricultural insurance and raise the support and security level of agricultural insurance. At the present and in future, agricultural insurance should consolidate the basic fields, cover all fields, steadily raise the standard, speed up promoting the concept innovation, product innovation, and mechanism innovation.

2 Current situation of agricultural insurance development in China

2.1 Steady expansion of operation scale and constant growth of premium income Since the central finance launched the pilot project of premium subsidy in 2007, the agricultural insurance entered the rapid development period. In 2007, China's agricultural insurance realized the premium income of 5180 million yuan, which was 13 times of that in 2004. In 2008, China's agricultural insurance realized the premium income of 11070 million yuan, increasing about 112.5% compared with the same period of last year. Since 2008, China's agricultural insurance scale had been only second to the United States. In 2015, China's agricultural insurance realized the premium income of 37490 million yuan, which was 3.4 times of that in 2008.

2.2 Gradual expansion of service fields and constant increase in the insurance coverage rate In 2014, about 250 million farmers bought agricultural insurance, growing by 15.7% compared with the same period of last year; the insurance provided risk security up to 1600 billion yuan, growing by 17.7% compared with the same period of the last year; agricultural insurance made compensation of 21.46 billion yuan, growing by 2.9% compared with the same period of the last year; 32.446 million farmers were benefited, increasing by 2.1% compared with the same period of the last year. Agricultural insurance covered main crops up to 1170 million mu, accounting for 47.7% of planting area of main crops in the whole country. The coverage rate of three largest subsistence crops (maize, rice, and wheat) was 68.7%, 69.5%, and 49.3% respectively. Agricultural insurance covered 2170 million mu forest, the coverage rate was up to 67.2%; it covered 130 million fattening pigs, 3.981 million milk cows, increasing by 54.3% and 21.2% respectively compared with the same period of last year.

2.3 Greater support of government and constant optimization of related policies In recent years, China always cares about popularization and reform of agricultural insurance and constantly increases the support for agricultural insurance. In 2007 – 2015, central finance allocated more than 78 billion yuan premium subsidy, with annual growth of 27%, which provided more than 7000 billion yuan risk security for 1400 million farmers. According to the latest statistical data of China Insurance Regulatory Commission, the subsidy for agricultural insurance at all levels reached 8380 million yuan in January to April of 2016, increasing by 21.13% compared with the same period of last year. China implements three levels (central, provincial, city and county) of premium subsidy system. The subsidy amount accounts for 80% of the premium, and the rest 20% is paid by farmers.

3 Existing problems in agricultural insurance of China

3.1 The security level is low and insurance amount is to be increased Considering the premium bearing ability of farmers and financial burden, China's agricultural insurance mainly adopted the method of "covering the cost", namely, covering the material cost of crops. However, taking the field maize insurance in Heilongjiang Province as an example, the maximum insured amount in case of total crop failure is 280 yuan/mu. With the rise
in price of agricultural means of production such as seeds, chemical fertilizer, and plastic film, the direct material cost (up to 400 yuan/mu) has exceeded the insured amount. Obviously, the "covering the cost" method can not cover the cost actually, and it influences agricultural insurance securing the reproduction. This is especially true for farmers who experienced the land circulation, had large production scale and higher demand of agricultural insurance, while it lacks appeal for farmers who have potential insurance demands.

3.2 Farmers’ risk awareness is weak and enthusiasm for buying the agricultural insurance is low According to the Survey Report on Market Demand for Agricultural Insurance in China issued by the Insurance Society of China in September, 2014, only 3.75% respondents actively bought the agricultural insurance. The method of farmers buying the agricultural insurance is mainly site sales of insurance organizations, rural cadres mobilizing farmers, and then farmers buying the insurance in villages. In addition, only 14.61% respondent farmers could fully understand the clauses of the insurance contract. This reflects that most farmers lack knowledge of agricultural insurance and the operation links, and their risk awareness and enthusiasm for buying insurance are low.

3.3 Types of central finance subsidizing the premium are few and the subsidy object and ratio are to be raised At present, subsidy types of central finance for agricultural insurance premium mainly include rice, wheat, maize, cotton, pig, milk cow, highland barley, yak, and Tibetan sheep. Nevertheless, types of object of agricultural insurance are numerous, much more than these specified 16 types in the premium subsidy list. The security of vegetable, fruit, poultry, aquatic products, and fishery production should be gradually included into the subsidy scope of central finance.

