THE ROLE OF INSURANCE IN ROMANIAN AGRICULTURE*

ROLUL ASIGURĂRILOR IN AGRICULTURA ROMÂNEASCĂ

CRISTINA MIHAELA NAGY [1]

[1] West University Of Timisoara, Faculty Of Economics And Business Administration; cristinanagy2009@yahoo.com

Abstract: *Romania is bounded by the European Commission, as a Member State of the European Union, to apply the support schemes for agricultural producers. In Romania agriculture is one of the economy's main branches (with a share of 6.54% of GDP in 2011, surpassing countries such as Germany and the United Kingdom which in 2008 had a share of 1%) this being mainly done by stimulating it. The surface scheme is applied for supporting agriculture, and from this offered subsidy, farmers can pay their insurance premiums, and this should lead to an increased demand for agricultural insurance.*

Key words: *insurance, Insured risk in agriculture, the share of agriculture in GDP*

INTRODUCTION

Insurance is an institution without which a truly efficient and safe agriculture cannot be made. Agricultural producers and agricultural companies usually practice insurance determined by bank loans since when obtaining a credit they are obliged to ensure the harvest and assets.[78]

* "This article is a result of the project **"Creşterea calităţii şi a competitivităţii cercetării doctorale prin acordarea de burse"**. This project is co-funded by the European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by theWest University of Timisoara in partnership with the University of Craiova and Fraunhofer Institute for Integrated Systems and Device Technology - Fraunhofer IISB."

[78] Benţe Corneliu - "Tendinţe în evoluţia asigurărilor în agricultura României", Analele Universităţii Tibiscus, Timisoara, 2001, p. 82

Through insurance, victims of misfortune are often able to continue in active economic life. They are spared a great deal of worry about the future, because they know money will be available in time of emergency.

With risk (the chance of financial loss) removed, persons with insurance do not have to set aside large sums of money to meet losses.They can use their current income for purchases and investments. They also have easier access to credit, because they can meet future obligations even if misfortune strikes[79].

Insurances represent an important way of minimizing and covering patrimonial damage in a company, caused by the production of unfavorable random events.[80]

MATERIAL AND METHOD

For combating damage generating random events, a man has at hand several possibilities:

- their avoidance or prevention;
- limiting the damages caused;
- creating reserves in order to cover any damages from own resources;
- transferring the risk associated to them to other persons (individuals or legal).

Regarding the **prevention and avoidance of elements** that generate damages, this is possible in a greater or lesser extent, not only can it be made completely.

In the case of **limiting damages caused** by certain phenomena, this implies that before the production of these phenomena the interested persons to take some adequate measures to minimize the undesirable effects.

The **creation of own reserves** involves the establishment by companies of reserve funds to cover any damages that may occur.

[79] New Standard Encyclopedia,volume 9- I-J, Standard Educational Corporation, Chicago, 2005, p. I.131

[80] Teacă Aliona - Rolul şi locul asigurărilor în economie, Revista ECONOMICA, nr. 2 / 2007, Academia de Studii Economice din Moldova, p. 61

The most well known form of risk reduction is **transferring it to another person** - in particular an organization or a legal person - by paying a sum of money by the person that wishes to ensure, and the insurer takes the responsibility to bear the loss if unpleasant events occur.

There are various situations where the preventive measures of the events that generate damages that are not possible, and therefore is necessary to resort to insurance, because in many cases, insurance offers, in addition to protection against various risks associated with unpleasant events, the possibility of saving money and capitalizing additional monetary availabilities.

Insurance contribute to reducing uncertainty and risk in economic activities, being a means of resuming the interrupted economic activity.

Agricultural producers in the vegetable sector, natural and legal persons shall receive the following forms of support, including the ***Support for agricultural*** production insurance. This support consists in State aid which subsidizes 50% or 70% of the insurance premium according to the insured risks, and compensations will be paid by the insurance companies.

Insured risk in agriculture is a natural event, possible and future, but uncertain, such as: the unfavorable influence of weather conditions, diseases/pests of plants and animals, which can cause crop losses, mortality and/or animal slaughtering of necessity as specified by the State veterinary service and in connection with the occurrence of which the insurance obligations are established.

The **insurance premium** is the amount that the agricultural producer will be obliged to pay in advance to the insurer for taking over the risk, according to the insurance contract.

The beneficiaries of the subsidy on insurance of production risks in agriculture in 2007[81] were agricultural producers, which fulfilled cumulatively the following conditions:

[81] Ghid de informare a producătorilor agricoli despre subvenţiile acordate de către stat în anul 2007 (conform situaţiei la 01.05.2007), Ghidul a fost realizat la comanda CDER în cadrul proiectului „Promovarea unui sistem eficient de subvenţionare în agricultură" de către Viorel CHIVRIGA, coordonator de programe, IDIS „Viitorul", disponibil pe www.viitorul.org/files/Materiale/Ghid_final.doc, la data de 26.03.2012 (Information guide for agricultural producers regarding subsidies granted by the State in 2007 (according to the situation at 01.05.2007), the guide was developed under the order of CDER within the

1. concluded insurance contracts according to the pattern contracts of subsidized insurance;
2. they were maintaining agricultural crops, animals, birds, bee families and producing fish in accordance with approved technologies, take measures to prevent diseases and pest attacks and keep records of the performed work;
3. registered the insured agricultural crops and in the city hall's agricultural register.

