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The Plights and Countermeasures in the Implementation of Distinctive Agriculture Insurance of Hebei Province

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Abstract The feasibility of implementing distinctive agriculture insurance in Hebei Province is analyzed from the following aspects covering the support of policies and laws; agricultural products and brands with Hebei distinct; the rich experience of insurance companies; farmers' strong awareness on insurance and farmers' great demand on agricultural insurance. The plights faced by distinctive agricultural insurance are pointed out. It includes weak awareness of farmers on buying insurance; low enthusiasm of insurance company; poor support from the government and backward laws and regulations and so on. The countermeasures on developing distinctive agricultural insurance are put forward. The countermeasures on improving farmers' awareness on buying insurance; innovating the insurance products and services; increasing the support from the government; perfecting the legislation on agricultural insurance should be adopted to develop agricultural insurance.

Key words Distinctive agricultural insurance, Insurance awareness, Product innovation, Policy support, Legislation, China

Distinctive agriculture is to develop special agricultural resources in an area into famous products, and then change them into modern featured agriculture. The distinctive agricultural insurance is the insurance opened for the distinctive agro-products. It is a crucial component of agricultural insurance. Hebei Province, with superior geographic location and multiple landscapes, affected by degree of latitude, sea level and landscape, is suitable for growing various kinds of agro-products and cash crops. On the basis of the diversified crops, the agro-products with local distinct are formed. The paper analyzed the feasibility of opening distinctive agricultural insurance in Hebei Province and put forward countermeasures on implementing distinctive agricultural insurance.

1 The feasibility of opening distinctive agricultural insurance

1.1 The support of policies and laws Article 31 of *Agricultural Law of the People's Republic of China* stipulates that: "the nation encourages and supports the development of agricultural insurance". Article 186 of '*Insurance Law of the People's Republic of China*' stipulates that "the nation supports the development of insurance which serves agricultural production. Agricultural insurance is stipulated separately by laws and administration regulations". The above mentioned laws and regulations provide legal support for opening distinctive agricultural insurance.

In the year 2010, the No. 1 Document of the Central Government pointed out that "actively expand the subsidies on ag-

ricultural subsidies and the area covered by agricultural insurance; increase the fiscal subsidies of central finance to central and western area; encourage local governments to subsidize the premium of distinctive agriculture and rural houses", in terms of enhancing the quality and level of rural financial services. The No. 1 Document of the Central Government emphasizes that rural broker should be cultivated and the geographic mark and agro-products trademark should be fully used to promote the development of distinctive agriculture. So, the policies and laws have created favorable advantages for launching distinctive agricultural insurance.

1.2 The agro-products and brands with Hebei distinct have been formed

Hebei Province, with wide range from south to north, diversified landscapes and abundant sunshine, is the significant warm continental monsoon climate, which create favorable natural situation for diversified agriculture. Besides, Hebei Province has long history of developing agriculture and it has formed the relatively advanced planting and breeding habits to match with the natural situation of Hebei Province. And Hebei Province has cultivated many famous native products and agricultural brands. For example, the Luquan city has formed the brands of "Ziteng" grapes, "Shangzhai" date and "Tianxian" pomegranate. On the basis, the modern agricultural demonstration base, agricultural demonstration garden and some other agricultural tourist items are established, which combines perfectly with idyllic scenery, agro-cultivation landscape, modern equipment and high-technology. The government launches the Pomegranate Picking Festival, Cherry Picking Festival, Date Picking Festival and the activities of eating farm meat, living in farm yard and picking agricultural fruits. Farmers in Luquan City become rich and farmers in Shenzhe County also get rich because of the distinctive agriculture. On the basis of sightseeing and picking festivals, the government

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launched the construction of "six gardens" including Garden with thousands of grasses, Garden with thousands of flowers, Garden with thousands of grain, Garden with thousands of fruits, Garden with thousands of medicines and Garden with thousands of birds, and the construction of riverside ecological park of Hutuo River. The government tries to launch the distinctive agricultural industry, which integrates tourism, leisure, sightseeing and picking. Except for those mentioned above, the "Feicui island" scallop and prawn of Changli and "Mafang Camp" dry cucumber, Fuping date, Cangzhou golden-silk jujube, Shenzhou sweet peach, Chengde apricot, have also formed the distinctive agriculture with certain scale. The formation of distinctive agriculture can not only improve the farmers' income, but also narrow the gap between the poor and the rich to a certain degree, so it has favorable economic and social benefits.

