

Artículo de investigación

Agricultural Insurance in China**Сельскохозяйственное страхование в Китае**

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Alexander A. Redko²²⁵**Abstract**

The system of agricultural insurance is a key sector of the state economy and the development of agricultural sector in general. As we may see now China is one of the leading agricultural countries showing good indicators of agricultural products export. By the aid of this insurance program farmers have become secure and make a significant contribution to the development of rural economy and, as a result, economy of the whole country. This article is aimed at the history of agricultural insurance market, its success and failures, its establishment as a separate mechanism since 2007, though the agricultural insurance goes back to 1980s. The article analyzes the structure of agricultural insurance systems, focuses on the sustainable development of the agricultural sector after the introduction of the new insurance campaign of 2007.

Key Words: Agricultural insurance, subsidies, insurance market, natural disasters, government, financial support.

Аннотация

Система сельскохозяйственного страхования является ключевым сектором экономики государства и развития аграрного сектора в целом. Как мы видим сейчас, Китай является одной из ведущих аграрных стран, демонстрирующих хорошие показатели экспорта сельскохозяйственной продукции. С помощью этой страховой программы фермеры стали безопасными и вносят существенный вклад в развитие сельской экономики и, как следствие, экономики всей страны. Данная статья посвящена истории рынка сельскохозяйственного страхования, его успехам и неудачам, его становлению в качестве отдельного механизма с 2007 года, хотя сельскохозяйственное страхование восходит к 1980-м годам. В статье анализируется структура систем сельскохозяйственного страхования, делается акцент на устойчивое развитие аграрного сектора после введения новой страховой кампании 2007 года.

Ключевые слова: сельскохозяйственное страхование, субсидии, страховой рынок, стихийные бедствия, правительство, финансовая поддержка.

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Introduction

Agricultural insurance in China is a question that should not go unmentioned. It is an integral part of Chinese Economy and many other countries, even with leading economies, are following the agricultural insurance market with insight. Having started as a pilot program agricultural insurance has become a successful project that is fully controlled by the government. The government has introduced a subsidy program that gained recognition among the representatives of the agricultural sector (Boyd et al., 2011).

China has a significant volume of population living in rural areas where agricultural sector is the main way of life and an integral part of it. Natural disasters that China faces on an incredibly regular base led to the establishment of an agricultural insurance program.

The number of GWPs (gross written premiums) has risen sharply since 2007 and is growing year by year with the result of USD 6.3 billion in 2016 in comparison with USD 0.11 billion before 2007 (Cai. and Song, 2017).

Agricultural insurance appeared from the state insurance campaign that touched upon all the spheres of people life and forms of activity. It gave confidence to the farmers in their future and it secured them from colossal loses. Agricultural insurance program started to penetrate into insurance sector and first it was introduced in 25 provinces of China.

There are different insurance programs for the agricultural workers. Some of them are aimed at crops sector, animal sector, food production sector, animal sector and so on. There are also some trial projects which introduce new insurance programs based on different indexes: price, revenue, production and others.

There is so-called China's agricultural reinsurance pool which deals with reinsurance programs. The members of this Agency decide on reinsurance programs, analyze the business of their companies, estimate the risks, and evaluate the capacity of the pool. The members of this pool share approximately 50% of their premium to the pool (Moschini and Hennessy, 2001).

Agricultural insurance system in China is not ideal and it is constantly improving but there are some constraining factors like insufficient information provided by the farmers, non-

transparency how to get insurance or reinsurance premiums (Sherrick and Barry, 2004).

Theoretical framework

Despite the fact that we can say that the agricultural insurance market became operative only in 1980s there had been previous trials to launch the agricultural insurance programs. The first trial was made in 1949-1950 but it was introduced only in several provinces and dealt only with crops and livestock.

People's Insurance Company of China (PICC) was founded at that time and it delivered its products to the farmers with the help of the Government. The program failed to show significant results and it became uninteresting for the PICC. The premiums decreased though the Government strongly felt the need of the agricultural insurance.

After the State Council report of 1982 it has been decided to give an agricultural insurance program a new start. This time the program became more effective. The number of GWPs was constantly increasing till 1992 and there was a great leap from 1990 to 1992, the quintessence of premiums was reached in 1993. This resulted into the peak of development of the agricultural sector. At this time agriculture increased China's GDP by more than 10 percent and the income of farmers grew approximately by the same figure.

The year of 1993 turned to be a profitable year both for the farmers and for the State. Insurance programs and their products were available almost in all even the most remote provinces of China. Agricultural insurance system has suffered losses with the maximum of more than 130 percent and even the minimum rate of loses was high – at about 70 percent.

