

AGRICULTURAL INSURANCES – MEANS OF DEVELOPPING THE ROMANIAN AGRICULTURE AMONG THE E.U. COUNTRIES

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The experience of the developed countries has shown that it is completely delusional to try and create a modern agriculture without the powerful development of agricultural insurances.

Agriculture has always been one of the most important economic branches in Romania, as it has the highest value of all European countries by GDP (8-12%). This field represents an important direction in the economic development, especially due to the high potential of the agricultural development in the E.U. countries.

The present paper tries to illustrate the potential of agricultural insurances, their necessity, the general presentation of the domestic agricultural insurance market and that of the European Union's as well as the search for viable solutions of development in agriculture by the aid of insurances.

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1. Introduction

Agricultural insurances are an important means of developing the Romanian agriculture among the EU countries. The reasons are the following: according to statistics, of the entire Romania territory of 23,8 million hectares the Romanian agricultural area is 14,7 million hectares (61,7%) out of which only 9,4 million hectares are agricultural areas utilized for farming. Romania is the seventh European country in terms of agricultural area (after Spain, France, Great Britain, Germany, Italy, Poland) and the fifth in terms of agricultural area utilized for farming (after Spain, France, Germany and Poland)³⁹⁹. This makes the problem of rural development of great national and international relevance, as it also focuses on our country's huge economic potential among the EU member states.

In this context, Romania can become a strong competitor on the European Market if it knows how to use its resources and the EU financial support. Furthermore, the developed countries have proved that a successful agriculture cannot exist without a strong development of agricultural insurances, which are still not given the right status, though lately they have been granted more attention than usually.

2. The necessity of agricultural insurances

Insurances represent an element of reducing the economic uncertainty and a means of resuming the temporarily suspended activity. Insurances do not reduce the variety risks, but people are better prepared to face them. In the context of a free, undirected economy, any personal investment is exposed to risks and uncertainty; especially in agriculture where, due to specific problems regarding the production process – the large output cycle, the slow turning of capital, the rate of profit which is much lower compared to other economic branches – a strong protection of investments is required.

Agricultural insurances are extremely useful, because risks appear due to uncontrollable climatic changes. Hence, a modern agriculture with insurance services develops as farmers begin to change their way of thinking and understand that insurance means protecting themselves and

³⁹⁹ General view on Romania's agriculture and rural development, <http://www.madr.ro>.

most of all, protecting their agricultural investment. In our country, agricultural producers have restricted access to insuring their production, mainly because of the lack of financial possibilities to pay the insurance premium. In this case, insurances are accessible only to (trading) companies or to experienced economic agents. The bigger the natural disasters in the past years, the greater the necessity of insurance is, especially if we take into account the negative effect and the caused damages in economy.

3. Tapping the potential of agricultural insurance

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity.

We may say that the Romanian market for agricultural insurances is emerging, and may become very successful in the industry of insurances. This market requires fair products adapted to the farmers' needs and possibilities, products that should represent a balance between the price of the policy, paid by the insurant, and the higher and higher risk in the crop, paid by the insurer. Although our country has some exceptional primary agricultural resources, due to both climatic conditions and to the agricultural area utilized for farming which is far more extended than in the European Community, the agriculture sector is still one of the most unprivileged fields.

If at present only 17% of the agricultural area utilized for farming is part of a form of insurance, and the average percentage in the European Community is approximately 65-70% of the insured potential, it is apparent that in Romania there is still a part of 48-53% (to meet the standards of the European Economic Community countries) of the insurable potential likely to be taken into consideration for insuring. The success of the rapid development of the agricultural insurance sector is mainly determined by the legislative coherence in the field of agriculture and, last but not least, by the ability of the insurance companies to offer insurance products of high quality and to treat their clients as partners of a shared, profitable business for both parties⁴⁰⁰.

4. The Romanian agricultural insurances

By means of an efficient development of rural areas, it is essential that the insurance industry should be responsible with the farmers' protection and with reducing costs from public money. The acceleration of agricultural crises, as a result of more and more frequent climatic changes in Romania (mainly the excessive drought, floods in extensive areas, strong storms) is the primary cause of all loss in the Romanian agriculture. The lack of investments in this field, the insecurity of the country's awarding grants to the agricultural producers, as well as the refusal of the insurance companies to comprise in the portfolio insurance such catastrophic risks as droughts and floods have led to a major deadlock in agriculture.

