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PECULIARITIES AND TRENDS OF INSURANCE OF AGRICULTURAL SECTOR IN GEORGIA

Abstract:

Actuality. Agricultural sector, unlike other sectors of economy, is characterized by specific risk factors, which largely depend on natural and climatic conditions and the current global meteorological changes. In Georgia, an agricultural insurance project has been developed, which will support and help agricultural farms to get agricultural insurance service. Insurance is the financial mechanism, which is built on the principle of solidarity and is based on the noble idea of minimizing social risks. Insufficient rates of development of agricultural sector in Georgia is related with the problems of provision of financial resources and the issues of risk management.

Research objective. Studying and analyzing the current insurance mechanisms in agricultural sector of Georgia and determining major development trends based on the experience of the European Union.

Research object. Insurance in agricultural sector of Georgia.

Research methods. Due to the complexity and great practical significance of the research, the following research methods have been used while working on the paper: systemic, historical and logical generalization methods, as well as scientific abstraction, analysis and synthesis.

Conclusion. The outcomes and conclusions of the survey will contribute to eliminate the problems in the insurance system of agricultural sector of Georgia and improvement of effectiveness.

Keywords:

insurance, insurer, insured, agricultural sector insurance, loss ratio, tariff rate, level of subsidies.

Introduction. Agricultural sector, unlike other sectors of economy, is characterized by specific risk factors, which largely depend on natural and climatic conditions and the current global meteorological changes. In Georgia, an agricultural insurance project has been developed, which will support and help agricultural farms to get agricultural insurance service. Insurance is the financial mechanism, which is built on the principle of solidarity and is based on the noble idea of minimizing social risks. Insufficient rates of development of agricultural sector in Georgia is related with the problems of provision of financial resources and the issues of risk management.

Theoretical Part. The following various variables can be identified for defining the development of agriculture in the country; these are: Penetration of insurance; Loss ratio; Premium rates; Level of subsidies and other technicalities.

For the stability of agricultural insurance system in the European Union the countries are implementing quite significant activities at the government level, including subsidizing insurance premium according to the agricultural policy for the whole sector or for certain categories of farmers. For example, Italy subsidizes 64% of the insurance premium paid to agricultural sector, Portugal – 68%, the Czech Republic pays 15% of the livestock insurance premium and 30% of the crop insurance premium, Turkey and Lithuania pay 50%. In most countries reinsurance of agricultural insurance packages is made by private companies but Portugal, for example, is an exception, where reinsurance is made by public sector. Since September 2014, the Ministry of Agriculture of Georgia has developed and introduced agricultural insurance project. In the frames of this project 70-80% of the insurance premium is subsidized currently. The role of the state in the development and encouraging agricultural insurance is quite significant as agricultural insurance is a much more complicated and expensive product compared with other insurance products. This is due to large acquisition and administrative costs and the necessity to develop a complex system for evaluating specific agricultural knowledge and risks. Insurance companies haven't got profit from agricultural insurance packages. Until 2014, agricultural insurance packages were offered to customers by Aldagi BCI and JPI Holding. Their customers mainly were famous wine companies. As for paying the compensation for the damage, in some cases the companies had to pay for the damage. Until 2014 JPI Holding offered insurance for crops, as well as vineyards and fruit orchards, livestock and poultry. In 2012 the company paid 480 thousand GEL to farmers, the damage was mainly caused by hail, flooding and strong wind. In March, 2013 GPI holding introduced a new agricultural insurance product – insurance package for livestock, amounting 30 thousand GEL a year, which any farmer could buy. The product covered the following risks: death of livestock due to some accident or illness. The risks insured by this definite company are as follows: insurance for wheat, barley and maize

harvest; apple and peach harvest; tangerines; grapes; livestock; nut plants; potatoes. Since September 2014, a new pilot agricultural insurance program was launched for farmers. The program is initiated by the Ministry of Agriculture of Georgia and implemented by the Agriculture Project Management Agency of Georgia. On the current stage, the state agricultural program will pay compensation for the damage caused by hail, excessive rainfall, strong wind and autumn frost. For the first year the project budget was 5 million GEL. Over 21 thousand insurance packages were issued in the frames of the program in 2014 for 34 varieties of crops in the value of 150 million GEL distributed on 19 thousand ha of area. The aim of the project is to support development of insurance market in agricultural sector; encourage agricultural activities; improve competitiveness of the workers employed in agricultural sector; help individuals engaged in agricultural activities to retain income and reduce risks. 29,514 farmlands covering 18,498 ha of area were insured in 2014; premium income amounted to 12,409,225 GEL – the state subsidized 11,637,013 GEL and the insurers paid 18,498 GEL (most of the farmlands insured according to crop variety were citrus farmlands, while vine was leading according to premium income – 5,376,636 GEL). As for territorial distribution, most of the farmlands insured (9,863) were in Kakheti region, the least – in Tbilisi - only one. (From the point of insurance occasion, hail took place in Guria and Adjara regions, total loss of 6,879 insurance occasions amounted to 1,879,298 GEL). In 2014-2015, in the frames of this project 40,013 farmlands covering 23,667 ha of area were insured in total. The number of farmlands insured in 2015 was 10,499 covering 5,169 ha of area. It should be noted that in 2015 some changes were made to the project and the state subsidized 60% of the insurance premium instead of 90%. As a result, the reduction of insurance coverage according to the number of farmlands amounted to 64% and according to the total areas insured to 72%. The premium income in these two years amounted to 16,031,039 GEL. In 2015 the corresponding figure was 3,621,814 GEL, 71% lower compared to 2014. As for the damages compensated, during two years it amounted to 14,178,445 GEL (20,026 insurance occasions). The loss amounted to 88% and the frequency to 51%. According to the risks insured, the most insurance occasions were caused by hail – 15,334 with total sum compensated of 13,414,317 GEL.

In the world, there are several agricultural insurance schemes – a system, where the state is supplier of insurance service and holds monopoly on the market; free market without participation and interference of the state; and the system based on the partnership between public and private sectors. Great importance is paid to sharing the practice and experience of the European Union in this regard. In 1962 the EU launched Common Agricultural Policy (CAP), which aims to increase productivity of agricultural sector and improve availability of food products at reasonable price; create good living conditions for the farmers; ensure food security; preservation and promotion of village life in the European Union (keeping population in villages and preventing them from emptying). This policy is common to all the member countries of the EU and its

administration and financial security is carried out on the EU level, the projects are funded from the budget of the EU.

Research methods. Due to the complexity and great practical significance of the research, the following research methods have been used while working on the paper: systemic, historical and logical generalization methods, as well as scientific abstraction, analysis and synthesis.

Conclusion. Farmers' attitude towards insurance and their solvency should be taken into consideration; it's critical to precisely determine the coordinates of the land to be insured; varieties of plants should be identified according to different climatic zones, which belong to a specific zone (in Georgia there are 11 climatic zones out of 14 climate zones in the world).

Literature Review: while working on the paper the author used the following sources:

Agricultural insurance program – decree # 1462 by the Government of Georgia dated August 19, 2014; Agricultural insurance program - decree # 524 by the Government of Georgia dated March 28, 2016; Shatirishvili, J., Kakashvili, N. Insurance Business. Tbilisi, "Iverioni", 2012; <http://insurance.gov.ge/>. The paper is based on the materials of the Ministry of Agriculture of Georgia, the National Statistics Office of Georgia, European Neighbourhood Program for Agriculture and Rural Development materials, methodological guidelines developed by various scientific and research institutes as well as various scientific publications and materials from official websites.

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