Rise is always replaced by falls and agricultural insurance market in China is not an exclusion. After 1993 the situation completely changed. The yearly premiums decreased and the agricultural insurance system took a turn for the worse.

There are two factors which turned to be crucial and influenced the decrease of agricultural insurance market: First, China's market economy led to the fact that PICC became a commercial institution in 1994. Earlier when it was controlled by the government it had more financial stability but then it had to survive in harsh environment of the market economy. Previous losses made it impossible to keep the company at the same high level without a financial support from the

government. Second, resulting from the first factor, the farmers' income and the total figure of GDP fell almost by half.

The government of China understood the necessity of the agricultural insurance program in terms of financial support to the farmers against natural disasters. It launched a pilot project in 1987 but chose only several areas, which took part in it. It covered only crops, houses, labour compensation and cattle. Government, communities and farmers shared the cost of the premium where the farmers were obliged to pay the largest amount. In its turn the insured amount was 10 times bigger. After a decade of operation it stopped its activity due to sufficient losses.

Natural disasters is an unfortunate side of farmer's life of China. Natural disasters bring much harm to agriculture and exercise significant influence over the agricultural insurance system. Yearly losses from insurance of crops, livestock and other agricultural products almost brought to nought the activity of insurance companies. At that time, the agricultural insurance program was not possible to meet the needs of agricultural market development (Mahul and Wright, 2003).

New stage of agricultural insurance began in 2004. The new approach had to be policy-based but not all regions could afford the implementation of such program due to high costs. Thus, there have chosen several areas and insurance programs and the pilot project started. Local authorities decided to provide the farmers with premium subsidies. This program was aimed at reducing the risk from natural disasters and gave the farmers additional financial support (Coble and Barnett, 2013).

The middle of 2006 turned to be very important in the development of agricultural insurance reform. The government issued a document which stipulated the key points of the new program. The farmers could receive the subsidies both from the government and from the local authorities. This program extended not only to farmers but also to the insurance companies for them to use the financial support for administrative costs. This program also gave life to reinsurance again supported by the government and locally. This document became crucial not only for the agricultural insurance but also for the development of governmental support system.

The program started in 2007 when the government announced 1 billion Yuan to cover the needs of agricultural insurance fund. Only 6

regions of China became the pioneers of this trial. This project showed good results and success from the very beginning.

In 2007 the total number of premiums gained from agricultural insurance amounted at more than 5 billion Yuan. This program expanded year by year. It gained more participants and more billions of subsidies. In 2009, the total amount of all premiums collected reached more than 13 billion Yuan, significantly exceeding the total indemnity by 4 billion Yuan. By 2010, the program had been implemented in 25 regions and showed a sable rapid growth.

As it has been mentioned above, first agricultural insurance programs covered only the insurance of cattle among the livestock. The new approach extended its boundaries and allowed to insure the breeding pigs. By 2009 half of all breeding pigs had been insured throughout the whole country (Lin. and Wang, 2013).

The aim of that program was to develop the agricultural sector of economics and it managed to achieve its goals. New insurance programs became available for farmers and microcredit insurance, common rural medical insurance were among them. Thus, the farmers became more secure in their future and developed the agricultural sector which was an integral part of their rural life.

Only three insurance companies received the right to operate in those six provinces chosen for the trial agricultural insurance program. There were three main points in the program:

- Firstly, it covered seven natural disasters and several crops and livestock diseases.
- Secondly, the premium subsidies rated between 3% and 10% depending on the region, crops variety and type of cattle.
- Thirdly, if the premiums were low the insured amounts were neither high. Only basic crops costs were covered excluding the labour costs.

Being a very important state program for the support of the agricultural sector, this system is far from being ideal. There are some weak points in this program. Premium rates are strongly controlled by the government and revised only once a year. There is a lack of elaborated analysis as the government takes into account only the loses rate of the previous experience avoiding the indicators of disaster years. The government has only average data without estimating the actual

situation of one particular year and region. Moreover, it takes much time and efforts to apply the stipulated rates because it hinges on governmental funds.

Governmental subsidies were at a high level reaching 50% of the premium amount while local subsidies reached 30% at maximum obliging the farmers to pay the rest of the premium.

The Government created special so-called disaster funds from where local insurance agencies could take some part to cover the costs of bungling disaster years. The Government forced the local insurance companies to create such funds locally. They work in the following way: all the yearly surpluses are stored at the disaster fund or disaster reserve. This amount shall cover the costs of consequences in disaster years. Only when the local disaster fund is empty, local authorities can have access to the governmental disaster fund after a careful examination of the losses caused by the disaster year.

