

Legal and Regulatory Framework to Facilitate
Agricultural Insurance
Part 2 — Perspectives for Policy

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Agricultural Insurance — Introduction

- a) Agricultural insurance is a traditional form of general indemnity insurance (named peril or multi peril)
- b) Payment is based on losses incurred
- c) Farm-level assessment of actual loss incurred (or estimate)
Indemnity may be
 - ▶ Damage based
 - ▶ Yield based
- d) Index-based — Payment against the index that parties agree is appropriate proxy for actual loss
Indemnity may be based on
 - ▶ Area yield
 - ▶ Specific weather index (e.g., rainfall or temperature)
- e) Livestock insurance (traditional or index-based)

Overriding Policy Objective

Facilitate development of agricultural insurance in Vietnam

This requires consideration of

- a) Appropriate legal and regulatory system
- b) Other measures that will encourage or facilitate development of agricultural insurance in Vietnam

Principles for Regulation and Supervision

- a) Basic principles for regulation and supervision are as for other general insurance products
- b) Regulatory and supervisory system must address
 - ▶ Long term solvency of insurer, contagion between product lines (capital)
 - ▶ Payment of claims
 - ▶ Systemic risk, contagion between sectors
 - ▶ Market conduct, customers should be treated fairly
- c) Requires
 - ▶ Appropriate legal and regulatory framework, i.e., laws, regulations, orders (contractual and regulatory)
 - ▶ Legal and regulatory infrastructure (courts, implementation by supervisor)
- d) Well-established international standards, but they do not cover agricultural insurance specifically
- e) Agricultural insurance may be microinsurance

Agricultural Insurance Special Regulatory Considerations

Special considerations need to be taken into account by legislation and regulator

For example

- ▶ “In-between” risk (i.e., partially correlated) — bad weather event can result in significant losses (solvency, contagion) — proper risk assessment is crucial
- ▶ Policy period often less than one year — implications for reserving or technical provisions
- ▶ Costs of sales and loss adjustment
- ▶ Market conduct, particularly for microinsurance

Other Possible Facilitating Measures

- ▶ Risk pooling
- ▶ Statutory national program
- ▶ Premium subsidy
- ▶ Establishment of specialist national agricultural insurer

Developing Appropriate Legal and Regulatory Framework

Vietnam has insurance law and regulations

Essential questions

- ▶ Are current insurance law and regulations adequate and sufficient for the appropriate supervision of agricultural insurance in Vietnam?
- ▶ If not, can additional regulations and orders be made under existing law?
- ▶ Is Agricultural Insurance Law needed or advisable to...
 - ▶ Enable proper regulation and supervision of agricultural insurance?
 - or to
 - ▶ Achieve other policy objectives?

Policy Should Drive Legislation

Development of appropriate legal and regulatory system or changes to existing systems involve a number of stages

- ▶ Determine policy (legal and regulatory and other facilitating measures)
- ▶ Analyze existing legal and regulatory system against policy objectives
- ▶ Carry out a gap analysis — what is missing?
- ▶ Determine whether missing elements are best put in place by changing existing framework or introducing new Agricultural Insurance Law

Legislation gives effect to policy — Therefore, policy must be developed before legislation and regulations are drafted
