

Public Private Partnerships in China's Agricultural Insurance

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Outline

- Current Situation of PPP in China's Agricultural Insurance (CAI)
- Problems of PPP in CAI
- Recommendation of PPP in CAI

I. Current situation of PPP in China's Agricultural Insurance (CAI)

China's agricultural insurance system: government leading, market operating, voluntarism, and cooperation between stakeholders

- Public: supported by government
- Private: operated by commercial insurers
- PPP: Cooperation between government and commercial insurers

1.1. Governmental support

- Formulate laws and regulations
 - In 2012, The State Council issued agri. insurance regulation which explicates the legal position, business entity, operating principle, operating pattern, policy support and supervision of agricultural insurance, providing legal support and guidance for China's agri. insurance.
- Provide premium subsidy
 - Since 2007 China has begun to implement the policy-based agricultural insurance. The range and strength of fiscal subsidies to the agricultural insurance are continuously extending.
 - In 2013 there are 15 products and the premium subsidy reaches to 80% provided by the government at central, provincial, city and county level

1.1. Governmental support

- Provide tax preference
 - Preferential business tax, stamp duty and income tax
- Promote the operative activities
 - Assistance in insurance companies propaganda, underwriting, loss assessment and other activities

1.2. Private: operated by commercial insurers

- Operated by commercial insurers
 - Make full use of existing resources
- Allowing competitions among insurers
 - Improve efficiency of service
 - Extend insurance capacity
 - diversify risk in wider range

1.3 Cooperation between government and commercial insurers

Rights and responsibilities, especially risk sharing between public and private sectors depends on patterns of partnership

A. Cooperative model between government and commercial insurers

- Joint insurance between insurers and local governments
 - Government and insurance companies jointly run the agri. Insurance and share risk
- Insurers commissioned insurance on behalf of local government
 - Government undertake risk and companies are proxy to sell policies
- Self-supported by insurers
 - Insurance companies undertake the risk
 - Governments only provide premium subsidies

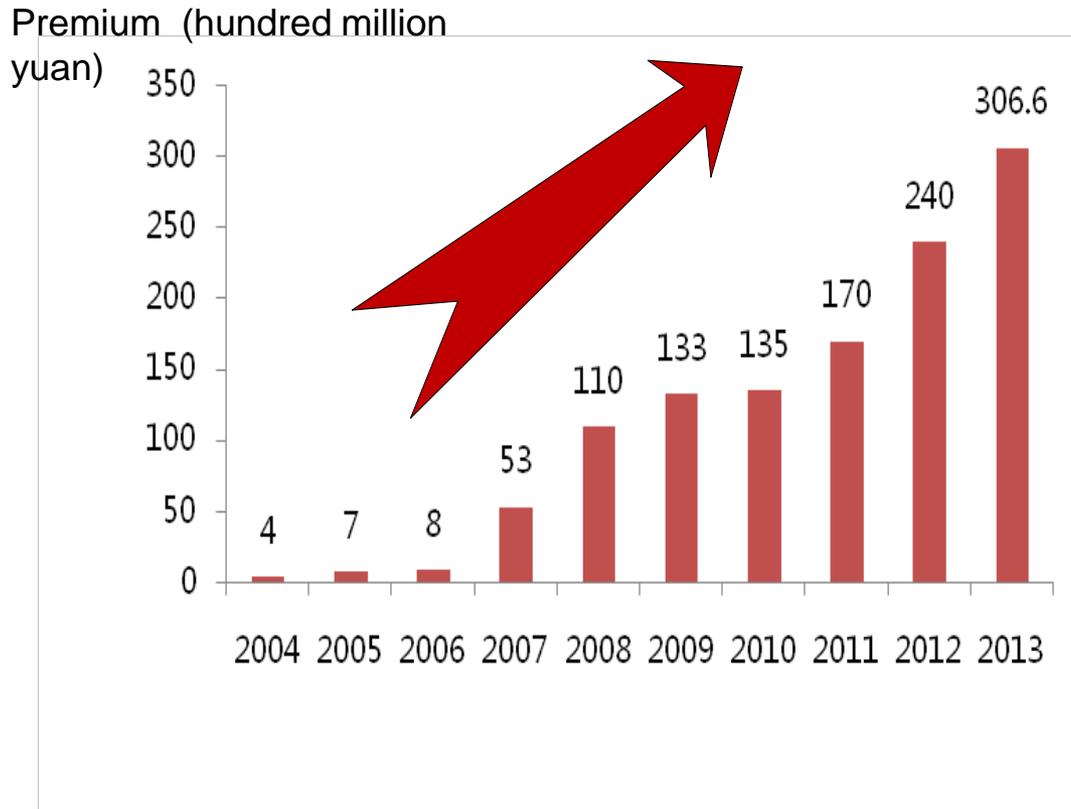
B. PPP: risk-sharing by government and commercial insurers