While the new agricultural insurance program was implemented in the six chosen areas, other provinces also tried to follow this example establishing their own agricultural insurance programs. There were two main ways of developing (Wang et al., 2011):

- 1) In some regions the government provided the local authorities with 50% of subsidies annually and covered the cost of losses only when they increased 160% from the disaster funds
- 2) Some regions created a community of insurers covering the cost of losses of all interested parties being financially supported by the government.

A few decades ago, China faced the task to feed its own billions of people. Looking back to that time and comparing it with the current situation it shall be noted that country was able not only to complete this task, but also to switch to active export of agricultural products.

The topic of agriculture is very important for China. Now the population of China is 1 billion 350 million people. If there are not enough products, a large number of people will starve. For example, it happened in the early 1960s: there was not enough grain in China and a large number of people died of starvation (Zheng et al., 2012).

With the beginning of the reform policy and openness, Chinese government began to pay more attention not only to industry, but also to agriculture, to take many effective measures in this area. At the beginning of each year, the theme of the development of agricultural production is discussed by the government and the Chinese Communist Party, and a common plan is drawn up. There is also a scientific support from the Academy of Sciences and Chinese universities.

The financial support of the industry by the state is of great importance and, of course, it is subject to the rules of the World Trade Organization. Farmers and agricultural enterprises are granted loans at a lower rate for the purchase of new equipment, fertilizers, for irrigation activities. In the event that the country has a high harvest and the market brings down prices, the state sets high purchasing prices for agricultural products, such as corn, so that farmers and agricultural enterprises retain an incentive and continue to grow this type of production next year.

Attention is also paid to the processing of products so that agricultural raw materials are procured in the largest possible quantities.

As a result, the volume of grain production has been constantly growing over the past twelve years. The country has already switched to self-provision of grain.

In the northern, northeastern and central parts of China, a strategically important product is a grain of wheat. In the eastern and southern parts of China, this is rice. In the western part - both wheat and rice. But because of the climate and other natural causes, the quality of wheat is not very high. Therefore, China annually imports grain of hard wheat varieties from other countries, including Canada and Russia. In the same way, China imports small quantities of rice from South-East Asia, for example, from Thailand, in small quantities. However, China exports these agricultural products, it is a two-way process.

Earlier in China there were production brigades. With the beginning of the reform policy and openness, the agricultural system began to change. The main owner of the land has become a family that owns their land. But this significantly limited the possibility to use agricultural machines and fertilizers in small areas. Therefore, the peasants began to cooperate on a voluntary basis, to unite the plots, to plan and purchase machinery and fertilizers jointly.

In recent years, China has collective, and private, and joint-stock, and state ownership in agriculture. Each of them has its advantages. For example, in the mountains there are small plots of cultivated land, individual farms prevail there. And in the northeast of China, in Heilongjiang province, the area of arable land is large, it is dominated by state and joint-stock enterprises.

In recent years, there has been a rapid growth in agricultural trade between Russia and China. Fruits, vegetables (apples, cucumbers, tomatoes, pomegranates) are delivered from China to Russia. Russia imports mostly grain to China. The possibility of supplying China with Russian meat and meat products is currently being discussed. Sverdlovsk region sells rapeseed and wheat to China.

At the last plenum of the Central Committee of the Communist Party of China, it was stated that it is necessary to increase the level of modernization of the country's agriculture by 2020.

The economic support of the state will be strengthened for the modernization of agriculture, including the allocation of subsidies to agricultural enterprises. The government intends to increase the purchase prices for agricultural products. So far, the price gap between industrial goods and agricultural products remains significant. For example, the simplest TV costs 2 thousand Yuan. You can buy hundreds of kilograms of grain with the same money. Therefore, it is important to increase the purchase prices for agricultural products in order to stimulate the activity of Chinese peasants.

It is also planned to speed up the process of informatization in agriculture with the introduction of the Internet Plus system.

One more important point. Many people in China have their own land. Suppose the owner no longer wants to work on this site, but wants to leave the village and live in the city. In this case, they will be able to rent out their plot to other people who want to work in the village. That is, the land commerce is allowed.

There is a very big population in China and a little amount of free land to cultivate. Therefore, there are very few cases with the abandonment of land. People are actively coming up with different ways to use their land.

Many Chinese citizens come to Russia to be engaged in agriculture. There is a lot of land in

Russia, the climate is favorable for farming in many territories. Therefore, there is a great potential for cooperation between Russia and China. Citizens of China grow agricultural products in many Russian regions - from the Far East to Kaliningrad. There are collective farms and individual ones. In one European part of Russia, a very large Chinese company is engaged in investments in agriculture: it grows grain there, processes it and exports it to other countries. In Russia, the Chinese grow wheat, vegetables, and are also engaged in livestock breeding.