In 2007, the amount of subsidies of insurance premiums is 80% of the sum insured for agricultural crops and animals. At the conclusion of contracts with insurance organizations, agricultural producers have paid 20% of the amount of the insurance premiums established in the contract.

RESULTS AND DISCUSSIONS

According to the Government Decision no. 756 of 21 July 2010 the State grants a percentage of the cost of insurance premiums paid by the farmers, as follows:

a) 70% of the insurance premium for policies that provide coverage of losses caused by adverse weather conditions which can be assimilated to natural disasters, such as frost, hail, ice, rain or drought;
b) 50% of the insurance premium for policies which provide coverage of losses caused by the conditions mentioned in letter a), as well other losses caused by adverse weather conditions and / or losses caused by animal or plant diseases or pest infestations.

According to article 14 from the Regulation (EC) no. 479/2008[82] the support for harvest insurance may be granted in the form of a financial contribution from the Community that can not exceed:

a. 80% of the cost of insurance premiums paid by the producers in order to insure themselves against losses arising from adverse climatic phenomena assimilated to natural disasters;
b. 50% of the cost of insurance premiums paid by the producers in order to insure themselves against:

project "Promoting an effective system of subsidising in agriculture" by Viorel CHIVRIGA, program coordinator, IDIS "The future", available on www.viitorul.org\/files\/Materiale\/Ghid_final.doc, on 26.03.2012)

[82] privind organizarea comună a pieţei vitivinicole, AL CONSILIULUI din 29 aprilie 2008 (on the common organization of the wine market, of the COUNCIL from 29 April 2008)

- the losses referred to in point (a) and against other losses caused by climatic phenomena with adverse effects;
- the losses caused by animal, plant diseases, or by pest infestations.

In Romania the above measure was implemented by the Order of the Ministry of Agriculture and Rural Development no. 756/2008 on the approval of the methodological rules for granting financial support to producers from the wine sector for insuring the wine grape harvest.

Financial support represents:

- maximum of 80% for insurance premiums against losses due to climatic phenomena assimilated to natural disasters;
- maximum of 50% for insurance premiums against other losses caused by climatic phenomena;
- maximum of 50% for insurance premiums against losses caused by animals, plant diseases, pests.

In 2010 the support for insuring agricultural production is received by beneficiaries that have as an object of activity the exploitation of agricultural land and/or livestock, birds, bee families and fulfill the following conditions:

- exploit the agricultural lands as owners, lessees, licensors, associates, administrators in joint ventures, tenants or other similar, for the following categories: arable land crops, annual and perennial, plantings of trees and fruit shrubs, hops and vineyards, with the exception of wine grape varieties, for which they benefit from support in accordance with the provisions of MO no. 756/2008 on the approval of the methodological rules for granting financial support to producers in the wine sector for insuring the wine grape harvest, and have concluded insurance policies with insurance-reinsurance companies;
- they own, grow or exploit animals, birds and/or families of bees registered in the national Register of exploitations and/or in the agricultural Register, as appropriate, and have concluded insurance policies with insurance-reinsurance companies.

In 2007-2013 the Ministry of Agriculture and Rural Development in Romania has implemented the National Rural Development Program through which, with the support of the European Union, intends to achieve a convergence of income in agriculture with those made by other member states. Subject to a study, the Romanian agriculture came to the attention of

the European Union because there were large discrepancies between the revenue from the Romanian agriculture and other countries, so if in 2005 Romania had less than 1% of GDP in the European Community registering a rapid growth of GDP per capita, but remains at 34% of EU average[83].

The insured in the agrarian year 2007-2008 4.3 million hectares of crops were ensured, and in 2008-2009, the ensured area decreased to about 32.5%, reaching 2.9 million hectares. The number of agricultural insurance contracts in 2008 was 23.951 contracts, while in 2009 decreased by approximately 45% to 13.136 contracts, but the volume of gross subscribed premiums increased from 10.8 million to 82.3 million lei, approximately 7.6 times[84].

Further we present the importance of agriculture in the Romanian economy.

Table no. 1

The share of agriculture in GDP

lei million current prices

	2007	**2008**	**2009**	**2010***	**2011****
GDP TOTAL	416.006,8	514.700,0	498.007,5	513.640,8	578.551,9
Agriculture, hunting and forestry	23.966,3	34.081,9	31.689,0	30.728,6	37.837,7
The share of agriculture in GDP	5,76	6,62	6,36	5,98	6,54

Source: Statistical Yearbook of Romania 2010, tab. 11.1

* Press release of the National Institute of Statistics, no. 44 of 3 March 2011 - estimated

** Press release of the National Institute of Statistics, no. 52 of 6 March 2012 - estimated

From table no. 1 we can observe that at national level, agriculture represents one of the major branches of the economy. The contribution of agriculture, forestry, fishing in the formation of the Gross Domestic Product has grown from 5.76% of GDP in 2007 to 6.54% of GDP in 2011.

