GOVERNMENT SUPPORT TO INSURANCE OF AGRICULTURAL RISKS IN AGRICULTURAL ENTERPRISES BASED ON THE MODEL OF PUBLIC-PRIVATE PARTNERSHIP

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Abstract. Article devoted to the development of approaches to improve government support to insurance of agricultural risks based on the model of public-private partnership. The author reasonably justified the forming of an effective model of national agricultural insurance scheme with government support to insurance of agricultural risks based on the mechanism of interaction between the public-sector and the private sector to ensure the financial stability of agricultural producers and the state upon the occurrence of catastrophic weather risks. The research paper analyzes the results of the government support through the reimbursement of insurance premiums, which operated in the country for 2005-2008 years; systematized functional responsibilities and targets of each related entities in the model of public-private partnerships in agricultural insurance with government support; proposed the introduction of reimbursement of the cost of insurance premiums to the insurer, not the insurant. It was determined that change of the subject obtaining insurance subsidies will contribute to reduce the cost of insurance and to increase financial stability and solvency of agricultural enterprises.

Key words: insurance, agricultural risk, model of public-private partnership, government support, the subject of government support, agricultural enterprise.

1. Introduction. Strengthening the role of the domestic agricultural sector in the world agro-food market determines the need to involve financial resources by agricultural enterprises for sustainable development and at the same time increases their insurance requirements to cover risks associated with climatic conditions and market environment.

Agricultural risks insurance is one of the main instruments for risk reduction in agricultural production, which provides the adequate coverage and reduces the amount of loss in the event of catastrophic risks. In order to create conditions for stable operation and protect agricultural producers, the state can invest either through direct payments to victims in consequence of agricultural risks, either through budgetary support of agricultural insurance.

The agricultural risks insurance with government support was researched by such scientists as Aleskerova Y.V. [1], Borisova V.A. [2], Dem’yanenko M.Y. and Gudz’ O.E. [3], Dranus V.V. [4], Kalashnikov O.M. [5], Kolibaba R.O. [6], Layko P.A. [7], Navrotskyi S.A. [8], Sholoyko A.S. [9] and others.

Aleskerova Y.V. gives author’s vision of principles of building an effective system of agricultural insurance, implementation of which requires both government regulation and government support in providing insurance services [1]. Navrotskyi S.A. identifies the main reasons hampering the development of the domestic market of agricultural insurance [7]. Demyanenko M.Y. and Hudz O.E. give guidance on crop insurance with government support [3]. Sholoyko A.S. thoroughly analyzes the insurance coverage of crop production on climatic risks [9].

2. Materials and Methods

Government support through the partial reimbursement of insurance premiums (which operated in the country during 2005-2008 years) contributed significantly to the growth of basic parameters of agricultural insurance market (with capacity of insurance subsidies to 12.6 times the number of insurance contracts increased 1.8 times, insured area - three times, collected insurance...
premiums - 3.3 times), but led to boosting the rates of insurance companies (premium rate increased from 3.79% to 4.93%, or 1.14 percentage points).

Results of this program of government support indicate its compliance with the interests of both agricultural producers and insurance companies. In particular, the compensation of the cost of insurance premiums (from 41% to 46.8%) ensured increasing share of firms covered by insurance with 1.6% in 2005 to 8.5% in 2007 and increasing the proportion of insured crops in accordance with 1.5% to 9.1% and thus contributed to the increase of insurance protection and financial sustainability of agricultural enterprises. At the same time, according to our calculations, the growth of insurance subsidies for 1 USD provided premiums increase by an average of 2.59 USD and accordingly created the preconditions for strengthening the financial position and improving the solvency of insurance companies.

Complete rejection of funding programs which support insurance of agricultural enterprises due to the financial and economic crisis has slowed the pace of development of the national agricultural insurance market, which was only in its infancy before this.

Much attention has recently been given to the study of international experience [11-13] and to the formation of bases and legal regulation of sustainable development of insurance of agricultural risks [14, 15].

To solve problems of determining approaches to forming a model of public-private partnerships in agricultural insurance with government support were used the following methods: historical and logical unity in identifying modern features of government support as part of government insurance regulation of the agricultural sector; method of structural-functional analysis in revealing the conceptual foundations of government support for agricultural insurance in Ukraine and the world; monographic method in the study of scientific publications, regulatory legal acts; statistical methods when processing data, identifying possible links between economic processes and phenomena, processes dynamics.

3. Results

An important step towards creating a standardized system of agricultural insurance (whose task is to prevent the formal insurance and to protect property interests of agricultural producers) was the adoption in 2012 of the Law of Ukraine “On peculiarities of agricultural products insurance with government support”, containing a clear legal interpretation of the main categories of the agricultural insurance. In particular, under the insurance of agricultural production with government support recognized economic relations on insurance protection of property interests of agricultural producers in case of insurance claims at the expense of funds generated by the insurer for insurance premiums (the part of which is offset by government subsidies) and income from the placement of these funds, and determined by the presence and characteristics of risk carriers which are agricultural plants and animals.

According to this Law, government support is a providing of funds from the state budget to agricultural producers in the form of grants to pay for part (not more than 50%) of insurance premiums (premium) charged under the insurance contract.

In international practice, government support for agricultural insurance is treated much broader and includes:
- Subsidizing insurance premiums (ranging from 30% to 65% of the payment, and in most countries provides for the payment of the cost of insurance premiums directly to insurers);
- Subsidizing insurance payments; compensation for administrative expenses insurers to provide insurance services; financing the development of insurance products, educational and information activities for agricultural products;
- Financing of Training, Certification and payment of experts to resolve loss;
- Financing of applied scientific research;
- Subsidizing reinsurance [13].

