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PROBLEMS OF AGRICULTURAL INSURANCE RISKS IN UKRAINE

Liliya I. Chernyshova, PhD in Economics, Assoc.Prof.

Hanna M. Rezyk

Odessa National Polytechnic University, Odessa, Ukraine

Чернишова Л.І., Резник Г.М. Проблеми страхування сільськогосподарських ризиків в Україні.

У статті розглянуто основні проблеми агрострахування в Україні. Проведено аналіз факторів, що гальмують розвиток агрострахування як провідного інструменту управління сільськогосподарськими ризиками. Запропоновано заходи, стимулюючі діяльність в даній галузі.

Ключові слова: агрострахування, ризики, сільське господарство, сільськогосподарські ризики, агровиробництво, страхові компанії, перестрахування

Чернышева Л.И., Резник А.М. Проблемы страхования сельскохозяйственных рисков в Украине.

В статье рассмотрены основные проблемы агрострахования в Украине. Проведен анализ факторов, тормозящих развитие агрострахования как ведущего инструмента управления сельскохозяйственными рисками. Предложены мероприятия, стимулирующие деятельность в данной области.

Ключевые слова: агрострахование, риски, сельское хозяйство, сельскохозяйственные риски, агропроизводство, страховые компании, перестрахование

Chernyshova L.I., Rezyk H.M. The problem of agricultural risk insurance in Ukraine.

The article describes the main problems of agricultural insurance in Ukraine. Made analysis of factors, braking development of agricultural insurance as a leading instrument of management agricultural risks is conducted. Suggested the measures to stimulate activity in this area.

Keywords: agricultural insurance, risks, agriculture, agricultural risks, agricultural production, insurance companies, reinsurance

In conditions of increasing crisis in global economy, demands and prices of metallurgy and chemical industry products have fallen significantly, while the cost of agricultural products has increased and continues to grow every day on world markets. However, agricultural production is one of the most risky branches of the national economy, that is why nowadays problems of agricultural production and agricultural insurance issues have come to the fore and became the most topical. And it should be noted that their solution depends not only on the insurance companies and agrarians, but also on the participation of the state. The absence of regulated agri-insurance system in Ukraine puts the agricultural enterprises in strict dependence on the spontaneity of market and nature. The budgetary funds for insurance agrorisks are produced in insufficient content or not produced at all, whereas the funds which are produced, mainly go to supporting in pseudo insurance. Based on the experience of countries with developed systems of agricultural insurance, it should be noted that for his radical improvement in Ukraine and transformation into the system that would be suitable with the rules of World Trade Organization and needs of agricultural produces must be competent selection of the most optimal management approaches in this area. Their successful realization is impossible without objective assessment of real situation, that has been on the market of agri-insurance, those main problems that inhibit the development of this type of insurance, without researching the international experience and distinguishing features of state support of insurance for agricultural risks. Clear identification and solving even half of the problems will allow to manage the business more flexible for farmers, to avoid a lot of risks, to increase their production capacity and to create stable competitive positions on the market.

Analysis of recent research and publications

The insurance issues of agricultural risks and their nature of origin was studied by scientists such as Y.S. Vololvika [6], V.I. Gaiduka [12], V.V. Shevcova [12], S.A. Kalitco [12], N. Gerasimenko [3], I. Grinuk [3, 11], T.P. Lomakinoi [14], V.S. Lucko [13], S.S. Osadca [15], O.S. Svistunova [16], A.V. Nikitina [1], V.V. Sherbakova [1], G. Roshe [11]. and others.

Unsolved aspects of the problem

Nevertheless, there some discussion and unresolved aspects connected with assessment of the

real situation and development of the state support insurance mechanism in the system of agricultural production regulation, which has its own features, specified by economic and natural conditions. Also there is a great need to review the instructional techniques (methodical) of setting the tariffs for agricultural insurance, the definition of capacity of the insurance market, approaches to comprehensive programs of agricultural enterprises insurance, which further with creation an effective system of agricultural insurance.

The purpose of this article is to identify the problems of insurance agricultural risks in Ukraine and the development activities that further to increase agricultural insurance in the country.

The main material research

On the one hand, specificity of the risk situation in the agricultural sector is that in this industry the production process is connected with natural processes of living organisms development whose vital activity depend on natural phenomena.

