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Experience and Enlightenment of the Fishery Mutual Insurance System in Asian Countries

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Abstract Asia is the major producing area of aquatic products. In order to maintain the stability of fishery, some Asian countries have established a mutual insurance system, which, however, shows distinctive features in different countries as a result of their different historical, economic and social conditions. This paper introduced the development status and characteristics of the fishery mutual insurance system in some Asian countries, such as Japan, South Korea, India, etc., and then summarized their experiences and what we can learn from their experiences from the perspectives of legislation, governmental support, mutual insurance associations, and credit.

Key words Asian countries, Fishery mutual insurance, Mutual insurance association

Asia is the largest producing area of aquatic products, and fishery concerns the livelihood of many Asian countries. In order to promote the stable and sustainable development of fishery, some Asian countries and areas have established a mutual insurance system, which presents distinctive features and structures in different countries as a result of their different historical, economic, social and cultural conditions. The paper introduced the development of fishery mutual insurance system in some Asian countries with the purpose to provide some enlightenment to the development of the system in China.

1 Fishery mutual insurance system in some Asian countries

1.1 Japan Japan has the most developed fishery in the world. With one of the three largest world fishing grounds, Japan abounds with fish resources. Food resources from the ocean have historically played a significant role in the Japanese diet. Around 40% of protein consumed by Japanese people comes from sea food. Since the 1970s to 1980s, the inshore fishery showed strong growth and gradually became the focus of Japanese fishery industry. In recent several years, although Japan government made great efforts to develop aquaculture, the fishery output is gradually decreasing.

Carried out in 1965 based on the *Fishery Accident Compensation Act*, the fishery insurance in Japan is actually a complete mutual insurance system covering the mutual cooperation of catches, aquaculture, special breeding and fishery facilities. The mutual insurance is mandatory to all small and medium-scale fishers and fishery farmers, implemented and managed through a three-layer structure, including the Fisheries Co-operative Associations (FCAs) at village level, the Fishery Mutual Insurance Associations at county level and National Federation of Fishery Mutual Insurance Associations^[1].

The whole system is supported by the central governmental subsidies and the special funding for particular disasters such as red tide. The insurance system for fishing vessels in Japan was carried out based on the *Fishing Vessel Damage etc. Compensation Act* in 1952, and it is free from the supervision of the *Insurance Business Act* in 1939. The fishing vessel insurance system is structured by the fishermen's cooperatives, the Fishing Vessel Insurance Association (FVIA) at the county-level and the Central Society of Fishing Vessel Insurance supported by the central government^[2]. All fishermen are the members of FVIA, and purchase the insurance from the FVIA, which then get reinsured from the central society. The government provides retrocession to the central society and subsidies to the fishermen.

In addition, the National Mutual Insurance Federation of Fisheries Co-operatives offer the members related freemasonry projects to their personal insurance, covering the welfare and funding for their daily life, endowment, etc.^[3].

1.2 South Korea Located to the south of 38°N, South Korea is surround by ocean on three sides with long coastline and broad continental shelf. Situated in the south of north Pacific fishing ground and influenced by alternating warm and cold currents, South Korea is known for its rich fishery resources and wide variety of fish. The fishery in South Korea is consisted of the costal fisheries (less than 8t), inshore fisheries (larger than 8t), offshore fishing, aquaculture and inland fisheries.

The fishery mutual insurance in South Korea started in the 1930s, and the central fishery association basically took shape in 1962 when the *Fishery Association Act* was issued. The specific work of fishery mutual insurance was conducted by the central association, and there were nine organizations in whole South Korea and 97 branch banks of fishery association^[4]. The South Korea government set up a technical department in National Ministry of Maritime Affairs and Fisheries to take charge of the mutual insurance business of fishery association. The mutual insurance also covers the life insurance and damage insurance which are not and can not be covered by common private and commercial insurance

companies. In addition, in order to protect the safety of fishermen and guarantee normal fishing activities, the fishery association also provides mandatory insurance to the fishing vessels and crew.

