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TRENDS IN INSURANCE COVERAGE FOR AGRARIAN SECTOR ENTITIES

The paper explores the market trends in agricultural insurance. The market structure, participants, losses and volumes are analyzed. The issue of solvency of the members of the Agricultural Insurance Pool in relation to the risks taken is considered.

Keywords: insurance; risks; payments; agrarian sector.

Юрій С. Краківський

ТЕНДЕНЦІЇ СТРАХОВОГО ЗАБЕЗПЕЧЕННЯ СУБ'ЄКТІВ АГРАРНОЇ СФЕРИ

У статті вивчено тенденції розвитку ринку аграрного страхування. Проаналізовано структуру ринку, учасників, збитковість, обсяги. Оцінено питання платоспроможності членів Аграрного страхового пулу по відношенню до прийнятих ризиків.

Ключові слова: страхування; ризики; виплати; аграрний сектор.

Рис. 3. Табл. 3. Літ. 11.

Юрий С. Краковский

ТЕНДЕНЦИИ СТРАХОВОГО ОБЕСПЕЧЕНИЯ СУБЪЕКТОВ АГРАРНОЙ СФЕРЫ

В статье изучены тенденции развития рынка аграрного страхования. Проанализированы структура рынка, участников, убыточность, объемы. Оценен вопрос платежеспособности членов Аграрного страхового пула в отношении принимаемых рисков.

Ключевые слова: страхование; риски; выплаты; аграрный сектор.

Problem statement. Agriculture in Ukraine suffers damage as a result of natural hazards and adverse weather conditions. The loss reflected in lower yields, gross output shortfall of crops. In recent years, weather disasters occurred frequently. Among them: freezing of winter wheat, formation of ice cover, custom hard frosts, drought, dust storms and hail, floods. Ukraine's government officials, scientists and experts developed mechanisms to cover such risks by means of insurance. First they tried to introduce compulsory insurance, then state support, and it is now used in part of forward purchases. The association of insurers – the Agricultural Insurance Pool introduced additional licensing mechanisms to monitor the agricultural insurance market. But now accurately calculating volumes and dynamics of agricultural insurance market is not possible, as in crop, equipment and animals insurance reporting on this indicator is given in the generalized column "property insurance" without detailed accounting. Study of trends in insurance coverage in the agricultural sector will provide the possibility to plan the agricultural sector development.

Recent research and publications analysis. Trends in insurance services were considered in the writings of the following scientists: M.M. Alexandrova (2011), O.E. Hutz (2006), M. Demyanenko (2007), O.M. Zaletov (2012), K. Frot (1996), A.M. Ostapenko (2013), V.V. Shcherbakov (2009) and others. Most authors pay

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attention to the problems of government support insurance for farmers, international experience is also considered.

The research objectives. This study aims to assess the dynamics of quantitative indicators of agricultural insurance market: premiums, payments, share insurance. Special attention is focused on the performance of the members of the Agrarian Insurance Fund, analyzed reserves of insurers as for potential risks.

Key research findings. Today in Ukraine the most comprehensive analysis of the market in agricultural crop insurance is held by Agroinsurance International, LLC receiving data from insurance business: ASKA, INGO Ukraine, PZU Ukraine, Oranta, Dominanta, Insurance guarantees, Brokbusiness and Ukrainian Agrarian Insurance Company. However, the performance of these companies do not reflect the full amount of insurance coverage in the agrarian sector. A major factor in agricultural crop insurance is the government program of forward purchases by the Agrarian Fund of Ukraine. In 2013, the total amount raised through the activities of insurance premiums of the Agricultural insurance fund amounted to 93 mln UAH. Thus, the replacement of government subsidies at the insurance market got involved in forward contracts.

Table 1. Dynamics of the agricultural insurance market
(Agroinsurance International, LLC, 2014)

| Indicators \ Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Number of contracts, items | 910 | 1330 | 4397 | 1637 | 1980 | 1217 | 2710 | 1936 | 1722 |
| Area, ha | 390 | 670 | 2360 | 1171 | 510 | 553 | 786 | 727 | 869 |
| Premiums, mln UAH | 12.8 | 28.5 | 116.7 | 155.4 | 42.0 | 72.1 | 136.3 | 130.4 | 135.4 |
| State support, mln UAH | 5.8 | 12.5 | 47.8 | 72.8 | - | - | - | - | - |
| Average rate of premium, % | 3.79 | - | 4.54 | 4.93 | 3.24 | 3.84 | 3.74 | 3.77 | 3.1 |
| The level of payments, % | - | - | - | - | 36.48 | 50.94 | 28 | 41 | 9.7 |

