

## PROPERTY INSURANCE OF AGRICULTURAL BUSINESS IN THE CONTEXT OF HISTORICAL DEVELOPMENT

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*Захист майна суб'єктів господарювання аграрного бізнесу є одним із пріоритетних завдань державної політики, здатним забезпечити продовольчу безпеку країни, функціонування господарюючих суб'єктів на самофінансуванні і самоокупності. В статті досліджено історію майнового сільськогосподарського страхування та виявлено, що основні складові системи страхового захисту неодноразово піддавалися трансформації під впливом зміни цілей та функцій, якими наділявся механізм страхування у сфері аграрного виробництва. Обґрунтовано наукові положення та практичні рекомендації щодо удосконалення методичних підходів щодо майнового аграрного страхування.*

**Ключові слова:** *аграрне страхування, аграрний бізнес, майнове страхування, обов'язкове страхування, добровільне страхування, історія страхування*

**Problem statement.** The agrarian sector is a key, vital and the most risky sector due to its specific reproduction process, which is closely related to natural, climatic and biological conditions. The protection of property of agricultural business entities is one of the priority tasks of state policy, which can ensure the country's food security and the functioning of economic entities on a self-financing and self-sufficiency basis. The study of the history of property insurance of agrarians is an important methodological approach to its improvement in order to summarize both positive and negative aspects of this process and, on this basis, to develop methodological approaches for their adaptation to modern insurance practice.

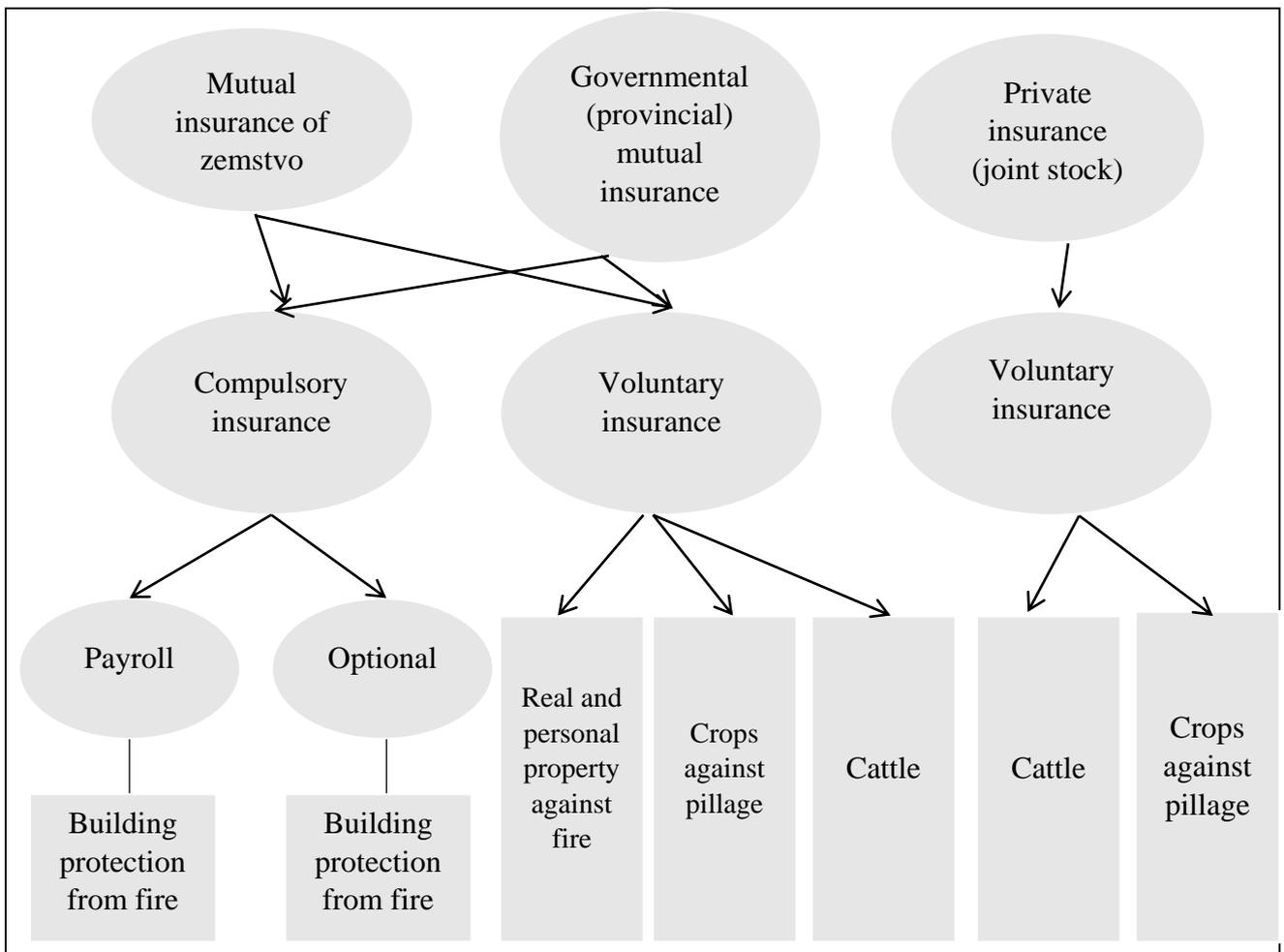
**The review of recent research and publications.** The history of property and casualty insurance for agricultural entities has always been of interest to both insurance professionals and scholars, and has been duly reflected in the scholarly works of many national and international scholars who have studied this issue. At the same time, the historical aspects of insurance in the agricultural sector of the economy have not been comprehensively studied according to market relations and require further generalization in order to identify positive aspects that have worked over time and adapted to contemporary market conditions.