Since 1970s, the fishing vessels in South Korea experienced great changes. The *Fishery Association Act* deprived the *Insurance Act* of its applicability to the insurance of fishing vessels, excluding the commercial insurance companies from the competition of whole fishery and providing political support for the effective implementation of fishing vessel insurance system. The *Mutual Insurance Federation of Fishery Cooperatives* issued by Korean Ministry of Maritime Affairs and Fisheries regulate and promote the business of fishing vessel insurance which covers nearly all motorized fishing vessels. The government also provide subsidies to those insured vessels.

1.3 India The fishing insurance in India has been carried out for over forty years, and effectively promoted the development of fishery cooperatives. According to the Indian Constitution, both the national and state governments have the right to enact and enforce the laws on the cooperatives. Therefore, the cooperatives in every state should register according to the state law, but the cooperatives, whose business involve more than one state, should register according to the national law. The government supports both the national and state-level cooperatives in order to coordinate those at low level. The National Federation of Fishermen's Cooperative Limited is the supreme structure, governing seventeen State Federations of Fishermen's Cooperatives and 108 Central Fisherman's Cooperative Societies. Since its business concerns more than one state, it is registered under the national federation^[5].

The main functions of the National Federation of Fishermen's Cooperative are to arrange the input of fishery and the supply of facilities, to transfer the technical skills to fishermen, to provide insurance to fishermen, to raise and sell fish, to provide consulting services, to provide trainings, to promote fishery export, and communicate with the government and related departments, etc. While the major functions of the State Federation of Fishermen's cooperatives is to promote the development of state fishery cooperatives, to raise fund and distribute investment, to sell, process and export the fish, to provide technical support, and to contact with the federal government and other institutions. The major functions of the Central Association of Fishermen's Cooperatives are to coordinate every state and primary-level cooperatives, and support the grass-root cooperatives. There are totally 13 117 grass-root cooperatives which are responsible for encouraging fishermen to organize cooperatives, purchasing fishes from the members, selling fishes, providing basic input and facilities, and arranging technical training. In 1990s, India designed two aquaculture insurance plans, including the Brackish Water Shrimp Insurance Scheme and the Inland Fish Insurance Scheme, which set up strict conditions for insurance.

2 Drawbacks of the fishery system in Asian countries

Although the existing fishery insurance systems in Asia have a-

chieved remarkable success, such as the fishing vessel insurance in India, the fishing vessel insurance and life insurance in South Korea, some of them are financially failed as a result of high loss ratio, high management costs, and limited coverage. For example, the fishing vessel insurance in Malaysia had to be suspended because of the loss of customers, the coverage of fishery insurance in Sri Lanka is narrowing, and the insurance for shrimp breeding in Bangladesh is also losing its profits.

The high risks of fishery and aquaculture scared some private insurance companies away, especially those who mainly deal with the insurance business of small-scale fishery and aquaculture. The fishermen, who can't afford the high premiums, are reluctant to join the insurance. It is reported that the high premiums have become the major obstacles to the effective implementation of insurance system. For example, in Thailand, there is still no a complete plan for fishery insurance. As the aquaculture often suffers great losses, in some countries, such as India, Bangladesh, and Vietnam, some insurance companies which already implemented the aquaculture insurance don't want to expand their coverage of insurance.

In addition to the financial limitations, the effective implementation of insurance is also affected by some technical and political issues. The insurance companies don't want to be involved in the insurance for aquaculture. For instance, lacking enough data about the damage of fishing vessels and fishing facilities, the insurance companies often keep secret of the information about insurance policy and place, which, as a result, cannot guarantee the accuracy of the insurance rate. Both the fishermen and fishery farmers have little knowledge about the importance of fishery insurance, show little demand and understanding about the insurance.