Romania is a great agricultural power; it is the world's sixth country with an exceptional potential, and we must try to fully exploit it⁴⁰¹. The new European context requires an active system of insuring the farming, especially if we consider the fact that Romania is four times less insured than the European standards state.

In order for the insurance system in the rural areas to be successful, one must apply the following:

⁴⁰⁰ Ionete Andreea, *Interviu cu Anghel Burghilă*, <http://www.iasig.ro>, (2008).

⁴⁰¹ Eremia C., *Protejarea producătorului agricol prin asigurare*, *Lumea Satului*, no. 21, (2008).

Figure no 1: Who has to be involved in the insurance system of a professional rural area?

Romanian Parliament	Laws on supporting the development of rural areas and of a sustainable agriculture in Romania (e.g. amending the Law 381/2002).
Romanian Government	Measures to enforce the law, fair budget to encourage development, risk management, stimulus measures
Insurance Supervisory Commission	Authorization based on risk, targeting solvency, introducing SOLVENCY II, protecting the insureds
Trade Unions	Marketing of viable insurance products for sale, professional organizing of events, payment in due time.
Employers' Associations	Supporting the necessity of insurances in order to protect the unionists and the jobs.
Insurance Companies	Promoting the system of insurances among the members by highlighting its importance in a sustainable development.
International Bodies	Involvement in financing some projects, consulting on their realization and promotion.
Mass Media	Fair illustration of projects, promoting the implementation activities

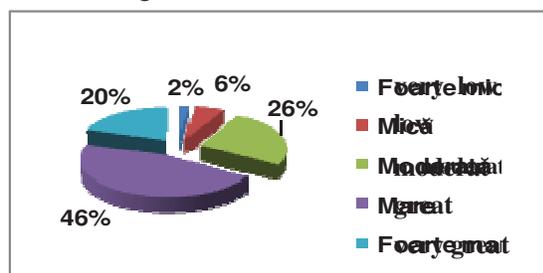
Source: Ciobotaru P.N., *Managementul riscurilor în agricultură*, <http://www.xprimm.ro>, (2009).

One question that may arise is if enforcing a complex program of transferring the financial risks is a solution to bring the economic sector afloat.

Thus, the Government should take part in improving legislation on agricultural insurances as well as in paying compensations; it should create secure and stable conditions in order to help improve the activity in this branch of the national economy. It is necessary that, regardless the conditions, the producers should preserve the ability to resume the production activity and to ensure constant market supply with foodstuffs. Locally, regionally and nationally, the food market should not be put at risk. It is also important that the role of the associations of producers in the development and efficient working of an agricultural insurance system in rural areas increase⁴⁰².

Opinion Poll...

Graphic no.1: To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?



According to Sergiu Costache's consumer survey 'To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?' published in The 11th Conference of Agricultural Insurances in 2009, most of the people who have taken part in the survey consider that insurances are a

⁴⁰² Tabără V., *Cu natura nu te joci...*, Lumea Satului, Nr. 7,(2009).

solution for developing the national agricultural sector.

Source: Costache S., *Sondaj de opinie*, <http://www.xprimm.ro>, (2009).

5. A European perspective on agricultural insurances

In the European Union countries, the Government directly supports the sector of agricultural insurances by giving 50-80% of the insurance premiums related to natural risks. As for the major risks whose effects lead to important losses of agricultural productions on a large scale, the Government should take responsibility in supporting the farmers with the help of a specially created and administered fund. Such funds are: The National Solidarity Fund in Italy, The National Agricultural Disaster Guarantee Fund in France and The National Insurance Fund in Agriculture in Spain.

In the European Union countries, the governments give compensations by paying huge amounts of money for the insurance funds, which could not have been definitely paid by the private sector (insurance/reinsurance companies). Farmers are granted access to these funds only if they buy the insurance policy related to the natural risks that take place on confined areas. It is important that, by supporting the farmers' insurance policies, the government should bring its contribution to the stabilization of the production, as well as to the farmers' incomes and to the functionality of the insurance system of the rural areas' activities.

Spain is the country with the best developed agricultural insurance system in Europe, and most of the risks that might lead to a declining output are covered by insurance. The government, the farmers' associations and the insurers have agreed on the fact that a system of insurance for farmers, determined by a specific law, is the best solution to the management of the agricultural catastrophic losses.