Table 1 demonstrates that in 2013, given the growing area of insured crops, there is a trend of reducing the number of contracts. So we can talk about the increased share of large corporate contracts. Of particular importance is the correlation between public subsidy and the level of insurance premiums. Thus, in 2005–2008 the subsidy had a positive impact on the market growth rate. However, since 2009 there were funded subsidies, and during 5 years the market almost reached the level of 2008. The average insurance premium rate varies from 3.1% to 4.93%. Trends in the index level of payments to date are descending, and in 2013 there was the lowest level of benefits for the past 8 years. Given that in 2013 the total cultivated area was 28 ths ha, the insurers concluded agreements for 3.1% of the total areas.

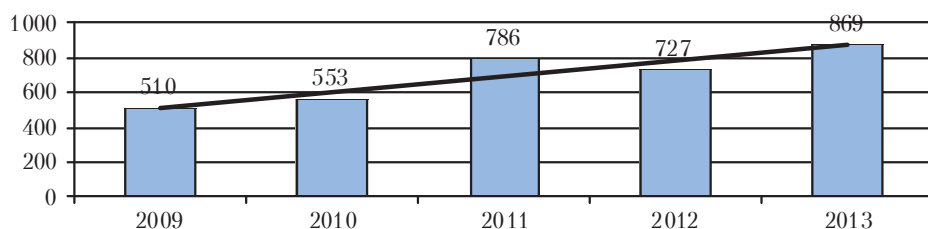


Figure 1. Volumes of farmland insurance in 2009–2013, ths ha
(Agroinsurance International, LLC, 2014)

As seen from Figure 1, during 2009–2013 there was an increasing linear trend in the volume of insurance areas. This is due primarily to farmers participating in the program of forward purchases. Table 2 presents the amount of damages to farmers due to bad weather conditions in the recent years.

Table 2. Farmers' losses due to weather conditions in 2000–2012 (Zaletov, 2012)

| Year | 2000 | 2003 | 2007 | 2012 | The growth rate, % (2012/2000) |
|--------------------------------|------|------|------|-------|-----------------------------------|
| The amount of damages, mln UAH | 593 | 1300 | 1000 | 13600 | 2293 |

Thus, it is possible to claim an increase for 12 years to the loss in 2293%.

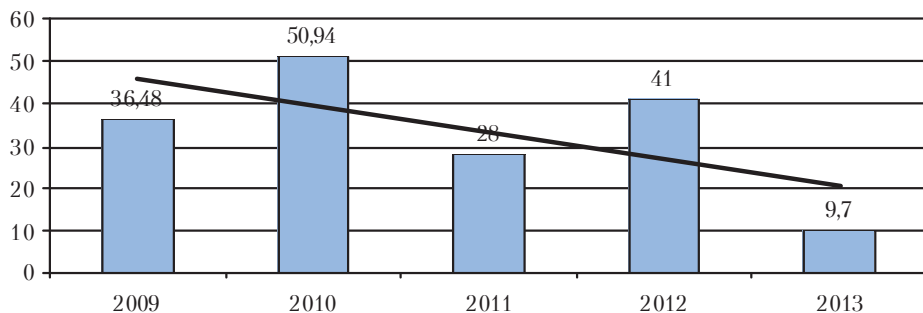


Figure 2. Trend of payments by insurers, 2009–2013, %
(Agroinsurance International, LLC, 2014)

Table 2 evidences there is a downward trend in payments for the last 5 years at the agricultural market, but given the relationship is directly proportional to the growth areas of crop insurance (Figure 1) and increased amounts of exposure (Table 2), this trend is unusual. At present, insurance premiums and the number of insurance contracts by insurers leads to the generalized column "property insurance". These data can be obtained only from internal management of insurers. According to the representative of the insurance company "Oranta", in 2011 the coverage at the insurance market for husbandry was 11%.

Figure 3 shows that from 2010 to 2014 the number of cows, the most popular object of insurance in husbandry, decreased by 9%.

