

FOREIGN EXPERIENCES ON ORGANIZATION OF AGRICULTURAL INSURANCE SYSTEM

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Abstract: Insurance plays an important role as part of climate change adaptation strategies for agriculture and households in developing countries. However, there are many problems in the market that hinder the full development of agricultural insurance services in agriculture. In Uzbekistan, agriculture is reflected in such market problems as information asymmetries, high costs, poor infrastructure, and public distrust of insurance services. The government's provision of special subsidies to increase coverage and a number of other changes could lead to some market growth.

Keywords: agricultural risk insurance, insurance premiums, insurance services, climate change, insurance protection, institutional development, insurance payments.



Introduction. Agro-industry is the leading sector in our country. It is known that agriculture plays a special role in the economy of our country, and 28% of the gross domestic product of Uzbekistan is agricultural products. Such an important sector of the economy is always treated with special attention and responsibility by the state. However, the unfavorable climatic conditions of our country create difficulties for the producers of this industry. On the contrary, diseases and pests also cause great damage to the crop. All this has a strong impact on the agro-industrial sector and requires a special approach to insurance protection. This issue is especially relevant for cotton and grain crops. Insurance solutions should be developed for all types of agricultural and other agro-industrial risks to protect against climate change and other conditions. Nowadays the "Strategy for Agricultural Development of the Republic of Uzbekistan for 2020-2030" is being implemented, which includes such an important item as "Agricultural Insurance".

Result and Discussion

In most developing countries, agricultural risk insurance has come a long way, taking into account the specific characteristics of a particular country. In order to understand and justify possible directions for the development of agricultural risk insurance in our country, it is necessary to study the experience of countries similar to Uzbekistan in terms of the level of institutional development. We can look at the example of Kazakhstan, Belarus and Russia.

The Republic of Kazakhstan. The current system of agricultural insurance in the Republic of Kazakhstan is based on compulsory insurance. Its legal basis was the Law of the Republic of Kazakhstan dated March 10, 2004 No. 533-II "On Compulsory Plant Insurance". The law required insurance of cereals, oilseeds, sugar beets and cotton. As a general rule, the costs of growing (planting) are insured, not the crop. However, the negative experience of working with insurance companies and the high cost of insurance policies have led farmers to turn to mutual insurance companies more and more.

During the period of the law's entry into force (2006-2015) (the law came into force on April 1, 2004), an average of 5.4 million hectares of arable land were insured per year, of which 558,000 hectares were affected by natural disasters (10%).

In accordance with the Law of the Republic of Kazakhstan "On Mutual Insurance", since 2006 consumer

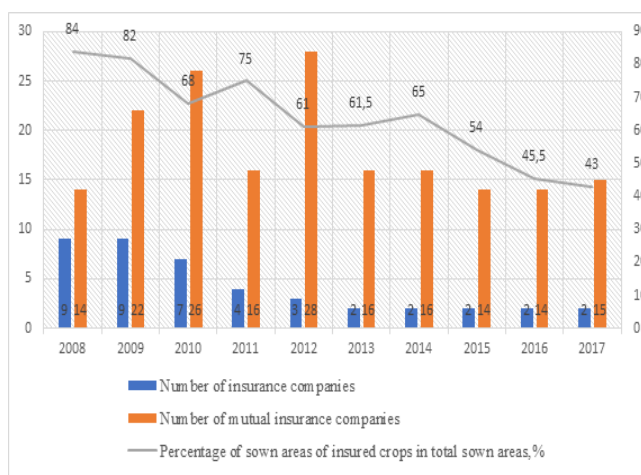


Figure 1. Key Indicators of State-Supported Agricultural Risk Insurance in the Republic of Kazakhstan for 2008-2017¹

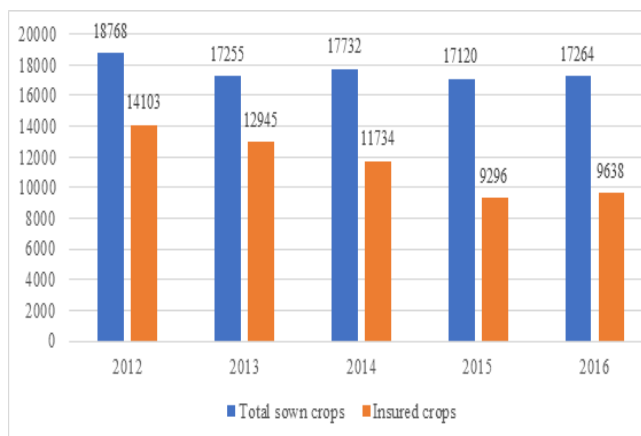


Figure 2. Dynamics of Insured Crops in Kazakhstan in 2012-2016²

cooperatives have been allowed to engage in insurance activities in agriculture. An increase in the number of insurers was observed from 2006 to 2012 by revoking the license to carry out insurance activities and giving agricultural producers the right to insure their risks (Figure 1). Despite the form of compulsory insurance, the law has not helped popularize insurance - the share of insured crops is declining every year and in 2016 was just over 50% (Figure 2).

