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**INSURANCE AS A TOOL OF MAINTAINING THE AGRO-BUSINESS
FINANCIAL STABILITY**

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Abstract

The article is devoted to the Russian system of agricultural insurance as an important tool for maintaining the financial stability of the industry. The historical aspect of the formation mechanism of the insurance agrobusiness in Russia is discussed; the main challenges of its current development with market participants are estimated.

Keywords: agricultural industry; insurance; agribusiness; financial stability.

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**СТРАХОВАНИЕ – КАК ИНСТРУМЕНТ ПОДДЕРЖАНИЯ
ФИНАНСОВОЙ УСТОЙЧИВОСТИ ПРЕДПРИЯТИЙ
АГРОПРОМЫШЛЕННОГО КОМПЛЕКСА**

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Аннотация

Статья посвящена российской системе агрострахования, как важному инструменту поддержания финансовой устойчивости предприятий отрасли. Рассматривается исторический аспект становления механизма страхования АПК в России; оцениваются основные сложности его развития в настоящее время со стороны участников рынка.

Ключевые слова: сельское хозяйство, страхование, АПК, финансовая устойчивость.

Introduction. In the conditions of high risk-taking managing conducting in the agricultural branch connected both with climatic factors and with a set of other various character factors, the agrarian and industrial complex enterprise throughout all the economic cycle take losses of financial stability which can develop into absolute loss of control over the organization. Because most of threats have climatic or natural and biological character they are uncontrollable for the enterprise. Thus consequences which the organization can face, often have fatal character that was confirmed with various cataclysms taking place in the territory of our country more than once. Therefore an important aspect of agricultural enterprises financial policy approach is selection and use of an optimum tool kit, allowing to reduce risks of economic activity, and also to secure the company against bankruptcy.

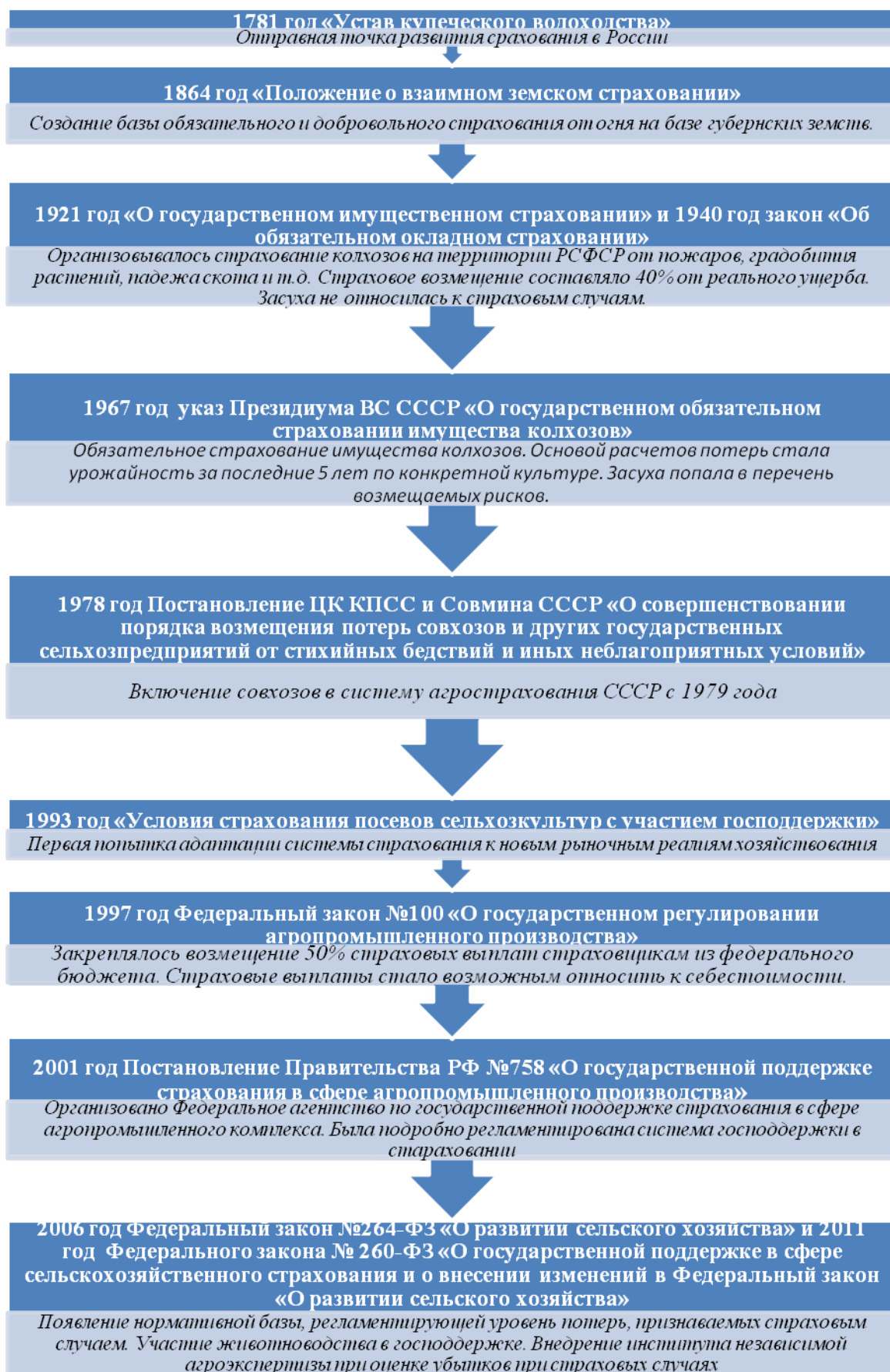
Important and actual protection at this conjuncture is development of agricultural risks insurance. It allows to avoid catastrophic consequences of climatic character which can suddenly turn a successful enterprise into a bankrupt.