1.3 The insurance company has accumulated the experience on launching agriculture insurance Agriculture insurance is a kind of insurance service to compensate the agriculture production damaged by natural disasters, plague, accidents. The agriculture insurance includes crops of plantation, such as rice, wheat and cotton, *etc.*; the animals and poultry of breeding, such as dairy cow, live pig, chicken, duck, *etc.* Distinctive agricultural insurance is the insurance taking distinctive agro-products are the insured subjects.

At present, there are Shanghai Anxin Agriculture Insurance Company Limited, Anhua Agriculture Insurance Company Limited, Sunshine Agriculture Mutual Insurance Company and China Continent Property & Casualty Insurance Company, *etc.* in China to operate agriculture insurance. Besides, there are some insurance companies, which also operate agriculture insurance, represented by China United Property Insurance Company, China Continent Property & Casualty Insurance Company, People's Insurance Company of China. In Hebei Province, there are three insurance companies, People's Insurance Company of China, China United Property Insurance Company and China Continent Property & Casualty Insurance Company, operate insurance company. After long-term exploration and practice, the government has mastered the rules of agriculture insurance and provided practical basis for launching distinctive agriculture.

1.4 Farmers' awareness on insurance has increased significantly Since the launch of agriculture insurance in 2007, farmers' awareness on agriculture insurance has improved continuously and their purchase demand has also increased. The distinctive agriculture, which is characterized by high technology content, high added value and high interests, plays a major role in the income of farmers. The damages of any rural household, who operate distinctive agriculture, are disastrous. The insurance on distinctive agriculture is an effective way for protecting the farmers' profits and reducing the losses, so rural households are willing to buy distinctive agriculture insurance. As a granary province, Hebei Province boasts abundant agro-products and diversified distinctive agriculture. At present, the overall development of agriculture has gotten rapid develop-

ment, with the gradually expended coverage of insurance and the display of insurance security function. A large majority of farmers have realized the interests of buying agriculture insurance. The disaster-hit farmers, who have gotten compensation, lay a solid foundation for the distinctive agriculture insurance.

1.5 The great demand on agriculture insurance Since the June in 2010, part of Hebei Province has been hit by natural disasters and the drought, hail snow, flood and mudslide happened frequently. The total number of population suffered from the disasters in the province is 8 485 000, 16 people died of the disasters and the direct economic losses were more than 3.4 billion yuan. The disaster caused by high temperature and little rainfall, affected the more than 360 villages and towns in 48 counties including Zhangjiakou, Baoding, Shijiazhuang, Xingtai and Handan. More than 60 hm² of crops are affected and 110 000 hm² of land has no harvest. Besides, this year, parts of area in Hebei Province have been affected by wind hail, flood and mudslide. The disaster-hit areas mainly focused on Kangbao, Huailai and Zhuolu of Zhangjiakou City, Laishui and Yi County of Baoding City, and Pingshan, Zhanhuang and Wuji of Shijiazhuang City. 315 people are affected by the disaster, 11 people died by the disaster. It is known that the natural disasters are unavoidable, so at the time of taking measures to resist the disasters, we should consider participating in insurance to minimize the losses caused by disasters.

2 The plights faced by distinctive agriculture insurance

2.1 Farmers' weak awareness on insurance Hebei is a granary province with great potential of agriculture insurance. But at present, the insufficient purchase power and weak awareness on covering insurance of farmers is one of the reasons of the slow progress of agriculture insurance. It can be explained by the following reasons. In the first place, most farmers in Hebei Province have not accepted good education, so their quality is low. The quality not only refers to the length of school education, but also includes farmers' mind, thought, awareness, courage and boldness. That's the root that leads to the low income of farmers. Besides, due to the low quality of farmers, it is hard for farmers to know various kinds of insurances, so the insurance companies have to input a large amount of labor and energy to promote. But the results can not be ensured, so many insurance companies abandon the market. In the second place, the economic basis is weak and the purchase power of farmers is low. As a result of the low income of farmers, the expenses used for buying insurance must give place to the expenses of living necessities. Besides, farmers can not fully understand the insurance, and some negative influence of insurance company lingers in their mind, so many farmers do not want to buy insurance. In the third place, some farmers intend to take chances. Taking chances include two aspects: the fluke of disasters. Some farmers think that disasters will not happen in his yard; even though the disasters happened, the government will provide subsidies, so it is unnecessary to buy insurance.