Kazakhstan has a compulsory crop insurance system until 2020. The experience of this system has shown that insurance companies are reluctant to work in the field of agro-industrial complex. Thus, most insurance companies have left the crop insurance market due to high losses and unfair competition. As a result, in the last years of the system's operation, there are only 2 insurance companies left in the market, whose share does not exceed 20% of the total harvest.

In 2020, a new insurance system was introduced in the agro-industrial complex of Kazakhstan. Unlike the previous mandatory form of insurance in crop production, the new one has several unique features. First, the voluntariness of insurance in agriculture. Secondly, there are no restrictions in the industry - it is possible to insure any direction in the field of agriculture. Third, state support is provided in the form of subsidizing insurance premiums. This is aimed at stimulating agricultural producers and halving the cost of insurance contracts - 50% of the amount of insurance premiums is subsidized by the state. Farmers can insure their assets using the information system "Agroinsurance" on the site "Qoldau.kz". In 2021, insurance companies insured 144.8 thousand hectares of arable land, of which 121.3 thousand hectares were insured against drought and 23.5 thousand hectares of land were protected from excess soil moisture.

Kazakhstan is currently planning to increase the share of subsidies in insurance premiums paid by farmers engaged in crop and livestock production. About modification of the order of the Minister of Agriculture of the Republic of Kazakhstan from May 19, 2020 of No. 172 "About approval of Rules of subsidization of insurance premiums" stated in the draft order. This document has been discussed by the Ministry of Agriculture of the Republic of Kazakhstan on the open national legal documents portal until March 3, 2022. According to the comparative schedule of the draft order, 50 percent of the fees paid by farmers are currently subsidized. The new bill is considering raising the subsidy limit to 80 percent of insurance premiums. According to the document, reducing the cost of insurance policies by setting the share of insurance premiums subsidized at 80 percent will initially increase insurance opportunities for farmers.

This will lead to the introduction of new insurance products to agricultural producers, the formation of an insurance culture in the agro-industrial complex, and the restoration of confidence in the insurance market. In the coming years, this will allow agricultural producers to explore ways to reduce their risks through insurance. In the future, it will be possible to gradually reduce the share of subsidies to today's levels.

The Republic of Belarus. In Belarus, subsidized insurance of agricultural risks in the crop and livestock sub-sectors is mainly mandatory. The main legal acts regulating agricultural insurance are the Decree of the President of the Republic of Belarus dated December 31, 2006 No. 764 "On issues of compulsory insurance of plants, livestock and poultry", "On insurance activities And the Decree of the President of the Republic of Belarus No. 530 of August 25, 2006 "On Insurance Activity in the Republic of Belarus". Under current law, insurers pay only 5 percent of the value of the insurance policy, and the remaining 95 percent is funded by the state from the Republican Fund for Support of Agricultural Producers. If an agricultural enterprise does not pay its share of the payment, it will

not be supported by the state in the future.

In Belarus, since January 1, 2008, Belgosstrakh has been engaged in compulsory insurance of crops, poultry and livestock.

Improving the efficiency of public administration in order to increase the financial sustainability of agricultural producers and sustainable development of rural areas is one of the main directions of the current State Program for the Development of Agricultural Business in the Republic of Belarus for 2016-2020. During this period, measures to support agriculture were aimed at developing an effective system of risk insurance for agricultural producers.

The analysis allows us to highlight some features of the effective mechanism of agricultural insurance:

- 1) developed system of state support;
- 2) use of various forms of state participation (partial compensation of losses or subsidization of insurance premiums);
- 3) clear criteria for state participation programs;
- 4) A systematic approach that includes:
 - Existence of a regulatory framework that meets the interests of all subjects of agricultural insurance (state, insurance company, agricultural producer);
 - Existence of a specific government agency (Ministry of Agriculture, special agency or organization) acting as a coordinator ;
 - Consolidation of financial resources through the creation of special funds or the implementation of reinsurance operations with state guarantees.

On November 15, 2021, the President of Belarus signed Decree No. 441 "On Insurance of Plants, Livestock and Poultry". The document approved a list of crops, livestock and poultry, as well as insurance rates for compulsory insurance for 2022 with the support of the state. In addition, the Decree sets the percentage of compensation for damage in the event of crop failure for the next year and the cost of re-sowing, as well as the percentage of compensation for damage caused by death and forced slaughter of livestock and poultry.

