



Study on Public Agricultural Insurance in China

—Based on Xinjiang Mode

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Abstract

Presently, China, which has set up four agricultural insurance companies, emphasizes the work in experimental units of agricultural policy insurance, and enlarges the area of experimental units. Through these experimental units explore different modes of China's agricultural insurance, as well as establish policies to encourage commercial insurance companies participate in agricultural insurance. Based on Xinjiang mode, public agriculture insurance is a suitable mode for agricultural insurance in China.

Keywords: Public Agricultural insurance, Experience, Mode

Agricultural insurance is always a hot subject in the domain of insurance and agronomics. Firstly, it is because the risk carriers are farmers, whose economical capability is relatively low in most countries. Due to the fundamentality of agriculture in the economy, stable production and subsistence in the sector are significant to national economic development. Secondly, agricultural risks derive from natural, social and economic, especially nature. In other words, agricultural insurance needs to cover risks which insurability are relative low and affected range is widespread. Above reasons show the speciality of agricultural insurance. So, establish a suitable agricultural insurance mode for a country is very important for national economic development.

1. Public Agricultural Insurance

Public agricultural insurance, also called governmental agricultural insurance, may take a number of forms. First, there may be public insurance institutions competing freely with private companies. Such institutions are reported to have existed in Germany and Denmark as early as the 17th century. There was, for instance, a public fire insurance institution in Schleswig-Holstein, and another managed by the city of Copenhagen. The second type of public insurance institution consists of those which have a legal or virtual monopoly of insurance although the insurance is voluntary, e.g. the United States Federal Crop Insurance, crop and livestock insurance in Brazil, and coffee insurance in Puerto Rico. Public insurance institutions of the third type comprise those where insurance is compulsory. There are three different categories of compulsory public insurance. First, there is the obligatory public insurance from which private competition is completely excluded. In the second category of compulsory insurance under State monopoly the competition of private companies is excluded only from the minimum of cover available under it but they may engage in the business for values above the minimum. The third category of compulsory public insurance is the "optional

application of compulsory insurance” that is, where compulsory public insurance may be introduced only when people have decided in its favor by vote in a commune or district.

2. The Situation of China’s Agricultural Insurance

The China’s insurance system was almost totally destroyed during the Cultural Revolution. In 80s, it began to be gradually recovered. The development of Chinese agricultural insurance over the past 30 years, and it can be divided into two stages Recovery and Fluctuation Stage. Since 1982, civil administration departments, agriculture departments and insurance companies issued agricultural insurances one after the other, it presented fast uptrend. The income of agricultural insurance premium was 561 million yuan in 1993. At the same time, loss ratio increased largely, the loss ratio of agricultural insurance reached 116.04% .

Three-Nong Problems have been paid more and more attention recent years, as well as China entered WTO, the sheltering effect of agricultural insurance for agriculture, countryside and farmers becomes prominent, and agricultural policy insurance has been paid attention to. In 2004, the China Insurance Regulatory Commission (CIRC) has launched agricultural insurance experimental units in 9 provinces and cities, e.g., Shanghai, Heilongjiang, Jilin etc. The agricultural insurance premium has increased obviously, and the loss ratio has shown a sharp decrease in 2005(fig.1).

3. Analyzing the Mode of Xinjiang Agriculture Insurance

3.1 Characteristics of Xinjiang mode

In 1986, Xinjiang Production and Construction Corps set up the first policy agricultural insurance company which called Xinjiang Production and Construction Corps Farming and Grazing Production Company. The name has been changed to Xinjiang Corps Property Insurance Company in 1989. In 2002, the name has been changed again to China United Property Insurance Company Limited (CIC). In 2006, as CIC finished its system reform, all the insurance organizations in Xinjiang completely realized the shareholding system. Each company gradually built the modern enterprise system from the reform of structure and management system to the operation system, perfecting the structure of inner management, resulting in a great change of the operation idea, bettering the level of management, creating a new situation for the reform and development of Xinjiang insurance industry.

Xinjiang mode has some unique characteristics. Firstly, it is compulsory insurance, means every one has to cover. According to Document No.12 made by Xinjiang Crops, all of the crop productions and livestock breeding which undertake by farming and grazing organizations, home farms and contractors should be covered. The loss has to bear by itself, if the ones do not cover. Contrarily, there is some preferential policy concerning the premium and financial affairs, if the ones participate in agricultural insurance.

Secondly, CIC follows the direction which is that the agricultural insurance should be always served for farms and farmers, and the guiding ideology - pulling together in times of trouble, integrating prevention with compensation, undertaking risks together, and pooling-of-interest. In addition, agricultural insurance also uses individual account, and surplus keeps as local agricultural insurance fund.