- Joint insurance between insurers and local governments
 - Risk shared by government and insurers
 - How to define their responsibility for risk?
- Insurers commissioned insurance on behalf of local government
 - Risk taken by government
 - Whether government will and able to take potential risk?
- Self-supported by insurers
 - Risk taken by insurers
 - Whether insurers have sufficient reserves to pay for catastrophic losses?

C. PPP: Achievement of agricultural insurance

- “PPP” has the government plays a role in agricultural insurance and makes full use of the company's existing insurance organization resources as well
- This institutional advantages make rapid development agriculture insurance in China

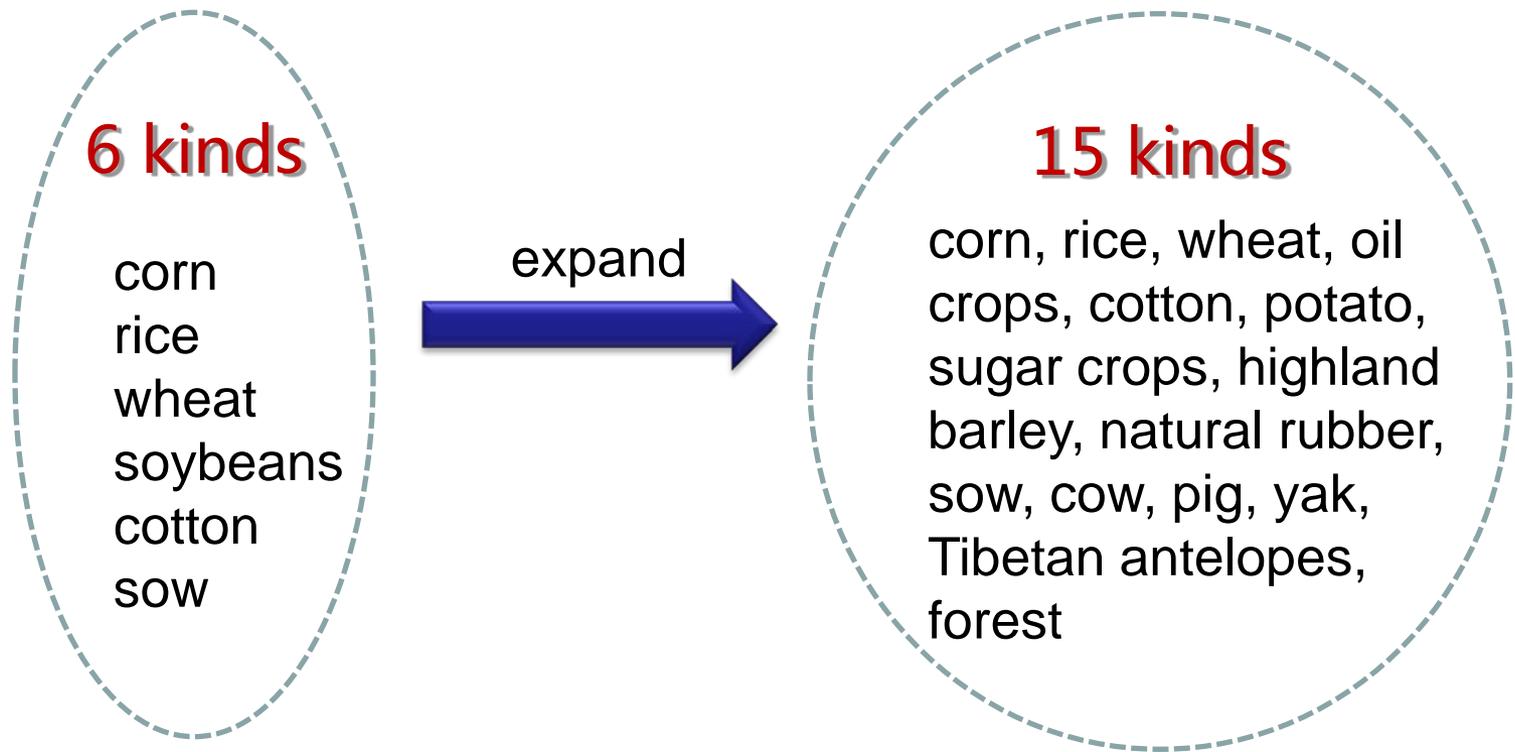
❖ The premium income is growing rapidly



Agricultural insurance premiums have increased from 5.3 billion yuan in 2007 to 30.66 billion yuan in 2013, nearly 5 times.

Chinese agri. ins. ranks the second largest in the world.

❖ Insured products are increasing constantly



At the beginning of
the central government subsidy pilot

2013

❖ The range of insurance services is expanding

- The number of agri. ins. com. has increased from **6** in 2007 to **28 now**.
- In 2013, the number of agri. ins. products has increased to more than **500**, covering nearly **90 kinds** of main crops.
- In 2013, the agri. ins. coverage area has reached up to **1.1 billion mu**, accounting for **45%** of the national major crops producing area.
- Agri. ins. has been providing risk coverage up to **1.4 trillion yuan** and **200 million farmer households** participate agri. ins. in 2013.
- Under the influence of agricultural insurance, **housing ins.**, **agri-machinery ins.**, **agri-facilities ins.**, **agri-product quality ins.**, **price ins.** and other kinds of insurance also have rapid development, and rural financial system is has been improved.

II PPP in CAI : problems

- Problem of public sector: limitation of subsidy
- Problem of private sector: lack of market competition order
- Problem of PPP: limitation of risk sharing
- Problem of PPP: illegibility of boundary

2.1 Problem of public sector: limitation of subsidy