A large number of territories in our country are a zone of risky agriculture. Climatic conditions also do

not allow to reap some crops within a year that makes restoration of the enterprises after the emergency situations connected with the most part of a crop being destroyed, possible only with essential financial support. Generally such support is given by the state, however the high bureaucratization of these processes does not always allow to receive the necessary help in the demanded volumes and admissible terms.

According to many experts the key making stability of the agro-industrial organization is insurance of risks. This tool is capable to level consequences of various emergency situations. Certainly, insurance cannot be panacea as there is a mass of factors having essential impact on indemnification by insurance company. However it should be noted that in modern market conditions insurance became almost irreplaceable instrument of financial stability maintenance for various enterprises, in particular for agro-industrial sector.

Main Part. Below in the flowchart the main stages of insurance development in Russia we will speak about further is shown (Fig.1).



Under Fig:

1781 "Charter of merchant navigation"
<i>Starting point of insurance development in Russia</i>
1864 "Clause on mutual territorial insurance"
<i>Creation of obligatory and voluntary insurance base for fire on the basis of provincial zemstva.</i>
1921 "About the state property insurance" and 1940 the Law "About Obligatory Salary Insurance"
<i>Insurance of collective farms in the territory of RSFSU was organized from fires, hailstorms on plants, murrain etc. Insurance indignation made 40% of real damage. The drought did not belong to insured events</i>
1967 decree of Presidium of VS USSR of "On state obligatory insurance of collective farms property"
<i>Obligatory insurance of collective farms property. Productivity over the last 5 years on specific culture became a basis of loss calculations. The drought entered the list of compensated risks.</i>
1978 the Resolution of the Central Committee of CPSU and Council of Ministers of the USSR "About improvement of loss compensation order for state farms and other state agricultural producers from elemental disasters and other adverse conditions"
<i>Inclusion of state farms in system of agro-insurance of the USSR since 1979</i>
1993 "Conditions of crop insurance for agricultural cultures with participation of a gospodderzhka" <i>First attempt of insurance system adaptation to new market managing realities</i>
1997 the Federal law No. 100 "About state regulation of agro-industrial production"
<i>Compensation of 50% insurance payments to insurers from the federal budget was fixed. Insurance pay became able to reach the prime cost.</i>
2001 the Resolution of the Government of the Russian Federation No. 758 "About the state support of insurance in the sphere of agro-industrial production"
<i>The Federal agency on the state support of insurance in the sphere of agro-industrial complex is organized. The system of a gospodderzhka was in detail regulated in insurance</i>
2006 the Federal law No. 2b4-FZ "On development of agricultural industry" and 2011 of the Federal law No. 260-FZ "About the state support in the sphere of agricultural insurance and about modification of the Federal law "About development of agricultural industry"
<i>Emergence of the regulatory base regulating the level of losses recognized as insured event. "Speeded up" animal husbandry in state support. Introduction of independent expert examination institute in loss assessment of insured events</i>