France, Italy, Austria and Luxemburg also have a viable insurance system, and the loss of production is covered by insurance for most risks. The generally accepted solution is that of a basic insurance, for hail, to which a supplement for insuring the output is added; this supplement is partially paid by the government and it is useful for the most important risks that are characteristics to each and every one of the above-mentioned countries.

In Portugal and Sweden, as well as in most of the Central and Eastern European countries such as Bulgaria, the Czech Republic, Hungary, Romania, Slovakia and Slovenia, there is a basic insurance to which one can supplementary add, if available, an insurance for combined risks. This means that only hail and a small number of natural risks are covered by insurance.

There are also other countries in which the insurance for hail or other types of insurance for single risk are the only ones available. On markets as Belgium, Germany, Holland or Great Britain, the demand for other types of agricultural insurances is almost inexistent. Furthermore, there are no public subsidy formulae for agricultural insurances.

North-European countries are generally characterizes by a low level of demand for agricultural insurances, but solutions are still given in some countries: one example is 'the Corp Compensation Scheme' in Finland, whose role is to compensate for production losses caused by catastrophic natural risks.

A particular case is that of the systems in Greece and Cyprus, where there is a public system of agricultural compulsory insurance.

If the specialists' forecasts will prove to be true, in 2050 the European countries will have a different agricultural profit, which will lead to a different risk management scheme and, implicitly, to the need of adapting the insurance systems⁴⁰³.

⁴⁰³Ghetu, Daniela, "Agricultura asigurărilor. Sisteme de asigurări agricole din Uniunea Europeană", in PRIMM Asigurari & Pensi, no. 8 (2008), p. 16-19.

Unlike the European Union market, agricultural insurances in our countries are cheaper and not so common. In Italy, more than 905 of the agricultural area is insured, while in our country only 1 million out of 9 million hectares is insured.

In Italy, there is a tradition that people do not even sign the policy. They take out a multiannual policy for 5-10 years and when the policy expires, the insured's duty is to send the insurer a note in which he states that he agrees to renew the policy and the sum he pays to do so.

There is a big difference so as to the taxes. If in Italy the value of the insurance is no less than 6% of the entire insured money, in Spain it is 7%, in Holland, more than 9%, in Romania there are companies that do it for 0,8-0,9%. The average is 2,5%.

The insurers explain the low taxes by stating that some companies have bidden for very low prices so as to enter the market. But the insureds have become accustomed with these taxes and look for the best offer. Yet, the important agricultural insurance companies do not accept negotiations of this type, although the risk of not fulfilling the target is high⁴⁰⁴.

6. Promoting agricultural insurances

With a view to have a competitive agriculture and insurance system there are two categories of solutions: some that depend on the insurance companies and some that depend on the regulatory authorities in the domain, here referring to the Insurance Supervisory Commission and the Minister of Agriculture.

Some of the measures that could stimulate the development of agricultural insurances are:

- one of the measures is the granting of at least 50% of the insurance premium;
- improving existing legislation in this field, because it has a particular feature that needs special attention (e.g. by amending Law 381/2002);
 - paying for the losses in due time, so that the farmers could resume their temporarily suspended activity;
 - the need of reconsidering the product offer by the insurers and adapting them to the farmers' needs and possibilities;
 - reorganizing the insurance system by means of a public-private partnership or other methods such as the Ministry's imposing of minimum taxes, based on risk management, or the companies' taking over of catastrophic risks, taking into account the country's involvement in creating a fund that would cover these risks or a reinsurance company for agriculture.

7. Conclusions

Agricultural insurances play a significant role in stimulating agricultural investments and stabilizing the agricultural farmers' incomes. Granting the insurance premiums may be a starting point in a sustainable development of both the agricultural insurance sector and the Romanian agriculture.

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity. Thus, we have to highlight the development of the energy crop insurances (for instance, rapeseed).

Agricultural insurances are influenced by the division of the real property, the creation of a large number of private producers whose output is non-productive, the abandoning of farms and the lack of financial support from the Government and the banks. Moreover, the lack of high technology, of financial support for agricultural producers, as well as the poor information on

⁴⁰⁴ European funds will give an impulse to agricultural insurances, <http://www.asigurari.ro>, (2008).

insurance given to the farmers are the main obstacles in developing the agriculture and the agricultural insurance market.

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