It can be argued that in Ukraine there are not only limited conceptual and functional basis of this type of government support with subsidizing the cost of insurance premiums, but also provided its payment to the insurant, which leads to the diversion of working capital of the company and lowers its business activity. We proposed to determine government support to
insurance of agricultural risks as the provision of funds from the state budget to agricultural producers in the form of grants-in-aid to pay for part (not more than 50%) of insurance premiums charged under the insurance contract which concluded with an insurance company (a member of the Agricultural Insurance Pool) and by providing guarantees of State reinsurance.

Among the innovations in agricultural insurance it should be emphasized the creation of the Agricultural Insurance Pool as a specialized structure whose activity is based on public-private partnership. The key elements of public-private partnerships as a legal model of cooperation of agribusiness and the State, and as an organizational and institutional mechanism for its implementation, we refer: formalization and equitable relationship; the existence of common goals and aspirations; co-investment of resources; distribution of costs and risks between participants (policyholders, insurers and state). The arrangement of functions and targets of each of the subjects of these relations in the model of public-private partnerships in agricultural insurance with government support was carried by us in Fig. 1.

<table>
<thead>
<tr>
<th>Subjects</th>
<th>Insurant - Agricultural enterprise</th>
<th>Insurer – insurance company</th>
<th>The State</th>
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<tbody>
<tr>
<td>Functional authority</td>
<td>Formation of the output array of information; conclusion and compliance (including farming) of insurance contract; payment of premiums; obtaining insurance compensation when the insured event.</td>
<td>Administration, organization and promotion of insurance services; implementation of insurance policies; collecting premiums; assessment and settlement risks; determination of damages, payment of insurance compensation when the insured event.</td>
<td>Initiation, legal regulation, organization and guarantee insurance relations; control and supervision of the insurer; coordination and approval of insurance; subsidizing insurance premiums; providing state protection upon the occurrence of catastrophic risks (using its own subsidized programs and international reinsurance).</td>
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<tr>
<td>Milestones, priorities</td>
<td>Reducing vulnerability from risk of exposure to adverse weather conditions; reimbursement of losses; improving the financial stability of enterprises; the ability to attract financial and credit sources with the participation of the state.</td>
<td>Expanding the customer base; increasing revenue and strengthening the financial stability of insurance companies; diversification and competitiveness of insurance products and improvement of their provision.</td>
<td>Ensuring economic and food security; ensuring sustainable production in agriculture; protection of property interests of agricultural producers; increasing revenue from agricultural producers and insurance companies.</td>
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**Figure 1. Characteristics of the model of public-private partnerships in agricultural insurance with government support**

*Source: author's development*

We believe that the establishment of the Agricultural Insurance Pool in 2012 as the only center of the risk management program of government procurement of grain, Agrarian fund and monitoring the implementation of the program of government support to agro-insurance is one of
the first steps of forming national model of public-private partnership in the insurance of agricultural risks with government support. Principles of Agricultural Insurance Pool legislatively defined: the priority of interests of agricultural producers; complete transparency and publicity activities, the fight against corruption and circuit security; standardization of activities (insurance, reinsurance, underwriting only by the standard unitary products).

The providing of appropriate insurance protection of clients; optimization of the cost of insurance services; expanding its customer base by small and medium agricultural enterprises and legal regulation help to increase demand for insurance services in the agricultural insurance. In this, we consider it necessary to make a number of proposals to improve the agricultural insurance with government support.

In order to increase insurance coverage introduced mandatory licensing of insurance companies and established the right to provide services of insurance with government support only to companies that belong to the Agricultural Insurance Pool. The decline in 2015 of amount of franchise insurance contracts of Agricultural Insurance Pool from 50% to 30% is aimed at increasing the level of insurance coverage. Among the priorities to be addressed are; increasing requirements for capitalization level of insurance companies (up to 10 million USD); formation of information database on agricultural insurance; enable the reinsurance of risks; guarantee of payments for catastrophic risks by the state.

Optimizing the value of insurance can be achieved both by cheapening of the cost of insurance premiums, and by unifying and simplifying insurance contracts, reduces the costs of administration, which is achieved by creating a unified field underwriting, improving methodologies for reviews sowing of crops, loss adjustment, unification of expert’s work.

We consider it necessary to provide adequate funding on a stable basis of government support and make some changes in the mechanism of providing subsidies and determining their size. Above all, emphasize the introduction of partial reimbursement of the cost of insurance premiums to insurant not insurer, as is done in countries that confirmed the effectiveness of agricultural insurance with government support. This will contribute to reduce the cost of insurance and increase financial stability and solvency of agricultural enterprises.

4. Conclusions
Building an effective model of the national agricultural insurance with government support of agricultural insurance prescribed therein mechanisms of interaction between the State and the private sector provides greater financial stability of agricultural producers and the State upon the occurrence of catastrophic weather risks. Proceed on this, agricultural insurance as a set of effective mechanisms and instruments of the state and the private sector to minimize risks is an integral part of market infrastructure and one of the basic elements of sustainable development of the industry.

Organizational and institutional mechanism for implementation of agricultural insurance with government support as an effective instrument of income’s support and enhance the financial stability of agricultural producers is a model of public-private partnership that includes the formalization and equal nature of the relationship; the existence of common goals; co-investment of resources; distribution of costs and risks between the parties - insurers, insurants and the State.

It was proposed to determine government support to insurance of agricultural risks as the provision of funds from the state budget to agricultural producers in the form of grants-in-aid to pay for part (not more than 50%) of insurance premiums charged under the insurance contract which concluded with an insurance company (a member of the Agricultural Insurance Pool) and by providing guarantees of State reinsurance. Introduction of partial reimbursement of the cost of insurance premiums to insurant not insurer will contribute to reduce the cost of insurance and increase financial stability and solvency of agricultural enterprises.

References


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