Thirdly, CIC constitutes clear executive methods as follows: (1) Establishing collegiums for agriculture policy insurance in every division of corps which exam the operation of agriculture policy insurance once a year. (2) Setting up agricultural insurance fund. If there is surplus in a year, set up agricultural insurance fund in both division and regiment with the proportion of 30% and 70%. Insurance fund managed by insurance company, accumulated step by step, in order to prepare for catastrophe. (3)CIC uses premium and unused insurance fund over the years to compensate, when farms suffer from calamities and damages within their insurance coverage. If the premium and unused insurance fund are not enough to pay for the indemnity, CIC will take out 30% from the profit of commercial insurance to support it. (4)The unused agricultural insurance fund has two purposes. First, surplus keeps as agricultural insurance fund. Second, when unused agricultural insurance fund is more than premium income of the same year, take out 30% from premium balance of the year to improve urgent need items, hazard resistant items, as well as scientific experiments.

3.2 Effect of Xinjiang mode

Generally speaking, agricultural insurance in Xinjiang is very successful. Because it is a kind of public agricultural insurance, it gets great support from government continuously. In addition, due to its compulsoriness and speciality, not only insureds get guarantee for their production and life, but also the size and strength of insurance companies get increase. It realizes “Two Win” in both insureds and insurers. Agricultural insurance has experienced a remarkable development in Xinjiang. In 2007, the agricultural insurance premium income was 757 Million yuan, increased by 167.3% and continuously ranked 1st in China’s agriculture insurance. The Property insurance depth was 0.78 percent, while the density was 121.68 yuan per person. The agricultural insurance premium income rises steadily year by year. We can see the statistics of agricultural insurance operation achievement of CIC from following figure (fig. 2).

3.3 Problems of Xinjiang mode

Although the agricultural insurance operates very satisfactory in Xinjiang, it still has some problems inevitably. Firstly,

the guarantee level of agricultural insurance is low in Xinjiang. The operational principle is low sum insured, low premium, and implement basic guarantee in Xinjiang. Because the sum insured is low, and most types of risk are deficit insurances. Insureds can not gain enough indemnity when they have been hit by calamities. To solve this problem, we suppose that government should increase its effect in agricultural insurance in Xinjiang, and leading enterprises can be brought into agricultural insurance, so that to set up a risk pooling mechanism, i.e. government supports, leading enterprises and farmers share premium together. By means of this method, it can reduce farmers' premium burden. Besides, with the help of the compensation effect of agricultural insurance, the basic links of leading enterprises' industry chain may become steadier. And what's more, it embodies pooling-of-interest and risk pooling mechanism between companies and insureds.

Secondly, the type of risk is simplex. The types of risk are centralized on crops in Xinjiang, especially cotton. There is no type of risk on forest and melon & fruit. Xinjiang is the second pasturing area in China, so that animal husbandry economy plays an important role in Xinjiang. Although the agricultural insurance increases steadily, breed aquatics insurance is still behindhand. A small quantity of milk cow and sheep insurances has been launched presently, but it is still in experimental stage. Government should increase the support in this field.

Thirdly, the loss ratio of agricultural insurance is still high (fig.2). According to the report from Statistic Bureau of Xinjiang, the average loss ratio of agricultural insurance was 72.5% from 1985 to 2006. Some years even exceed 100%, and it was higher than agricultural insurance breakeven point 70% which is generally accepted internationally. Loss ratio is related to the profit of a company intimately. If the loss ratio is too high, it will bring deficit for a company. A vulgate method to solve this problem in international is that offer policy allowance for reinsurance business of catastrophe risks through legislative form.

4. Successful Experience of Xinjiang Mode

4.1 Remarkably improving the external developing environment of insurance industry.

Firstly, the local governments put more emphasis and supports on insurance industry. In 2006, the local government's printed and distributed the document <Decision on Speeding up the Reform and Development of Insurance in Xinjiang>. The government held an insurance conference to carry out the spirits of the document No.23 from the State Council and arranged some work related to the insurance, put the insurance on the government's agenda in the next period, researched and deployed it.

Secondly, the social circles focused more on the insurance industry. Under the powerful supports of the local related departments, the insurance industry widely started some activities such as "Enter schools, enter communities, enter farming and pasture areas", and reinforced the universal education of insurance knowledge to make more people know insurance, take out insurance and support insurance so that a sound social environment has been built.