- Regressive effect
 - Way of subsidy linked between the local and central government
- Lack of linkage to local fiscal capacity
 - Subsidy of flat proportion
- Not adapt to diversity of demands
 - Designated extent and level of subsidy

2.2 Problem of private sector: imperfect competition order

- Unreasonable market entry standard
 - Further improve the insurers' standard of entering the agricultural insurance market in terms of industry experience, technology, team, service network, etc.
- Imperfect entry-exit mechanism
 - Lack of fair bidding system
 - Lack of service evaluation system

2.3 Problems of PPP: limitation of risk sharing

- Insurers are commissioned insurance on behalf of local government
 - Government is exposed to catastrophic risk
 - Moral hazard of insurers
- Self-supported by insurers
 - insurers do not have sufficient reserves to pay for catastrophic losses
- Joint insurance between insurers and local governments
 - How to define respective liability for potential risk?
- At present, the catastrophic risk sharing at central government level has not been established

2.4 Problem of PPP: illegibility of boundary

- The boundary of government intervention in agricultural insurance is not clear
 - Should government intervene in sale and claim of crop insurance?
 - Should government intervene in product design and pricing?
- lack of rights to the government regulation
 - There is no constraint to the power of the government intervention in agricultural insurance
 - there is no specific oversight for government regulatory

III PPP in CAI : recommendations for further reform

- For public: to optimize fiscal policy of subsidy
- For private: to improve the efficiency of supply
- For PPP: to perfect the mechanism of risk sharing
- For PPP: to define the boundary of the behaviors of government and insurers

IV PPP in CAI : recommendations for further reform

- In conclusion, “PPP” is a reasonable choice under China's domestic conditions.
- Only by constraining the power of the government and regulating competition order, the agricultural insurance system can be improved.

Thank you for your attention.....