So far, the share of trade in agricultural products in the total bilateral trade between China and Russia is less than 5 percent, although in the future it has great potential for growth. In recent years, the regional governments of China and Russia have begun to actively implement the agreement on agricultural cooperation between the two countries. The border Chinese provinces of Heilongjiang, Jilin and others actively encourage and support enterprises entering Russia. Such enterprises establish and expand areas of agricultural cooperation, use Chinese agricultural technology, use Chinese agricultural machines, attract labor among Chinese citizens and enjoy certain privileges from the authorities.

Methodology

The methodological basis of the study was the application of dialectics as a general scientific method of cognition, as well as a number of private scientific methods: historical, logical, system analysis in their various combinations. Thus, on the basis of the comparative-historical method, the analysis of the history of development of the Agricultural Insurance Institute was carried out.

As part of this work, the experience of agricultural insurance of different countries is analyzed (Barnett, 2007; Du et al., 2014; Ginder, 2009; Goodwin, 2001; Lu et al., 2017).

Results and discussion

The investigation cleared the situation at the agricultural insurance level, showed the development and the success of the pilot project of improving the agricultural sector providing the farmers with governmental subsidies. The survey gave the opportunity to receive true feedbacks from the participants of the agricultural insurance programs – the farmers and the insurers. It revealed the weak points and set the scene for future investigations and development direction.

The investigation showed that the farmers lacked the information about the agricultural insurance program and its products. They received the information with sufficient delay and not from the insurance companies. Even if they were aware of such program, they were unaware of its details and the information on receiving subsidies was veiled.

Insurance companies are considered to be the leaders of the program. The government stimulated them to operate in the agricultural sector because the most part of the population live in the rural areas opening a wide range of activity for insurance companies. Being a very attractive sector for the insurance companies, it has disadvantages and huge costs are among them.

Many rural areas in China are isolated and it is very difficult to access them resulting in high transportation costs.

Agricultural insurance cannot exist separately without the insurance system as a whole. The lack of such insurance products in small towns and villages makes it difficult to develop the agricultural insurance.

Insurance offices are not widespread in China. There are offices in cities in regional centers but they are not presented at all in small towns and villages.

Insurance companies face a difficulty to adjust the payout in time breeding resentment among the farmers. Sometimes the number of claims is so high that the insurance companies cannot process them due to the lack of qualified personnel. In some cases it is very difficult for the insurers to estimate the losses of one farmer because the farmers have a collective policy program.

Insurance companies do not have a lot of opportunities to manage the agricultural insurance program because it is fully controlled by the government. Originally the government only had to assist financially but it gained an over-control and it has its own view and policy not allowing the insurers to increase the payout rates and to “really support” the farmers suffering from losses.

The farmers in their turn also feel the unsustainability of this program. They participate in insurance campaign only with one aim – to receive the financial support and to be secure

from losses caused by disaster or bad harvest years.

The insured amounts of crop production are very low in comparison with those for the livestock. The farmers who deal with crops lose much money for grain, fertilizers, machinery, labour cost which are excluded from the insurance program. And the amount of payouts does not cover even the basic costs for the crop production in case of disaster years.

Many farmers consider the agricultural insurance program to be aimed at not the right thing that should be directed to the prevention of disaster losses and not to the covering costs of losses afterwards.

Finally, the farmers do not believe in the insurance programs due to the lack of information and their transparency. Previous experience of the end of the 20 century left its mark and jolted them out of their belief that they would be able to receive the payout in case they really need them.

Conclusions

Over the past 60 years, China’s agricultural insurance has gone through several distinct stages of development. New trial model of agricultural insurances dated back to 2007 showed good results and turned to be successful. It differs significantly from the previous insurance projects which failed to promote development of the agricultural sector due to sufficient losses. This positive change is connected with the strong governmental policy to put the Chinese agriculture at a new high level making it one of the key player at the world agricultural market.

However, many questions remain unsolved. First, the rapidly growing agricultural insurance sector forms a need to adopt the law to standardize and protect the activities of interested parties that are not directly covered by the current Insurance Law. Secondly, the role of the government shall be clearly established. It should not run counter to the insurance market rules and its aim shall be a support, not a prevention. Thirdly, the insurance companies shall expand its database of clients and build the image of trustful institution among the remote rural areas. Innovative work models are needed that address the difficulties of both farmers and local insurers (Smith and Day, 2018).

The current model of state subsidies system is considered to be effective in the development of

the agricultural sector of China though there are several points to be improved. Governmental subsidies shall be justified and shared among all the farmers among the community policy programs, taxes shall be also shared.

The investigation reveals the current situation at the agricultural insurance market but leaves many questions without answers. Have the subsidies created the right incentives, have they increased the welfare and the life quality of farmers? Have the farmers become more socially and financially secured. This can be the subject of future investigations.

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