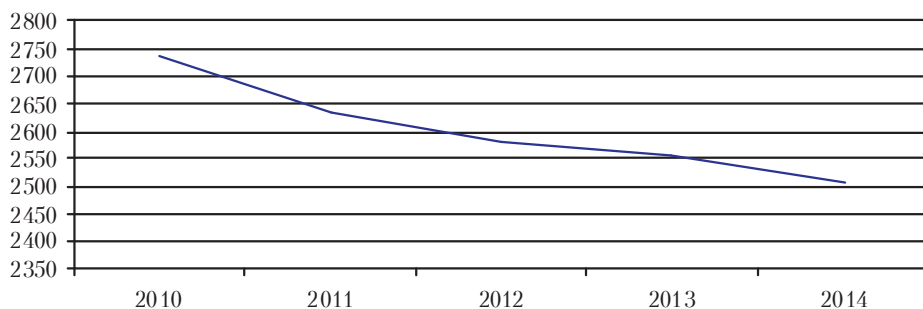


Figure 3. Cattle in Ukraine as of 1st January each year, ths heads
(State statistics, 2010–2014)

One of the reasons for the unsatisfactory trend in the industry can be risks and forced slaughters that lead to losses and the inability to restore the stock. To work with agricultural risks in Ukraine an association of insurers – the Agricultural Insurance Pool was established on November 7, 2012 by agricultural insurers in a non-profit organization on the voluntary basis and its main activity is related to the organization of risk insurance related to production, storage and circulation of agricultural products, including voluntary insurance of agricultural products and state support of agricultural production risks, carried out according to the Law of Ukraine on peculiarities of agricultural products insurance with state support as well as legal and regulatory acts adopted pursuant to this Act. According to Article 13 of the Law on Insurance, combining insurers into Agricultural Insurance Pool has created conditions for its activities as an association of insurers licensed for insurance of agricultural products. The Agricultural Insurance Pool is an entity retained at the expense of insurers. In accordance with the first paragraph of Article 16 of the Law of Ukraine "On peculiarities of agricultural products insurance with state support" combining insurers into the Agricultural Insurance Pool is the only association of insurers who can carry out insurance under this Act.

The members of this Pool as of 04.01.2014 were: Private Joint Stock Company "Insurance Company "Brokbusiness", Joint-Stock Company "Insurance Company "Insurance Guarantees", Joint-Stock Company "Ukrainian Agrarian Insurance Company", Insurance Company "Dominanta".

Table 3 shows the dynamic parameters of the insurance reserve pool members that characterize the ability to make payments on risks.

Table 3. Dynamics of insurance reserves of the Agricultural Insurance Pool members (Insurance TOP, 2011–2014)

| Insurance Company | Insurance funds, ths UAH | | | Dynamics 2011–2013, % |
|--------------------------------------|--------------------------|------------|------------|--------------------------|
| | 31.12.2011 | 31.12.2012 | 31.12.2013 | |
| Brokbusiness | 74406.0 | 55938.0 | 65956.00 | 89 |
| Dominanta | 3652.3 | 15160.2 | 63126.30 | 1728 |
| Insurance Guarantees | 8102.8 | 20293.9 | 23984.30 | 296 |
| Ukrainian Agrarian Insurance Company | 33912.5 | 22992.4 | 16453.00 | 49 |
| Total | 120073.60 | 114384.50 | 169519.60 | 141 |

In general, the members of the Agricultural Insurance Pool during the 3 years increased their insurance reserves by 141%. This had a positive effect on confidence among farmers. However, the overall level of insurance reserves are just meager compared to potential risks, thus reducing the credibility of insurance.

Conclusions and recommendations for further research. Insurance coverage of agrarian sector entities is closely linked to the public policy. By 2008, the growth of agricultural insurance occurred due to the presence of subsidies for insurance. The level of insurance acreage in Ukraine is insignificant and in 2013 it was 3.1%. There is also the problem of assessing the level of security in the agricultural sector as well as public reporting involves displaying this information in the generalized graph – property insurance. Therefore, we have conducted the market research on the basis of unverified information from insurers. It can be argued that the volume of Ukrainian agricultural insurance market is negligible, and the responsibility is significant. Moreover, potential losses are 80 times larger than the reserves of insurance compa-

nies in the agricultural insurance pool. Thus, it is possible to question the financial viability of insurers pool of potential agricultural risks. The level of payments in 2013 was not significant and the trend indicator of cost is not typical. Prospective studies should be concentrated on the low coverage of agrarian market, monitoring activities of insurers and their insurance programs in the Pool. An important aspect of the study on agricultural insurance is the need for changes and the realistic assessment of the market.

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