China implements three levels (central, provincial, city and county) of premium subsidy system. The subsidy amount accounts for 80% of the premium. Central finance subsidizes about 35% to 40%, local finance subsidizes about 40% to 45% (provincial level finance subsidizes at least 25%, and the rest is assumed by county level finance). However, the county level finance has difficulty in subsidy, leading to grass-roots government and insurance organizations undertaking agricultural insurance and the enthusiasm for improving the service quality.

For innovative insurance products, the pilot insurance mainly includes price insurance, output value insurance, meteorological index insurance, most of which are promoted by local finance and the scope is limited.

4 Recommendations for improving the agricultural insurance in China

4.1 Increasing the security level and popularizing characteristic agricultural insurance products The security level of agricultural insurance in Shanghai at least covers the direct material cost, some insurance products are up to or higher than the integrated production cost, significantly higher than the average national level. Taking rice as an example, the premium is 300 yuan/mu to 500 yuan/mu in most provinces and cities in the whole country, while it is as high as 1000 yuan/mu in Shanghai. In addition, it is recommended to actively develop agricultural product insurance with local characteristics in accordance with local situations and superior agriculture. Besides, it is recommended to actively implement the target price insurance pilot. In 2014, the price insurance had expanded to 20 provinces (cities). For example, the maize target price insurance, researched and developed by Guoyuan Agricultural Insurance Co., Ltd, is a new agricultural insurance product with the price issued by Dalian commodity exchange as basis of coverage and claim, in order to help farmers to evade market price risk of agricultural products, ensure grain planting income of farmers, and raise their enthusiasm for planting grain crops. In 2014, Anxin Agricultural Insurance Co., Ltd actively explored the application of meteorological index insurance in agricultural field, and released the meteorological index for vegetable. It divided one or several climatic conditions into index of crop damage degree, and the insurance contract took this index as basis. When it reaches the agreed claim conditions, the insured can obtain corresponding compensation. This insurance product is low in management cost. The insurance company does not need complex claim technique and procedure, and the insured can directly obtain the compensation according to the index, thus it solves the problem of information asymmetry, adverse selection, and moral risk. This insurance has provided up to 6.55 million yuan insurance security for 32 agricultural cooperatives, provided compensation for affected vegetable farmers, and guaranteed production enthusiasm of vegetable farmers.

It is recommended to actively develop insurance types suitable for new agricultural operation entities relying on commercial insurance company. New agricultural operation entities with large planting farmers and large scale operators as representatives have higher demands for risk management due to large production scale and much input. Therefore, it is recommended to take commercial operation as major part and government subsidy as auxiliary part to strengthen the risk management function of agricultural insurance. Government should encourage insurance companies to develop insurance products according to demands of new agricultural operation entities and should adequately raise the support.

4.2 Strengthening propaganda of agricultural insurance and raising the enthusiasm of farmers for buying agricultural insurance It is recommended to further strengthen propaganda of agricultural insurance. Firstly, it is feasible to set up special column for agricultural insurance through television, radio, Internet, and print media with the aid of propaganda effect of the media. Secondly, it is recommended to organize related organizations such as insurance company, China Insurance Regulatory Commission, and insurance association, and volunteers of colleges and universities to disseminate knowledge related to the agricultural insurance. In addition, at the same time of strengthening the propaganda, the
4.3 Expanding the coverage scope and increasing the financial subsidy of both central and provincial level finance

Compared with staple grain crops, characteristic agricultural products such as vegetable, fruit and aquatic products have higher level of specialization and intensification, more input of production elements, so they have more urgent demands for risk security, accordingly it is required to provide premium subsidy for those high efficient agricultural product industries. Besides, agricultural production also needs insurance, and transport, processing and circulation of agricultural products also need risk security. Therefore, agricultural insurance operators should closely follow demands of millions of farmers, and gradually expand the security scope from general disaster accident risk, meteorological disaster risk and plant disease and insect pest risks to market and social risk fields. Specifically, it is recommended to develop agricultural product transport insurance to decentralize risks in the transport of agricultural products, undertake agricultural product liability insurance, cover products not up to standard or having defects due to reasons of processing party or selling party and causing personal injury or property losses to consumers or users, and assume compensation liability in accordance with laws; develop commercial credit insurance, insure economic losses due to delay in payment of purchasers or unilateral default of the insurance contract.

The production security for agriculture, especially for grain crops, involves national grain security. Agricultural insurance has distinctive characteristics of public goods, so central government should provide great support at the level of state policy. According to experience of countries with developed agricultural insurance, government provides the premium subsidy as high as 50% – 80%, basically covering all main grain crops, and it also provides subsidy for insurance companies. Therefore, it is recommended to further increase central finance subsidy for primary agricultural products, and reasonably reduce the pressure of local finance, especially the financial pressure of large counties of grain production.

References