



Abstract

The agriculture has so far played an important role in Vietnam's economy. It helps secure food demands and provide raw materials for manufacturers and exporters. In essence, it creates jobs for millions of Vietnam's laborers. In the time to come, this role keeps on being fortified at service of the industrialization and modernization. However, natural disasters always pose a major threat to agriculture, badly affecting the sustainable development. By this paper, a type of agricultural financial operation shall be presented to you, namely crop insurance.

1. Introduction

Over the past few years, meanwhile the world economy in general and the Vietnam's economy in

particular suffered the serious damage from the global financial crises, the agriculture has managed to weather the economic recession. According to Dr. Đặng Kim Sơn, the Chief of IPSARD (Institute of Policy and Strategy for Agricultural and Rural Development), once the economy as a whole becomes unhealthy, agriculture acts as a dose of penicillin injected into the economy to regain its health.

The above achievements were exchanged by the sweat and tear of millions of peasants who had to squeeze them dry to struggle against specific perils such as the 2007 flood, the 2008 cold, the 2009 drought, the green-ear epidemics, the bird flu in poultry, etc. Also, the bumper crop accompanying depreciation put farmers under the menace.

Table 1: The agricultural economy in Vietnam

Year	Value of agricultural output (VND billion)	Growth rate	As % of GDP	Income per capita (VND100,000)	Poor households as % of rural population
2004	155,993	5.6	21.81	387,1	21.2
2005	175,984	4.9	20.97	439,0	19.67
2006	198,797	4.4	20.4	506,0	18
2007	232,586	5	20.34	619,0	17.7
2008	329,900	6.8	22.1	762,0	16.2
2009	346,800	2.9	20.66	954,0	14.8

Source: GSO of Vietnam

Apparently, agriculture must burden serious damage caused by natural disasters; and farmers are lonely soldiers in the struggle against such-like. The crop insurance, which is supposed to protect them against such-and-such damage, cannot do farmers a good turn in fact. Therefore, it is necessary to reevaluate the operation of the Vietnam's crop insurance market as a whole, thereby finding a new way to support the sustainable development of Vietnam's rural economy.

2. The fact of Vietnam's crop insurance market over the past time

In the early 1990s, even though we had tried our best to improve the crop insurance that used to exist in diverse forms so as to serve the agriculture, what we achieved was not as expected.

a. Insurance model:

Since 1983, Bảo Việt Insurance Company (BV) launched the crop insurance on rice in districts of Vụ Bản and Nam Định of Nam Định Province. Until 1997, this model was expanded to 16 provinces with the gross yield of rice up to 208,900ha; and 315,200 households participated in the model. However, the provision of this service was terminated two years later due to the fact that the compensation was so tremendous. BV also established the crop insurance on dairy cows, catfish and rubber trees in provinces of Bình Phước, Bình Dương, Tây Nguyên, An Giang, Đồng Tháp, Bến Tre; yet it soon came to an end.

After conducting intensive researches in Viet-

the Mekong Delta. Despite unexpected loss and damage, the board of directors of Groupama took it for granted. However, the insurance risk was so great and unpredictable. As a result, Groupama, in 2006, did declare to terminate the crop insurance for the time being and spent time planning more efficient strategies.

b. Insurance-banking combination:

After the banking system reform in 1990 with policies in favor of agricultural and rural development, the Agribank has become a good close friend of farmers. Nonetheless, in the context of natural disasters and plague, farmers defaulted on bank loans repayment, thereby increasing the rate of bad debts. In response to this problem, the government permitted Agribank to write off, cancel or reduce the debt. Bad debts shall be subsidized by government. As a result, Agribank has operated like an insurance-banking combination. Yet in the role of an insurer, it could not define risks exposed to farmers. By this policy, the government had to bear a kind of large amount of compensation, while making beneficiaries less active and more dependent. As Jason Hartell from GlobalAgRisk, USA, put it, this policy did not bring in any motive to the agricultural producers who were supposed to actively plan to overcome potential risks hindering the development of crop insurance market.

Although the crop insurance has existed for a long time, its scope has been narrowed down in comparison with the market potential.

Table 2: Crop insurance over the past few years (VND million)

	2004	2005	2006	2007	2008	2009
1. Insurance income	3,267	454	737	833	1,676	9,329
2. Compensation	3,635	1,211	535	647	348	7,234
Ratio of (2) to (1)	111%	267%	78,3%	77.67%	20.78%	77.50%

Source: Tài chính online, No.73 dated July 15, 2009

nam's market and learning experiences of BV, Groupama, a 100%-foreign-owned crop insurer licensed by the Vietnam's competent authorities in 2001, decided to provides the crop insurance on farming facilities, raw materials supply and post-manufacturing consumption, perils and labor accidents, and civil liabilities in agricultural manufacture for medium- and large-sized farms in

The causes of the above-mentioned things may be summed up as follows:

Firstly, agricultural production in Vietnam is scattered and producers are just poor households owning a humble lot of land. Thus, the widespread implementation of crop insurance is such a difficulty to insurers due to the fact that cost of making contract and risk management are very

VIETNAM'S INSURANCE MARKET & INTERNATIONAL INTEGRATION

tremendous, not to mention compensations in case of loss or damage. In addition, such the producers cannot afford the premium because of their unstable income; thereby resignedly living with perils.