Fig. 1. The main stages of development of the insurance system in Russia

Рис. 1. Основные этапы развития системы страхования в России

The history of insurance development in Russia originates during the time of Catherine II rule. Adoption in 1781 of "The charter of merchant navigation" which for the first time regulated issues of sea insurance becomes a starting point. The wide circulation of insurance upon fire which is also considered the moment of the history of agro-insurance beginning in our country became the following important stage of the branch development. This type of insurance at first came to the village where various agricultural constructions started being insured actively.

The Soviet stage of agricultural insurance development takes the report in 1921 when there was

a decree "About the state property insurance". According to its contents insurance of family households in the territory of RSFSU from fires, hailstorm on plants, murrain, etc. was organized. Adoption in 1940 of the law "About Obligatory Salary Insurance" became continuation of a development vector for this direction. This statutory act became key in the field of crops and crop plant growing.

The created system of agro-insurance regulated by the listed above normative legal acts had the following important features:

– Insurance existed in obligatory and voluntary forms;

– Under action of obligatory insurance only collective farms fell, state farms did not fall under this system;

– The covering of losses was carried out not from all weather cataclysms (for example, the drought was not included into the list);

– The insurance coverage made 40% of real damage that made compensation volumes rather small;

– Owing to low awareness of the peasantry in accord of insurance system, they perceived an insurance premium as a tax. Because of it the level of shortages was rather high.

In 1967 the system of agro-insurance in the USSR underwent considerable changes. The law existing since 1940 was canceled, and the general concept of branch was processed. First, there was obligatory insurance of collective farms property, and since 1979 state farms as well. Productivity, but not the level of the lost crop, became the main constant of agro-insurance. And the indicator of average annual productivity on certain culture over the last 5 years was used. The drought was included in the natural risks structure which are subject to compensation on insurance system.

It should be noted that mentioned insurance order was higher in agrarian and industrial complex, and is still one of the most systematic of all existing to this day in our country. Despite the state monopoly on insurance (all operations were carried out by the Gosstrakh), this system provided full transparency of activity for landowners, moreover insurance payments were provided with the state, and tariffs were accurately regulated.

In 1991 our country is overtaken by a stage of new changes. The next global transformation of property leads to crash of former foundations. Disbandment of the Gosstrakh and transition to the free market force the state to refuse obligatory insurance and to pass on voluntary, however market regulations of tariffs glitches and insurance premiums rise in price suddenly, that under conditions of economic instability, forces landowners to curtail the available programs. In addition, the private companies which entered the market not always possessed sufficient financial stability to pay damages to insurers, and sometimes worked with roguish intention. All this led to loss of insurance image in the professional environment, and then, as a result, to sharp decrease in number of the insured agro-enterprises.

The history of agro-insurance development in modern history of Russia originates in 1993 when "Conditions of crops insurance for agricultural

cultures with state support participation" were developed. Originally functions of the insurer were allocated only for Rosgosstrakh, however in 1995 the additional changes which allowed other companies to enter the market of agro-insurance were made. In the first edition state support made 50% of insurance payment, and in the second just 25%.