3 Enlightenment from the experiences of fishery mutual insurance in Asian countries

To review the different fishery mutual insurances in Asian countries, we can found some useful experiences.

3.1 Enacting related laws and regulations about fishery insurance

To enact related laws and regulations is the precondition for the successful implementation of fishery insurance. The fishery mutual insurance in some Asian countries is supported by related laws. For example, the mutual insurance is an important part of the fishery compensation system in Japan, and enacted based on the Fishery Compensation Act in 1964. In terms of the fishing vessel insurance, the Diet of Japan issued the *Fishing Vessel Insurance Law* in 1937, and then replaced the law by the *Fishery Compensation Act* in 1952. In 1981, the *Fishery Compensation Act* was revised with the coverage expanded, and then in 1999 it was revised again. In South Korea, the parliament promulgated the *Fishery Association Law*, which deprived the *Insurance Law* of its applicability to the fishing vessel insurance, and provided political support for the implementation of fishery insurance system in South Korea. Then the Korean Ministry of Maritime Affairs and Fisheries

enacted the National Federation of Fishermen's cooperatives, and announced the fishing vessel insurance to be mandatory. All these laws and regulations ensure that all motorized fishing vessels are insured. In India, it is prescribed in Indian Constitution that both the central and state governments have the right to enact and enforce laws on cooperatives.

In contrast, there still haven't any particular laws for the insurance of agriculture and fishery in China, nor any policies for regulating the mutual insurance associations. A lack of legislative support and protection, the sustainable development of fishery insurance can't be guaranteed. Therefore, the process of enacting particular laws should be accelerated so as to regulate the national mutual insurance by the legislative means and guarantee the benign operation of fishery insurance.

3.2 Governmental support According to the practice of these countries, the sustainable development of fishery is of great significance to stabilizing the national economy, guaranteeing the food safety and increasing the earnings of foreign exchanges. Fishery insurance, of course, should be part of the development of rural fishery industry, and the support from government is essential for the fishery insurance, especially at its initial stage of development when the government plays a major role in the promotion of insurance project. Without governmental support, the commercial insurance company cannot bear the inestimable losses. The commercial companies prefer the large-scale fishery and aquaculture companies to those small-scale ones which, therefore, needs the support from government specially when they suffer great economic losses. In Sri Lanka, the government offers subsidies for the fishery insurance, and is directly involved in carrying out the insurance project and credit, as well as the endowment and social insurance of fishermen. Meanwhile, Indian government is considering to include the aquaculture into the insurance of agricultural crops. Malaysian government not only issued financial policies to support the project, but also encouraged some industrial and private departments to participate in the insurance project. In Japan and South Korea, in order to reduce the management costs, the governments focus on improving the risk reserve and provide tax exemption for fishing vessels. The Japanese government has always been involved in the fishery insurance system, apart from enacting related laws and offering financial subsidies, it also established a sound re-insurance mechanism to maintain the well-functioning of the insurance system. The close cooperation between government and fishermen in those countries have been proven to be very effective, which, therefore, will provide us some enlightenment.

Still in its initial stage of development, the fishery mutual insurance in China is in urgent need of the support from government. The government should establish a fishery insurance system, and a foundation for great fishery disasters. It should also construct a re-insurance system, and manage the local fishery mutual insurance association as part of the national association, and reinsure the fishery to reduce the risks of disasters.

3.3 Mutual insurance associations The fishery in developing

countries is mostly managed by fishermen or small-scale fishing farmers, who will suffer great losses by natural disasters and who should be protected by the fishery insurance. But due to the fact that most of these fishermen or farmers often live and work separately, they find it hard to get their preferred insurance from the private insurance companies. Then the fishery cooperatives and mutual associations would come to their aids. The cooperatives and associations can organize those fishermen together and offer them a risk diversification project to reduce their risks of losses brought by natural disasters. A model example can be found in Japan, where the mutual insurance associations successfully organize the fishermen together to join the insurance. Some other countries, including South Korea, India, Malaysia and Indonesia, also lay great emphasis on the fishery cooperatives. In India, once the National Fishermen's Cooperative offered the services of group insurance, the number of cooperative members would increase substantially. In Kalimantan, the insurance only cover the damage from accidents, and the premiums are paid with the incomes of fishery. The cooperatives also combine the fishery insurance with the credit, and reserve part of the fish sales for premiums, which is the reason why its fishery insurance could achieve such a great success.