Secondly, Vietnam's agricultural production is still of small scale based on peasants' experience, which is very risky. A number of peasants can only do subsistence farming and have no need for insurance, and tend to bear risks on their own. In addition, risks from natural disasters in combination with the small scope prevent peasants from investing in new production models and modern technologies. Instead, they are loyal to traditional way of husbandry which generates low revenue.

Thirdly, the educational level of agricultural labor force is still low; the production is primarily based on word-of-mouth experiences. The labor force are neither well-trained nor competent in managing their business, thereby hindering the renewal of husbandry. Besides, lacking knowledge on the market and financial economy, they cannot manage their business or quantify production cost, expenses and performance. Accordingly, benefits from crop insurance have not been pondered thoroughly.

Fourthly, once there is a natural disaster, the government always promulgates incentive policies to support them. Although these policies help stabilize the agricultural development, they have certain impacts on the crop insurance market, making agricultural producers much more dependent on the governmental supports.

Fifthly, insurers also assume responsibility.

For many years, insurers like BV and Groupama, when providing crop insurance policies in our country, have had the same comment that agricultural risks are very complicated and their frequency is extremely high and hardly defined in Vietnam. For instance, besides natural impacts on the agricultural production, if farmers do not follow the farming procedures, choose poor timing or abuse pesticides and chemicals, the risks and damage may even be more dangerous. These accumulative impacts brought in loss and damage to crop insurers during the past time. In order to deal with this problem, crop insurers must raise the premium and tighten insurance terms. Yet, the higher the premium is, the fewer farmers buy insurance. Accordingly, crop insurances seem to be out of the reach of poor farmers.

As for insurers, prior to launching a new insurance package, they must have clear-cut knowledge of potential risks beyond their reach related to perils; origin of poultry, cattle; low-quality pesticide, insecticide, fertilizer, and etc. With the traditional farming methods, just those who actually suffer from huge risks will buy the crop insurance. Therefore, in the future, we need to work out a technical solution to evaluation and management of risks in order for crop insurers and agricultural producers to reach agreements.

The domestic market for crop reinsurance is hibernating, whereas foreign reinsurance companies are not much keen on this business; thereby not enabling crop insurers to disperse risks.

To develop the crop insurance market requires



well-trained human resources like agronomists, veterinarians, biologists, chemists, environmentalists and the like; and research facilities needed for crop insurance as well. Taking the US for an example, its crop insurers are willing to spend a great amount to possess weather pictures and analyses transferred via geostationary satellites. Thus, their data are very diverse, abundant and reliable. In order to evaluate losses declared by the insured, crop insurers may employ satellite pictures to analyze and evaluate the damage.

Last but not least, the output price of agricultural produce is often unstable, especially after the harvest. For lack of warehouse or stock for reservation, produce's price is often squeezed dry by private traders. In order to dispose this matter, the government forces food companies to purchase the produce at the price in favor of peasants. In recent workshops, economists have proposed the government to construct warehouses in order for farmers to consign their produce until the price goes up.

Besides natural disasters, agricultural production is also menaced by low-quality or counterfeited raw materials which peasants may have to acquire at a very high price to serve their production. Many of peasants even become empty-handed after the harvest time.

In several of localities, in order to rapidly change the economic structure, many of industrial parks have been developed without being well-zoned or within the agricultural production area. It has caused bad impacts on the environment and agricultural production, reducing the crop yield and productivity, and generate extra production costs.

3. Solutions to crop insurance market

a. Macro-solutions

With specificities of agriculture, the development of crop insurance must be assumed by the whole country but not crop insurers alone. The government should soon work out legal frameworks for the operation of crop insurance market in such a long run; and incentive policies like tax deduction; or a contingency reserve to back up crop insurers and farmers.

In 2005, when deciding to invest in agriculture, Frédéric Lacrix targeted to high-quality produces instead of the yield and farming area. Thus, he decided to cultivate 30 hectares of Vanilla orchid plants, grown as a vine, at the foot of Tà Cú Mount in Bình Thuận Province. After five years, the species may get on well the local climate and environment. Each plant may produce 400 to 800 grams of pods. At present, a kilo of vanilla pods ranges from US\$200 to 300. In addition, he also cultivated hibiscus and asparagus so as to prevent monoculture (Quang Thái).