On the other hand, farmers are faced with financial and economic aspects such as price fluctuations, changes in productivity, incoherence of government policy. As a result of these risks are significant fluctuations in income over the year. Therefore, more awareness of necessity to insure the agricultural risks comes in Ukraine, the main point is to compensate the property damage of the crop, which has appeared because of the influence of climatic phenomena. However, in making a decision about using the agricultural insurance, you should clearly understand all niceties and traits, realize all issues and also anticipate the result of the taken actions. Certainly, agricultural insurance for farmers has its own advantages such as:

- stability in the financial results and the ability to continue activities without long-term interruptions at work or problems with financial stability.
- planning their own expenses for elimination damages;
- more opportunity to lay the future harvest under bank loans;
- increasing the investment attractiveness of the economy and its market value;
- an independent opinion on the quality of crops and compliance the agricultural technology;
- rather inexpensive mean to comparison with other methods of risk management;
- increasing the efficiency of production in the agricultural sector due the possibility of using modern technological advances, particularly using reliable means of crop protection.

Objective economic necessity at using insurance, especially in agriculture, is explained by insufficient capacity of the state and market to provide a wide flexibility of financial resources of economic entities. Nevertheless, using this method of neutralization risks, it should be considered the specific nuances. Firstly, the insurance service has risky and advance character: it is necessary to pay the insurance premium at the beginning of the contract, not

knowing an insurance event, and then the need arise in the payment of compensation by the insurance company agrarians.

Secondly, the agreement of conditions insurance and contract procedures may take some time, during which the economy will be stayed without protection. Even you are insured, should not you write off other ways of risk managing (diversification, observance of agricultural technologies, etc.). Unfortunately, undeveloped of system of agricultural insurance leads to the fact, that the insurance of agricultural risks remain to be too expensive means of doing business for many local farmers.

Annually in Canada, the United States and Spain is secured by 50 to 80% of agricultural crops (Spain - 80% in the U.S. - 70% in Canada - 60%) whereas in Ukraine this figure does not exceed 3-5% of all crop acreages. The causes and problematic problems should be considered from the point of three main participants views in this business: farmers, insurance companies and the state. From the farmers' part, problem is the low demand for insurance, which is due by lots of objective reasons:

- limited financial resources, in spite of the awareness of necessity to be insured;
- high prices for certain insurance products;
- low profitability of business
- the absence of insurance culture for majority farmers
- distrust to insurance companies.

It is also confirmed by statistic. In the summer of 2011-2012 farmers have insured about 500,000 hectares of crops, that was about 2-3% of the total area under crops in the country. Just 2% of farmers had insurance cover. The average tariff on winter in 2012 was 3.8%. The average premium rate for the season was about 3.5%, and in some cultures the average premium rates were slightly higher (sunflower - 3.55%, corn - 4.2%, sugar beet - 3.6%, spring barley - 5, 3% soybean - 4.6%). Such low premium rates due to the fact that mortgage crops farmers usually choose insurance contracts with an unconditional franchise at the level of 40-50%, which only provides compensation for catastrophic damages. In the last 4 years new insurance products began to introduced in Ukraine in which the coating is used instead of the franchise, with which help during the signing of a treaty, an insuring sum is negotiated with part of the risk

Generally in 2012 insurers paid farmers 52 mln., which is equivalent to \$ 6.5 million, while the national GDP of the agricultural sector is about \$ 30 billion. In order to understand - insurance payments in this period amounted to 0.022% of the GDP agricultural sector.

Insurance companies from problem point is the absence of interest in the agri-insurance, and as a result - an insufficient number of proposals in this area. Influencing facts:

- absence of flexible insurance products, which would be the most suitable to agricultural producers;

- low level of trust insurance companies to farmers (high level of fraud from the part of insurers, farmers);
- the absence of an unified database of statistics on the productivity of staple of crops and also the absence of statistical information on damages in certain regions and cultures;
- the absence of highly skilled professionals who could conduct preinsurance inspections, and promptly respond to the statements of the insured event in any region of Ukraine;
- high unprofitability of agricultural insurance for technical reasons;
- low level of competition in the market of agro-insurance, which prevents the increase of consumer qualities of insurance services.