The decree provides for the effective implementation of the mechanism of compulsory insurance of agricultural crops, livestock and poultry with state support, in the event of loss and replanting of insured crops to agricultural producers, as well as livestock and aimed at obtaining insurance payments in cases of death, compulsory slaughter of birds.

In the Belarusian model of agricultural insurance, there is a problem of inconsistency between the planned indicators of state support and the results of their implementation in practice. One of the reasons for this is that the republican budget funds are not included in the list of protected budget funds to finance 95% of insurance premiums for compulsory insurance of agricultural products. As a result, their size is reduced.

In addition, agricultural insurance is underdeveloped and is mainly provided in the form of compulsory insurance of crops, livestock and poultry. State participation is to cover part of the cost of insurance premiums for compulsory insurance of agriculture, livestock and poultry from the budget in the amount of 95% of the insurance premium. The remaining 5% is paid by agricultural insurers in accordance with the law.

It can be said that compulsory insurance is more of a budgetary support to agriculture through an insurance mechanism. According to the rules of the World Trade

Organization, the state can allocate funds for agricultural insurance without restrictions. According to experts, such a budget support system can not be considered a classic agricultural insurance, so Belarus is working to create a system of real crop insurance.

Voluntary insurance of agricultural risks in the country is characterized by a fairly wide range of insurance products offered by insurance cooperatives and individual organizations. However, due to high insurance rates, it is not in demand. Voluntary agricultural risk insurance is still underdeveloped in the Republic of Belarus without state support.

Russian Federation. In Russia, a state-supported insurance system for agriculture was introduced in 1993, the essence of which is to cover part of the cost of paying insurance premiums (contributions) from the federal and regional budgets. This model is based on the principle of voluntariness and co-financing. From January 1, 2012 to July 25, 2011 "On state support in the field of agricultural insurance and amendments to the Federal Law" On Agricultural Development " In accordance with Federal Law No. 260-FZ, changes were made to the legal basis of the agricultural insurance system. The main principles of the Russian insurance system today are:

1) when concluding insurance contracts, farms pay 50% of the insurance premiums directly to insurance companies, and the insurers receive the rest in the form of budget subsidies;

2) only insurance companies that are members of the Association of Insurers (National Union of Agricultural Insurers) may participate as insurers;

3) insurance conditions are determined by the Rules of Agricultural Insurance, which are developed by the National Union of Agricultural Insurers and agreed with the Ministry of Agriculture of the Russian Federation, the Ministry of Finance of the Russian Federation and the Central Bank of Russia;

4) crops, perennial seedlings, farm animals should be insured;

5) the list of insurance risks includes a wide range of events that lead to the destruction of the insured objects. Yield loss is defined as a 20% or more reduction in its volume relative to the planned volume, while loss of perennial plantations is considered to be a loss of viability for more than 30% of crop area;

6) the sum insured must be at least 80% of the insured value of the insured objects. In this case, the insurance value of the crop is determined on the basis of the average yield of the farm for the last five years and the average price of the corresponding type of product;

7) insurance contracts may provide for an unconditional discount in the amount of up to 30% of the sum insured;

8) The maximum rates of tariffs for calculating the amount of budget subsidies are specified in the agricultural insurance plans approved annually by the Ministry of Agriculture of the Russian Federation. However, the share of the insurance premium intended for making insurance and compensation payments shall not be less than 80 per cent;

9) if the insurance organization is unable to make an insurance payment due to the procedures related to its bankruptcy or its preventive measures, the compensation withheld by the insurers of such payment by the association of insurers payments are made at the expense of the fund. This fund is formed in the amount of at least 5% of insurance premiums received by insurers.

Based on data published by the Federal State Service for Statistics, we can see that the difference between the volume of insurance premiums and insurance coverage is declining in Russia for 2012-2020 during the data period. This, in turn, creates financial difficulties for agricultural producers (Figure 3).

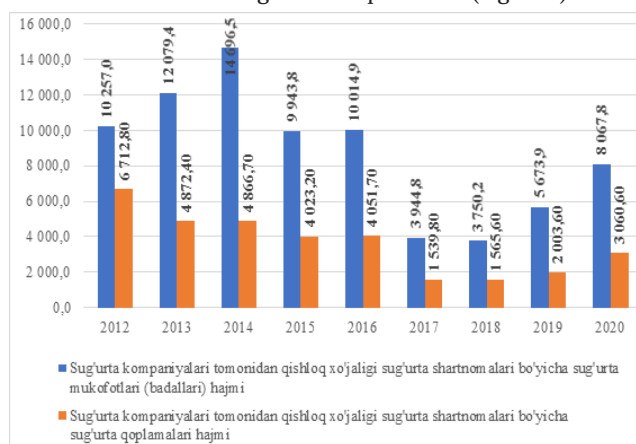


Figure 3. The amount of insurance premiums and insurance coverage collected by companies operating in Russia in 2012-2020⁸ (million rubles).