Source: *Tuổi Trẻ Cuối Tuần* dated Jan. 22, 2010

The infrastructures for agricultural production should be improved. The labor force must be well trained so as to integrate technological advancements in husbandry and production. Renewal must be focused on rice production and non-agricultural sectors with a view to appreciating the rice price and dealing with employments. In Taiwan, one hectare of agricultural land may produce US\$18,000 whereas it is just US\$1,300 in Vietnam. Researches on new high-quality type of plants are also necessary to improve the price of farm products, thereby reducing potential risks.

It is apparent that the agricultural economy, if invested properly and strategically, may allow us to have a modern concentrated agriculture.

We also need to strictly control natural resources and set up strategic zoning projects to exploit these resources scientifically, thereby improving the rural and agricultural development; integrate modern technology into exploiting aquatic and forestry resources so as to stabilize the raw material costs and reduce plague, perils and other potential risks.

In many countries in the world, crop insurance always contains certain limitations. Thus, there are not many options for insurers when investing in this market without the governmental backup. In Ethiopia, the UN World Food Program acquires insurance to support the poor in case of lacking foods or being in drought. As for Vietnam, the government associates with ADB to carry out the index-based crop insurance. This model has been applied in several of countries and is being re-

searched to fit Vietnam. It helps to surmount limitations of the traditional one and minimize ethical risks. According to this model, payment of insurance depends on the fluctuation of rain volume, temperature, etc. which may have impacts on the average productivity of multiple years within a region or an ecological sub-region. Its strengths are to minimize the management fees of insurers and simplify insurance terms.

On Oct. 28, 2009, the government promulgated the Decree No.24/NĐ-CP regarding the pilot project on execution of crop insurance within the period 2010 – 2012. Accordingly, the government will support 80% of the premium for poor households, 60% for other households and 50% for agricultural production organizations.

Via what we have stated so far, the best way to bring these policies into life is that we should gather average-income households and farmers to propagate the index-based crop insurance model, helping insurers undertake and manage effectively their business. Next, the model should be acquired by poor peasants within the pilot region and then nationwide. For damage and risks not set forth in the insurance policy, the government just subsidizes insurance participants in order for farmers to realize the long-run benefits of crop insurance.

Within the pilot term, insurers definitely face risks that cannot be distributed overnight by reinsurance. Therefore, for the sake of crop insurers, the government should establish a reserve to support initial damage, which will be contributed by

It is worth noting the lesson of WB when launching a preferable medical insurance package in favor of poor households in Bến Tre Province. The package is supported 30% by WB and 50% by the government. Even though a person just had to pay VND31,100 to acquire a medical insurance card, the number of people in need, i.e. those suffering medical problems, may be counted on the fingers of one hand. Consequently, around 55,000 insurance cards became trash.

Source: *Tuổi Trẻ Cuối Tuần* dated Aug.15, 2010

insurers, enterprises, financial organizations, produce processing units and ex-importers and the state budget. In the long run, the government had better define clearly policies supporting crop insurers; and subsidies shall just be granted if the ratio of insurance payments to premium exceeds 70%.

The network of distribution and export should be improved for the sake of peasants. The role of state-owned companies in supplying raw materials for husbandry and post-manufacturing consumption of produces must be enhanced as well with a view to minimizing risks suffered by peasants.

The local authorities and experts should expedite the agricultural incentive programs; campaign farmers to work in cooperation; train in new farming methods and well control risks.

b. For crop insurers:

Crop insurers should have talks with competent authorities like the Ministries of Finance, of



VIETNAM'S INSURANCE MARKET & INTERNATIONAL INTEGRATION

Planning and Investment, and of Rural and Agricultural Development, etc. so as to reach a common verdict which will be pondered by the government to facilitate the operation of crop insurance.

It is necessary to actively research the crop husbandry and climate change nationwide, especially in concentrated farming areas; liaise with agricultural research institutions to collect data and estimate level of risks, thereby establishing a set of scientific stipulations at service of crop insurance industry.

Negotiation with domestic and foreign reinsurance companies regarding reinsurance terms is also needed with a view to distributing risks.

Train a high-qualified labor force in areas of vet, agriculture, biology, environment, etc; actively implement and persuade peasants to participate in the new model of crop insurance

For the time being, it is necessary to execute the pilot project of index-based crop insurance in concentrated farming regions, for examples, rice insurance in Nam Định, Thái Bình, Hà Tĩnh, An Giang, Đồng Tháp; poultry and castle insurance in Bắc Ninh, Nghệ An, Đồng Nai, Vĩnh Phúc, Hải Phòng, Thanh Hóa, Bình Dương, Hà Nội; catfish and shrimp insurance in Bến Tre, Sóc Trăng, Trà Vinh, Bạc Liêu, Cà Mau.

4. Conclusion

The crop insurance market may be deemed as an orchestra where must be led by a talented conductor and played by competent musical instru-

ments players together. If worked harmoniously, it may tempt the most stringent audients■

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