2.2 The low enthusiasm of insurance company

2.2.1 Low profits of agriculture insurance. Due to the high risk of agriculture and high compensation rate, the profits of operating agriculture insurance is lower than the profits of operating commercial insurance. For insurance company, the operation of agriculture insurance often can not make ends meet. As for insurance company, improving the rate of insurance premium is the habitual thought. But as for rural households, they can not bear the rise of premium. Although the agriculture insurance enjoys the fiscal subsidies, the fiscal subsidies are the premium that should be paid by rural households and the insurance company will price the rate of agriculture insurance according to the risk. Once there is especially big disaster, the insurance company can not bear the losses. Operating agriculture insurance has great risks, so commercial insurance companies do not want to run the business.

2.2.2 It is difficult for insurance companies to determine the losses. Restricted by the features of biology, distinctive agriculture has multiple varieties and diversified rules, so its value is hard to determine and after a certain period, the agriculture has certain capability of self-recovery. So it is more complex to determine the value of distinctive agriculture. The complexity is reflected on the following aspects. In the first place, the time and method for determining the losses are difficult to set. After harvest, the losses should be verified again. In the second place, the works on verifying the damaged area and damaged degree are hard. In the third place, the difficulties in determining the rate of premium and compensation standard have increased the difficulties in running agriculture insurance. In the fourth place, due to the freshness of agro-products, the damaged scene is easy to be destroyed, which restricts the survey time and time of validity of a claim. If the insurant does not claim the compensation shortly after the damage, he will lose the chance of verifying. That is the reason why the agriculture insurance will cause moral hazard.

2.3 The weak support from the government Most agriculture insurances are policy insurance. Without the subsidies from governments, many insurance companies can not afford to run agriculture insurance. Most countries in the world have launched support on agriculture insurance, except for subsidizing the premium to farmers (generally speaking, the premium rate of agro-products is 50%–80%), the government also take other measures to promote agriculture insurance. Firstly, the government subsidizes the manager who running agriculture insurance. At present, the rate of subsidies provided by the federal government of the U. S. to the agriculture insurance company was 34% after 1988. Secondly, the government carries out the policies of subsidizing reinsurance. To be specific, the government establishes the agriculture insurance company, or the Ministry of Agriculture and the Ministry of Finance directly subsidize the expenses of reinsurance to operators of agriculture insurance. America, Canada and Japan have implemented the system. Thirdly, the government exempts the taxes of commercial agriculture insurance. At present, America, Canada, *etc.* adopt this policy. But, at present, the subsidy system

of central government is unstable and the proportion of subsidies on premium is small. The rate of subsidy on agro-products concerning the national economy and the people' livelihood, such as wheat, rice, live pig, *etc.* has increased 50%, but as for the subsidies on local cash crops are low, generally under 40%. By comparison, the amount and proportion of subsidy in China are low.

At present, the subsidy rate of premium in Hebei Province is 80%. The specific rate of fiscal subsidies is as follows. As for wheat, corn and cotton of plantation, the central finance bears 35%, provincial finance shoulders 25%, city finance undertakes 10% and county finance takes 10%. As for cow of breeding industry, the central finance shares 30%, provincial finance shares 15%, city finance undertakes 20% and county finance takes 15%; the rate of subsidy of reproducible sow is the central finance 50%, provincial finance 15%, city finance 10% and county finance 5%. From the above data, it can be seen that the rate of subsidy of local governments is high, but many governments have financial difficulties, so the subsidies are hard to realize in time. Besides, the subsidies on distinctive agriculture have not been included, and the absence of specific operating specification affects the launch of agriculture insurance to a large extent.