Today about 12-15 insurance companies make the crop insurance in Ukraine (whereas in 2005-2008 there were about 60).

This is connected with the termination of the state subsidized insurance program, by the absence of adequate financial resources for the training of agents and the establishment of the staffing structure of the insurance companies on agricultural insurance separate entity.

The good news is that the members of the Agricultural Insurance Pool today has the opportunity to insure for public procurement (forwards)

Under these programs, farmers receive an advance (in terms of expected production volume, about 50% of the supply contract), but the crops have to be insured. In 2013, the Ukrainian market of forward contracts have received a push because of an unusual contract with China for the supply of corn in the country.

The contract amount was \$ 3 billion. It is expected that through this deal in the spring and summer, Ukrainian crops will be insured for the squares about 1 million hectares, which is about 300 thousand hectares more than the insured land for the entire 2012.

One of the main aspects in the development of agricultural insurance and risk management is a reinsurance. This is a necessary condition for ensuring the financial stability of the insurance company, as it allows to spread risk among many insurers, both in the domestic and foreign market. His need is particularly high in the case of catastrophic risk insurance, which are mainly related agricultural risks. Search reinsurance "last" are often more difficult, compared with property or transport risks. Because of the high specificity of risk, reinsurance companies do not take it for reinsurance because of the lacking the appropriate professionals. In many cases, ukrainian insurance companies refuse to hold agricultural risks and development of this sector in its portfolio, because of not having the reinsurance ability. This happens because the Ukrainian insurers try to reinsure agri-business risks "at the last minute," or when the contract of insurance entered into, or when brewing the possibility of concluding agreements with a large retention.

At such moment portfolios of western top-rated reinsurers have been closed for making dangerous risks and only if the insure are ready to pay a high reinsurance premium(usually exceed insurance.), could they make an exception.

The cost of reinsurance agricultural risks for Ukrainian insurers is high also because they are trying to place risks on optional single sign contracts instead of tritium obligatory for the whole program

So, we can make a decision that further development of agricultural insurance in Ukraine needs a serious, systematic approach and an effective mechanism for the implementation of measures of state support. Also, agricultural insurance is more effective when it is a complex, offering complex programs, that provide full insurance cover for the property interests of farmers.

There are numbers of comprehensive insurance programs, that cover most of the emerging risks that connected with the production activities of agricultural enterprises, leasing and lending

Conclusions and prospects for future research

To sum up, we can make a conclusion that for stimulation farmers and insurance companies in our study area, also creation of positive conditions, aimed for the developing agriculture insurance, you must:

- To stimulate the price reduction of bank loans, that make price agricultural insurance more available. Thus, farmers will receive good financial resources for successful work, and insurers will get increasing of demand for insurance products.
- Clearly and in details prescribe the procedure of getting subsidies for easier implementation and prevention claims
- To create an accessible information base of Ukrainian agrarians, which would show the main parts of their production activities and ways of cooperation with the insurance companies on the domestic market with the results and also mechanism of protection of individual data.
- The base should include data of productivity in the context of each region, a farmer in each culture, each field.
- To conduct an independent annual monitoring of farms of the country in order to identify the reliability of provided information
- To stimulate the funding of applied research and development on agricultural insurance issues;
- To involve specialized organizations to calculate correction factors for the level of individual farms in climatic regions.
- To form a national capacity for reinsurance of agricultural risks of farmers
- To develop annual recommendations for the organization and conduction of agricultural insurance throughout the country for the coming year;
- To promote ingoing of domestic insurance companies in Agricultural insurance pool.
- To minimize the time of bureaucratic procedure for obtaining licenses for agricultural insurance;

— To improve the existing range of insurance products and programs. Development of new insurance products and related operating procedures should include opportunities for their marketing in "test mode"

All these activities should be accompanied by active promotion of the service (from both insurance companies and farmers, and the state), otherwise, to start the mechanism and support the development of agricultural insurance sphere will be very difficult in our country.

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Чернишова Лілія Іванівна / Liliya I. Chernyshova
chernishova_lila@mail.ru

Резник Ганна Михайлівна / Hanna M. Reznuk
anya_2005@mail.ru

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