1997 was marked by adoption of the Federal law No. 100 "About state regulation of agro-industrial production". It contained new approaches to state regulation of agro-insurance. First, the obligation of the state to compensate 50% of insurance payments to insurers from the federal budget in case of crops insurance implementation was fixed. Secondly, insurance payments were allowed to be referred on product cost that allowed to reduce taxable basis on the profits tax.

However the state then simply had no money for high-quality and full implementation of the obligations. Crisis of 1998 struck absolutely everyone, including the insurance sector. In this regard payments arrived with big delay and in incomplete volume that even more undermined trust to agro-insurance in general.

The following attempt of insurance policy improvement of the state in the field of agricultural industry was made in 2001. This year was the Resolution of the Government of the Russian Federation No. 758 "About the state support of insurance in the sphere of agro-industrial production" which introduced the following amendments in the agro-insurance sphere had been accepted. The Federal agency on the insurance state support in the sphere of agro-industrial complex which jurisdiction the full range of questions on development and improvement of agro-insurance in the territory of Russia was organized.

According to this document with state support 9 groups of crops, as well as fruit and berry plantings could receive the insurance. Also insurance tariffs in various regions of the Russian Federation were approved. The crop shortage in comparison with average level for the last five years was subject to compensation.

In general during the considered period the positive tendency on increase in number of the signed contracts was outlined, however it should be noted that the under-fulfilled regulatory base did not give the chance to accurately define criteria of loss reference to insured events. It led to numerous judicial proceedings between producers and insurance companies.

The question of agro-insurance gained further development with adoption of the Federal law No.

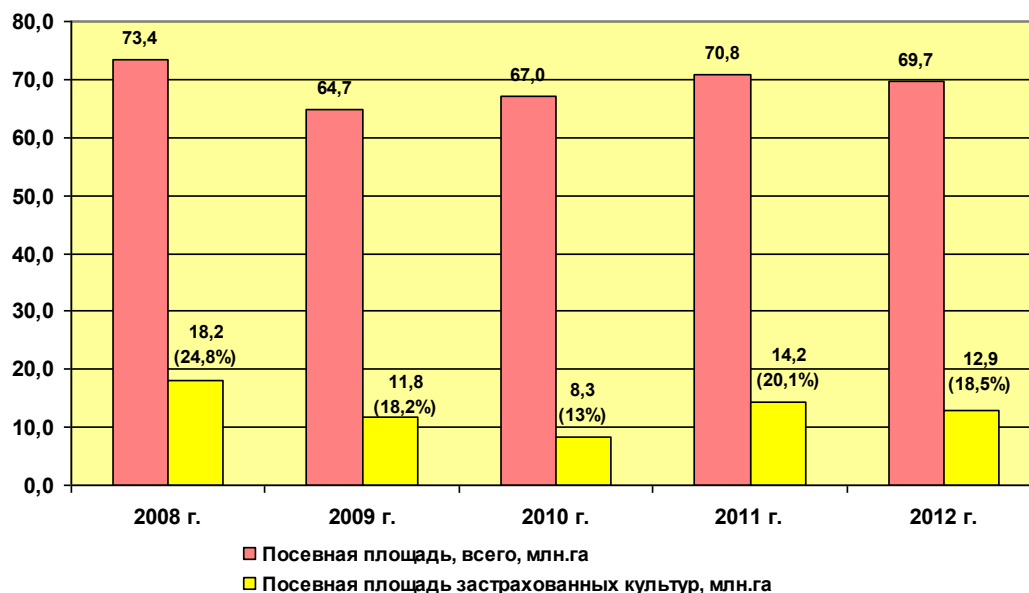
264-FZ "About development of agricultural industry". This law became a starting point for all agrarian policy of the state and set a vector of development to which the Ministry of Agriculture and other profile bodies adhere even now.

Adoption in 2011 of the Federal law No. 260-FZ "About the state support in the sphere of agricultural insurance" and about modification of the Federal law "About development of agricultural industry" became continuation of this law. Emergence of the regulatory base regulating the level of losses which are considered as insured event became an important innovation of these changes. So for plant growing this level made 30% of the planned crop and 40% of the landing areas for long-term plantings.