2.4 The lagged laws and regulations on agriculture insurance There is no complete law on agriculture insurance in China. The insurance company, insurance sector and supervision sector do not have complete law on agriculture insurance to rest on. Since the open of agriculture insurance in 1982, the agriculture insurance has not gotten the policy support from the nation affected by the planned economy system. Agriculture insurance needs to be developed greatly, but the laws and regulations on agriculture insurance have not been made.

The lagged laws and regulations on agriculture insurance will inevitably lead to a series of problems. In the first place, the lagged laws on agriculture insurance lead to the lack of legal support for insurance company, rural households and governments in the process of operating. It is easy to cause the unclear of rights and responsibilities. The agriculture insurance requires the government to display its leading role in agriculture insurance. But the functions of governments in the development of agriculture insurance and how to display the functions are not clarified in laws. Thus, the government does not pay much attention to agriculture insurance, which greatly affects the leading role displayed by the government in the development of agriculture insurance and restricts the development of agriculture insurance. Next, the commercial management mode can not change the policy feature of agriculture insurance, so the *Insurance Law*, used to normalize the behaviors of commercial insurance is unsuitable for agriculture insurance in essence; for the development of agriculture insurance. The operation of agriculture insurance can not be secured under the *Insurance Law*. The relevant stipulations of *Agriculture Law* harden the development of agriculture insurance. As a result of the weak awareness of farmers in insuring, obligatory insurance becomes an important section for developing agriculture

insurance. But the Clause 2 of Article 31 of *Agriculture Law* stipulates that "agriculture insurance follows the voluntary principle. Any organization and individual does not have the right to force agricultural labors and agricultural production and operation organizations to buy agriculture insurance". The law further increases the difficulties in developing agricultural insurance at the current stage.

3 Countermeasures on implementing distinctive agriculture insurance

3.1 Improving the enthusiasm of rural households Due to the farmers' problems and the specialty of distinctive agriculture, the launch of distinctive agriculture insurance. The awareness determines people's choices to a large degree. The insurance awareness is one of the key elements that determine the choices of insurants. The poor awareness of rural households has become one of the choke points that restrict the development of agriculture insurance^[1]. In the first place, in order to improve the quality of farmers and promote agriculture by applying scientific and technological advances, the government should train farmers the cultivation and breeding technology of distinctive agriculture; popularize the features of disasters and the knowledge on how to resist disasters, reduce losses and reduce risks; improve farmers' awareness. In the second place, farmers' income should be increased. The country should try to control the prices of agricultural production means; reduce the production costs of farmers; determine the lowest purchase prices and ensure farmers' income. The income increase has solved the inadequacy of purchase power and the market of agriculture insurance will be enlarged relevantly. Lastly, the government should increase farmers' awareness on covering insurance. The government can increase the governmental subsidy through the promotion of insurance company and government to let farmers realize the importance of covering insurance, so as to increase the input on agriculture insurance.

3.2 Increasing the input on insurance company The insurance company should be brave in taking the social responsibility; actively participant agriculture insurance and improve the enthusiasm and consciousness of serving "three agriculture".

3.2.1 Increasing the input of personnel and the quality of employees. The distinctive agriculture demands more talented personnel. They should master the knowledge of insurance, agriculture, meteorology and animal pests and diseases. Besides, they should know the work of "three agriculture". The promotion of distinctive agriculture insurance needs a large amount of human resources. Distinctive agriculture insurance is related to farmers. Villages in Hebei Province are widely distributed, so the insurance salesmen should spend more time and energy to explain the insurances to farmers. In addition, the salesmen should spend more patients to explain the insurances to farmers to increase their desire on buying the products.

3.2.2 Innovating insurance products. Innovating the insurance products that suit rural demand is the basis for developing the insurance market of "three agriculture"^[2]. Insurance companies should enlarge the coverage of insurance varieties, as well

as spread risks and increase the profits of insurance company.

3.2.3 Questing new marketing channel. The insurance company should strengthen the cooperation with agricultural economy station, animal husbandry and veterinary station, forestry station and agricultural machinery station, as well as rural gross-root governmental cooperatives to display the functions of the organization and institutions in the sections of insuring, accepting insurance and verifying, to let them fully serve insurance company.