[83] Marina Uher, Cristina Mihaela Nagy (2011) - Attracting The Necessary Funding For Romanian Agriculture, Lucrări Ştiinţifice, Seria I, VOL. XIII (3) - ISSN: 1453-1410, Timişoara, p. 235

[84] Cristina Mihaela Nagy, Marina Uher (2011) - Effectiveness Of Insurance In Romanian Agriculture In The Context Of Eu Integration, Lucrări Ştiinţifice, Seria I, VOL. XIII (3) - ISSN: 1453-1410, Timişoara, p.233

In 2007 there were granted 18.689.100 lei to subsidize the rate of 50% of insurance premiums related to insurance contracts entered into by producers of agricultural crops with agricultural insurance in accordance with HG no.74/2003[85], and during 2010-2011 the state aid granted to farmers for paying insurance premiums is 41,549 thousand lei.

According to statistics available at the level of 2008[86] in most European countries, the share of agriculture in GDP is about 1.7 % (in Germany, Denmark, Norway, United Kingdom the share is 1% of GDP, while in Austria, France, Italy, Netherlands, Portugal and Slovenia the share is 2% of GDP). Larger shares of agriculture in GDP have Ukraine with 8%, Turkey with 9%, Republic of Moldova with 11% and Albania with 21%.

CONCLUSIONS

For Romania, agriculture has always represented a basic sector of the national economy and the development of agriculture is essential, bearing in mind that we have a great potential that needs be exploited to the maximum, and farmers should be encouraged to insure crops, to cope with some crisis situations.

We can say that the State is trying to help this sector through various forms of support, including: subsidizing the excise duty on diesel fuel used in agriculture, specific aid for improving the quality of agricultural products in the organic farming sector, as well as subsidies granted for insuring agricultural production.

Insurances represent a basic instrument for both the development and support of agriculture, as well as for the protection of agricultural producers and farmers, but we must consider the fact that only 25% of the Romanians resort to insurance, compared to those from the European Union, this being due to the lack of financial resources of agricultural producers but also to their poor information about insurance.

[85] Raport de activitate al ministerului agriculturii şi dezvoltării rurale pentru anul 2007 – p. 66

[86] Statistical Yearbook of Romania 2010, tab. 23.11 - contribution of major activities to gross domestic product, in 2008

REFERENCES

1. **BENŢE CORNELIU** (2001) - Tendinţe în evoluţia asigurărilor în agricultura României, Analele Universităţii Tibiscus, Timisoara.
2. **NAGY CRISTINA MIHAELA, UHER MARINA (2011)** - Effectiveness Of Insurance In Romanian Agriculture In The Context Of EU Integration, Lucrări Ştiinţifice, Seria I, VOL. XIII (3) - ISSN: 1453-1410, pp. 227-234, Timişoara.
3. **TEACĂ ALIONA (2007)** - Rolul şi locul asigurărilor în economie, Revista ECONOMICA, nr. 2 / 2007, Academia de Studii Economice din Moldova.
4. **UHER MARINA, NAGY CRISTINA MIHAELA** (2011) - Attracting The Necessary Funding For Romanian Agriculture Lucrări Ştiinţifice, Seria I, VOL. XIII (3) - ISSN: 1453-1410, pp. 235-240, Timişoara.
5. ***New Standard Encyclopedia,volume 9- I-J, Standard Educational Corporation, Chicago, 2005, p. I.131
6. *** Ghid de informare a producătorilor agricoli despre subvenţiile acordate de către stat în anul 2007 (conform situaţiei la 01.05.2007), Ghidul a fost realizat la comanda CDER în cadrul proiectului „Promovarea unui sistem eficient de subvenţionare în agricultură" de către Viorel CHIVRIGA, coordonator de programe, IDIS „Viitorul", disponibil pe www.viitorul.org/files/Materiale/Ghid_final.doc, la data de 26.03.2012 (Information guide for agricultural producers regarding subsidies granted by the State in 2007 (according to the situation at 01.05.2007), the guide was developed under the order of CDER within the project "Promoting an effective system of subsidising in agriculture" by Viorel CHIVRIGA, program coordinator, IDIS "The future", available on www.viitorul.org\/files\/Materiale\/Ghid_final.doc, on 26.03.2012)
7. *** Raport de activitate al ministerului agriculturii şi dezvoltării rurale pentru anul 2007
8. *** Anuarul statistic al României 2010, tab. 23.11 - contribuţia principalelor activităţi la realizarea produsului intern brut, în anul 2008, (Statistical Yearbook of Romania 2010, tab. 23.11 contribution of major activities to gross domestic product, in 2008)