Implementation of the state insurance support of farm animals became one more important point of

this statutory act implementation. This very important innovation allowed animal husbandry with plant growing to participate in programs of agro-insurance as equals.

Besides all above-mentioned, within this law the institute of independent agro-examination, which is carrying out an independent assessment of agricultural producers losses, compensation volume, as well as other aspects and disagreements arising between the insurer and the insured, was introduced. Important point is that fact that all independent experts have to be certified by the Ministry of Agriculture and have the corresponding certificate which validity period makes five years. For today the given system of damage assessment is well positively proved with both insurance companies and agricultural producers being happy.



Under Fig:
■ Crop area, total, mln. H
■ Ensured crop area, total, mln. H

Fig. 2. The Ratio of the Area of the Insured Output Yield of the Agricultural Crops, Planting of the Perennial Crops with the State Support and the Total Sown (Planted) Area of the Agricultural Crops in 2008-2012, mln. hec.

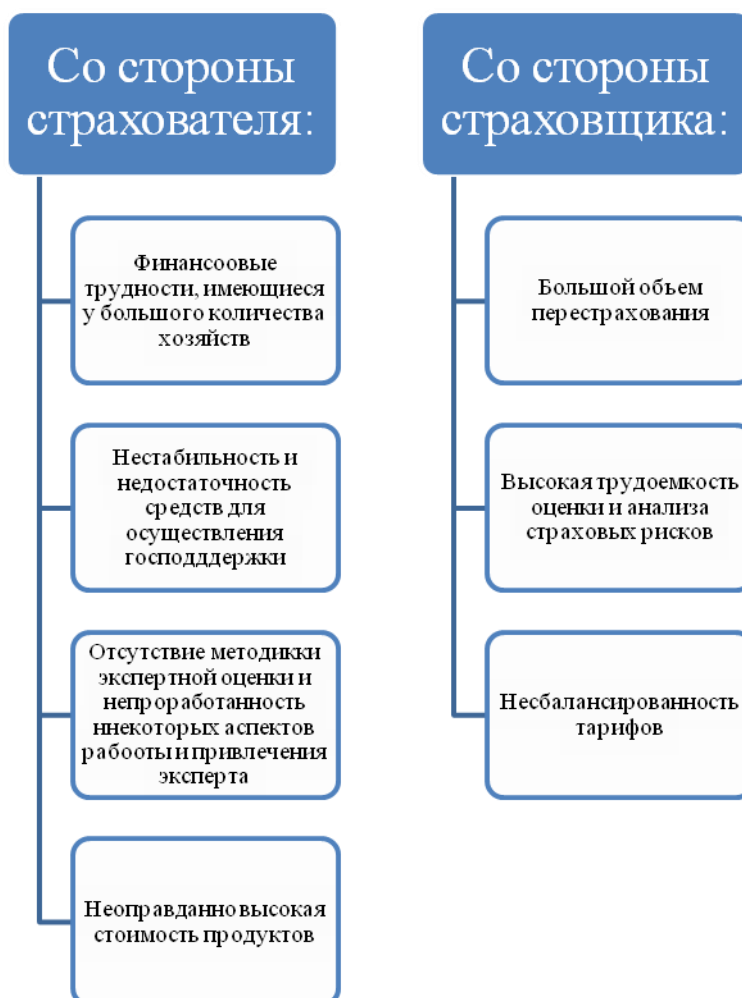
Рис. 2. Соотношение площади застрахованных урожая сельскохозяйственных культур, посадок многолетних насаждений с государственной поддержкой и общей посевной (посадочной) площади сельскохозяйственных культур в 2008-2012 г.г., млн. га

In general concerning the indicator of the volumes of the insured cultivated area there is multi-directional dynamics in recent years. So it reached the greatest value in absolute and relative expression in 2011 (14.2 million hectares and 20.1% respectively), and minimum in 2010 (8.3 million hectares and 13%). Level of the insured areas from

the total area of landings averaged during the period from 2009 to 2013 about 17-18% that, certainly, is a drop in the ocean. According to the State program of agricultural industry development and regulation of the agricultural production, raw materials and food markets on 2008-2012, in 2010 this indicator had to show 35%, and in 2012 to make already 40%.