Similar to that of other types of insurance, the practical benefits of fishery insurance cannot be seen immediately, instead, should wait for a long time to take effect. Given that, it is usually hard for the fishermen to understand and accept the premiums and insurance conditions before they see real benefits. Therefore, large amount of time and energy should be spent to educate the fishermen and persuade them to join the insurance plan. Both the fishery cooperatives and the mutual insurance associations can promote the knowledge about fishery insurance to those fishermen, and encourage them to get involved. Only in this way can the fishery insurance be widely accepted by the fishermen and fishing farmers.

As is proven by the achievements of China Fishery Mutual Insurance Association, the mutual insurance system is feasible and practicable in China, and the association set a successful example for the whole insurance industry, and has become an indispensable part in China fishery disasters relief system. The practice of Fishery Mutual Insurance Association effectively promote the the legislation in costal areas. What's more, the financial subsidies and systematic innovation have laid a foundation for the development of fishery insurance in each province, and should be given enough attention.

3.4 Connecting the fishery insurance with credits Belonging to one of the poorest social groups, the fishermen in many developing countries lack enough money to cope with the losses of incomes and ventures. High risks in fishery production, as well as other issues related to payment, make it hard for some financial institutions to offer loans to fishery. In order to minimize the risks, the financial institutions prefer to provide loans to those with insured assets. That means, without insurance, the financial institu-

tes would be hesitate to offer the loans, which limits the fishermen's input and the development of fishery. Therefore, it is necessary to establish and enhance the direct relations between the fishery insurance and the financial credit, because the fishery insurance could not only effectively increase the investment from some financial institutions, but also encourage the fishermen's input and their adoption of new technique to improve the productivity and their payment capacity. In many countries, including Sri Lanka, India, and Thailand, the fishery insurance is mostly connected with the bank credit. In Japan, there is also a special credit fund for fishery insurance. All above are the useful experience for us to learn in developing the fishery insurance in China.

3.5 Mandatory fishery insurance Whether the fishery insurance should be mandatory or voluntary is a question that many countries should consider and decide based on their practical conditions and requirements. It is better that the fishery insurance should be mandatory to involve all small-scale fishing farmers and fishermen. In mid-1980s, Malaysian government launched a project of life insurance for fishermen and the project ran very well, which, to a larger degree, could be attributed to the fact that the project connected the licenses of fishing vessels with the mandatory insurance. While in contrast, the other case that combined the loans of fishing vessels with the insurance ended up with failure, and the reason was that the insurance was mandatory at the first year but voluntary in the following years, as a result, most loaners refused to continue their insurance at the second year. In Japan, the mandatory insurance to small and medium-sized fishermen has

been proven to be effective. Therefore, a mandatory fishery insurance system should be established, which, of course, should be based on related laws. It is also proven that the insurance system is based on governmental support instead of individual suggestions, but still it should take into account the suggestions of fishermen. The mandatory insurance should be supported by legislation, and subsidized by the government. To combine the mandatory insurance system with the credit system or market insurance together is quite effective. But it should be noted that many voices of opposition and resistance would be heard at the initial stage of mandatory system, but as time goes by, when the premiums reduce, the advantages of the insurance would be noticed and accepted in the end. Given the practical development of China fishery and the real income of fishermen, it is suggested that a half-mandatory system combining the insurance with bank credit should be adopted at first to lay a foundation for a complete mandatory system.

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