4.2 Strengthening the force of supervision and gradually making the market order better.

Firstly, the thought of "Stress supervision and promote development" was getting clearer day by day. CIRC Xinjiang Bureau summed up the experiences constantly in terms of the economic growth pattern and the features of social development. They were: vigorously developed insurance market of the minority as the focus of promoting the harmonious development of Xinjiang, enhanced the capacity and infiltrated degree of serving the construction of new industrialization in Xinjiang as the main direction of supporting and protected local economical construction, vigorously pushed forward the experimental spot project of agricultural insurance, expanded the coverage of agricultural insurance as the major measures for the construction of a new socialist countryside.

Secondly, the regulatory force of market conducts was constantly reinforced. CIRC Xinjiang Bureau emphasized on the wicked price competition, dishonesty and misleading, and invasion of the consumers' interests, organized special examination in the truth of business, finance and statistical data, and special treatment to the conduct of misleading risks, concentrated on punishing the irregular problems. Moreover, they strengthened the regulatory system of insurance intermediary market, and earnestly carried out the cleaning work against commercial bribes, organizing the self-examination and self-correction in business policy-making, financial management, inner controlled system and business operation throughout the insurance industry.

5. Conclusion

Based on Xinjiang mode, this article discusses effect on boosting public agriculture insurance. In the aspects of serving agriculture, rural areas and farmers and boosting the construction of socialist new village, CIRC pushed forward the development of agricultural insurance energetically, worked out "the program of the experiment for policy-related agricultural insurance" and tried to win the support from the governments in all provinces. For example, the governments in Hebei province, Jilin province and Sichuan province, etc. issued documents to boost the development of agricultural insurance. The regions and products of agricultural insurance for the experiments have been enlarged constantly and insurance businesses for corn, rice, pig and milk cow as well as breeding insurance have been opened

successively. 145 million acres of crops and 246 live pigs have been covered in the recent three years.

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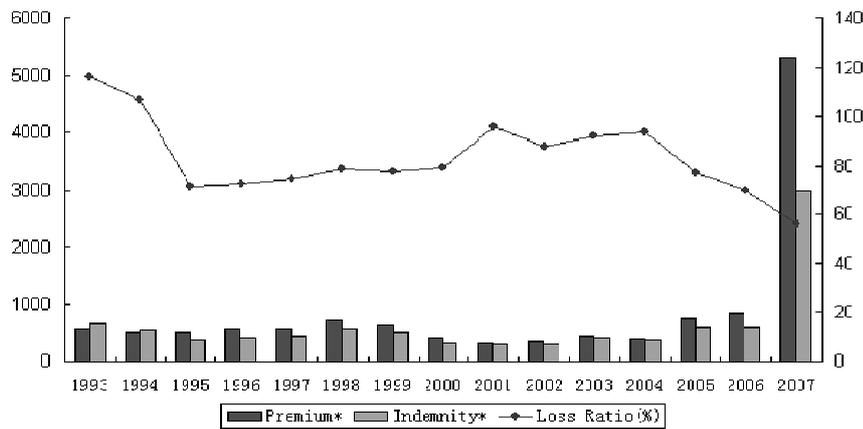
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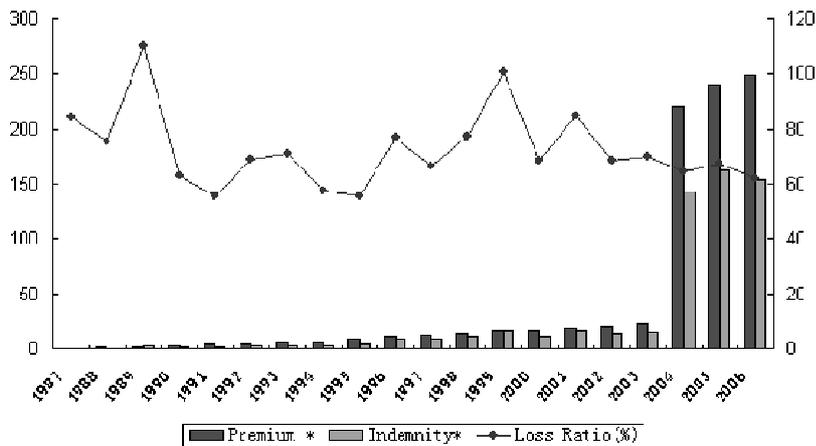
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Unite: Million yuan

Figure 1. China’s Agricultural Insurance Premiums and Indemnity, 1993-2007



Unite: Million yuan

Figure 2. Statistics of Agricultural Insurance Operation Achievement of CIC, 1987-2006