Respectively essential lag at the actual rates of agro-insurance development in the field of plant growing from declared is visible.

In our opinion, this situation became possible as a result of certain miscalculations from the state in the field of agricultural policy realization



Under Fig:

On behalf of the insurer:	On behalf of the insured:
The financial difficulties for a large number of farms	Large volume of reinsurance
Instability and insufficiency of means for state support implementation	High labor input of assessment and analysis of risk insurance
Lack of expert assessment technique and absence of thorough investigation of some aspects of expert work and involvement	Imbalance of tariffs
Unjustified cost of product	

Fig. 3. The Main Problems of Development of the Agricultural Insurance in Russia
Рис. 3. Основные проблемы развития агрострахования в России

In particular it is worth noticing that the funds of the federal budget allocated for state support of agro-insurance before crisis of 2008 were enough approximately for 25% of cultivated areas that obviously was insufficient for performance of the state program purposes. However according to the

anti-recessionary measures taken by the Government, the volume of the allocated funds in 2009 was significantly reduced that compelled a number of regions to refuse in general subsidizing of insurance premium, and many other subjects to reduce state help volumes. As a result of it in 2010 the share of

the insured cultivated areas fell almost to 30%. Lack of system approach and stability in assignment for subsidizing of agro-insurance does not allow landowners to be confident in full implementation of obligations under this program by the state, and, as we know, mistrust in business is an important factor of potential failure.

Conclusion. According to many experts, other essential defect is lack of a uniform expert assessment technique. Certainly, this fact has rather serious impact on basic element of insurance – the risk assessment. We believe that besides methodological base it is necessary to create the uniform base of statistical data uniting agro-hydro-meteorological data, data on history and volumes of agricultural production and other important components.

Mistrust of agricultural producers to results of independent examination is a consequence of the above mentioned problem. Additional complexity is that by legislation the insurance company, but not the insurer, is engaged in involvement of the expert. In this regard insurance companies for the purpose of understating the damage assessment do not shun implementation of various "semi-lawful" schemes that, naturally, does not add popularity to agricultural insurance.

Insurance companies also have difficulties during the work in this branch. First of all it is connected with high risk-taking of this type of insurance and, respectively, large volume of reinsurance and reserves that makes this market not very attractive to insurers. It is directly reflected in number of the insurance companies operating in agro-insurance with state support. So according to the Ministry of Agriculture, the number of the companies which signed the pro-subsidized contracts with agricultural producers decreased from 64 in 2009 to 42 in 2013.

Also increased difficulties are caused by the high labor input of assessment and analysis of insurance risks connected with need of tracking and supervision over all stages of ripening and cultivation of agricultural cultures and animals.

Certainly, such situation cannot but be reflected in insurance tariffs. According to many insurers, insurance tariffs are overestimated. However

insurance companies have other opinion in this respect, for them this type of insurance is high-risk and high-unprofitable.

Important problem is also lack of uniform approach to insurance tariff formation. In the light of it, the cost of the same contract in the different companies can significantly differ. Moreover, it leaves a mark on high regional differentiation of tariffs that is a factor of essential distinctions of insurance cost even in adjacent regions.

Besides all above-mentioned, despite the work which is carried out by the state on financial improvement of agricultural producers, the situation with financial position of the enterprises in branch remains rather difficult. In such conditions one of the first points by optimization of expenses is insurance, even despite subsidizing of insurance premium by the state.

In our opinion, this problem is key not only at the level of agro-insurance, but also at the level of agricultural industry support in general. Only real financial improvement can bring our agricultural industry to new level.

In recent years in the field of agro-insurance large-scale work which yielded certain results was carried out. However it is also necessary to note that the market of agricultural insurance in our country was not created completely owing to certain defects of the legislation and miscalculations of the agrarian policy which is carried out by the state.

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