3.2.4 Establishing the perfect warning system of resisting and reducing disasters. Most agricultural disasters are natural disasters, so the insurance company should cooperate with local meteorological department and pay close attention to the changes of weather, and then reflect the information to the insured rural households. The insurance company should set up good cooperation with rural households and try to resist and reduce the disasters. The company should increase the training on the managers of distinctive agro-products to resist and reduce disasters to reduce the losses to reduce the risks of agriculture and lower the compensation rate of insurance company.

3.3 Displaying the functions of government In order to realize the integration of social interests and economic interests of distinctive agriculture, the government plays major role in the process of launching distinctive agriculture insurance.

3.3.1 Implementing the differential premium subsidy system. The government should clarify the scale, amount, time and ways of subsidy of distinctive agriculture insurance; intensify the fiscal support on distinctive agriculture and fully display the functions of distinctive agriculture. The subsidy rate of agriculture insurance provided by the central finance should be further improved. And the economic power and bearing capacity of finance should be comprehensively considered and the differential premium subsidy should be implemented.

3.3.2 Canceling the premium subsidy from local government finance. Granary counties have large insurance demand but the economy is underdeveloped. The fiscal budget funds are tight and it is hard for granary counties to bear the premium subsidies. Some fiscal subsidies can not be realized, in order to lighten the financial burden, some local governments even restrict the varieties of agriculture insurance and area of insurance, which causes the conflicts that farmers have the awareness and demand but insurance companies can not provide the insurances. It has bad impact on the launch of agriculture insurance. Therefore, it is suggested that the premium subsidies provided by governmental finance at county level should be eliminated and the subsidy on distinctive agriculture insurance from central government should be strengthened^[3].

3.3.3 Intensifying the leading role played by the government. Hebei Province, should free itself from old ideas; strengthen the technology innovation of distinctive agriculture; realize the industrialization and form the technological and economic strategy with local distinct. Each district and department should further intensify the overall point of view and legal sense; cooperate closely with each other from the aspects of economy, technology, education and management; and actively adopt meas-

ures to escort the healthy development of agriculture insurance.

3.4 Establishing the laws and regulations of agriculture insurance American *Federal Crop Insurance Act*, Japanese *Basic Law of Food, Agriculture and Rural Area and Agricultural Disaster Compensation Law* and French *Agriculture Insurance Law* are all complete. The special laws play an important role in protecting and promoting the healthy development of agriculture insurance.

American government provides great support on agriculture insurance and the means are more direct and effective. The emphasis is reflected on the subsidies of premium is targeted at agricultural crops rather than at insurance institutions. And then, though reinsurance to disperse the risks of insurance company. The Japanese government implements the imperative insurance on the cultivation and breeding that concerning the national economy and people's livelihood to provide the premium for farmers. The more the rate of premium, the more the subsidies of national treasury will be. Japanese government also provides subsidies for service costs to the organizations that open agriculture insurance (except for the voluntary insurance), and provides the reinsurance business to associated society of Masonic group. French *Agriculture Insurance Law* stipulates that the agriculture insurance items are determined the national laws. The insurance responsibility, reinsurance, premium rate of insurance and claim calculation, etc. are all stipulated by legal form. French government implements the imperative insurance on staple products, which include agro-products (rice, wheat, fruit tree, etc.) and domesticated animals (cow, horse, pig and silkworm). By comparison, Chinese government should learn from the reality.

At present, the China Insurance Regulatory Commission and the State Council are trying to stipulate the *Agriculture Insurance Act* and the primary framework has been formed. It

should be clarified that the agriculture insurance belongs to policy insurance, and the supervision mechanism is the Insurance Supervision, the supervision on agriculture insurance conducted by the Insurance Supervision Commission of the State Council, the State Treasury and the department of agricultural administration and governments at various levels. The institutions take the responsibilities of supervising agriculture insurance and establishing communication and coordination mechanism. In terms of fiscal subsidy, the central government and the local government should provide the premium subsidies to farmers and operation subsidies to insurance company according the contents of agriculture insurance. In terms of premium subsidy, the central and local government should not only subsidize the rural households, but also subsidize the insurance companies. The government should cancel the operation taxes and income taxes of agricultural insurance. Besides, the financial institutions should give priority and preference to rural households, who have insured the policy-based agriculture insurance, when the rural households want to get loan. In addition, the country should set up the reserve system of policy-based agriculture insurance to promote the healthy development of agriculture insurance.

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