We can see that the ratio of insurance premiums (contributions) to insurance coverage in the first period, ie in 2012 (10,257.0 million rubles to 6,712.8 million rubles) was 65%, and in the following period this figure fell to much lower levels and in 2020, this ratio was almost 39%. In developed countries, this indicator is much higher.

Decrease in the share of insured arable land in some years due to untimely adoption of the agricultural insurance plan (instead of July in October), as well as delays in the distribution of subsidies between regions and shortcomings in the regional regulatory framework for subsidies caused the presence of. An additional factor is the revocation of the insurance company's licenses by the Central Bank of Russia. As of January 2022, 11 agricultural insurers in Russia are operating under license as members of the National Union of Agricultural Insurers. During 2016-2021, the activities of 24 insurance companies as agricultural insurers were suspended by the Central Bank of Russia. In 2016, when it was founded, it included 21 organizations.

Since the beginning of 2019, state-funded agricultural insurance has reached a new stage of development. As part of the "single subsidy" to support the agro-industrial complex, insurance funds have become a legally protected status without being diverted to other sectors. In early 2020, institutional changes took place, as a result of which agricultural producers were able to receive subsidies only through insurance policies. According to preliminary estimates of the National Union of Agricultural Insurers, the transition to compulsory insurance of agricultural risks will increase the share of insured crop (crop) areas to 45%. At the same time, agricultural producers continue to enter into insurance contracts with a minimum amount to use other types of subsidies. In many ways, this can be explained by the imperfection of the risk assessment methodology in agricultural insurance, the low level of budget subsidies and the general underestimation of the importance of the agricultural risk insurance mechanism.

For both Uzbekistan and other countries of the integration partnership, developed agricultural insurance can become an effective risk management mechanism that

contributes to the sustainable development of agricultural production. This can be achieved through the integration of national systems of agricultural insurance, which is done by creating appropriate institutional conditions in each country. In general, it is necessary to improve and unify approaches to the regulation of insurance activities, to make adjustments to the regulatory framework of agricultural insurance. The norms governing access to the insurance market and control over their activities are important here.

It is important to develop a methodological framework for agricultural insurance in each country. In particular, it is necessary to develop a methodology for risk assessment through the active use of digital technologies, scientific substantiation of calculations of financial and economic parameters of agricultural insurance with state support. Also, the development of a range of insurance products and their diversification to meet the needs of insurers in various forms of management, the formation of a multi-level structure of types and forms of agricultural insurance, in turn, contributes to the development of the industry 'shadi. Extensive changes will lead to positive qualitative changes in the agricultural insurance system.

A study of agricultural risk insurance mechanisms in the above countries has shown that with all the diversity and development experience, some models of agricultural insurance can be recommended as a model for use in Uzbekistan. The results of the analysis of the current state of agricultural insurance show that for all countries of the integration partnership there is a general downward trend in its indicators. This is primarily due to the small share of planted (sown) areas of insured crops. The significant reduction in the insurance premium ratio indicates that the current models of agricultural insurance are not sufficiently effective.

Conclusions and suggestions.

The characteristics of institutional development affect the formation and level of development of agricultural risk insurance systems. However, the existing problems and their causes remain very similar. In today's developing countries, the predominance of small forms of management in the structure of agricultural production leads to low security, low insurance premiums and high administrative costs.

Government-supported insurance programs may include:

- 1) subsidizing insurance premiums or insurance payments from the budget;
- 2) participation of the state in reinsurance of agricultural risks or formation of funds for compensation of losses caused by catastrophic events;
- 3) assistance in the formation of the infrastructure of insurance activities (development of methodological documents, submission of statistical data, actuarial calculations, creation of underwriting and insurance arbitration services, installation of meteorological equipment, implementation of educational programs , conducting information events);
- 4) creation of effective principles of operation of the agricultural insurance market (conclusion of contracts, insurance payments and settlement of disputes, conditions of development of competition and protection of the rights of insurance participants).

One of the key issues in this area remains the creation of a regulatory framework for state-sponsored agricultural insurance. This issue requires the creation of a system of development and distribution of state subsidies for agricultural insurance, which we can see in the dynamics of demand for insurance services in agriculture.

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