**Research methodology.** When researching the development of property insurance in the context of historical development of agricultural business, several methods have been used. Conducting a comprehensive review of relevant literature, scholarly articles, books, and research papers on the history of property insurance in agriculture provides identifying key trends, challenges, and milestones in the development of agricultural insurance. It also helped in understanding the theoretical frameworks, concepts, and methodologies used in previous studies. Comparative analysis: comparing the historical development of property insurance in agriculture across different regions, countries, or time periods can reveal variations in approaches, practices, and outcomes. By examining similarities and differences, researchers can identify factors that have influenced the success or failure of insurance schemes in different contexts. These research methods, when combined, can provide a comprehensive understanding of the historical development of property insurance in the agricultural business and contribute to its further advancement.

**Objectives of the research.** The purpose of the paper is to study the history of property insurance of agricultural business entities, to substantiate the scientific provisions and practical recommendations for improving methodological approaches to property insurance.

**Research results.** Insurance markets are an essential component of fully functioning economic systems in countries with well-developed market economies. In today's environment, insurance is an important and necessary tool for ensuring overall economic stability and security, business development and continuity, effective protection against numerous natural, man-made, and other risks, and the implementation of national social policies [1]. The structure and organization of the insurance business can effectively solve certain problems of our society and be one of the key factors affecting the economy. As for property and casualty insurance, it inherently represents a large part of the insurance market and should help minimize the risk of property loss for agricultural entities in the event of an insured event.

The history of the development of the non-life insurance system for agricultural entities in Ukraine dates back several decades. The first attempts to organize insurance protection of commodity producers against risks of agricultural production on the territory of modern Ukraine are attributed to the end of the 19th century. Since then, the main components of the system of insurance protection have been repeatedly transformed under the influence of changes in the objectives and functions assigned to the insurance mechanism in the sphere of agricultural production [2]. The process of transformation of the forms and types of non-life insurance of agricultural entities inherent in the different stages of development of the agricultural insurance system is shown in (Figure 1). In the pre-revolutionary period, there were two parallel business and legal forms of property insurance for rural producers: mutual insurance (zemstvo and state insurance) and joint-stock insurance (private insurance). The list of insurance operations of rural insurance was identical to that of zemstvo insurance. Mutual insurance was divided into compulsory and voluntary. Compulsory mutual insurance was divided into salary insurance and additional fire insurance for buildings.



**Fig. 1. Forms and types of insurance of agricultural enterprises at the pre-revolutionary stage of development of insurance protection (late 19<sup>th</sup> century - 1917)**

In addition to compulsory insurance of buildings, mutual insurance institutions also provided voluntary insurance of real and personal property against fire; crops against pillage; and cattle and horses against death.

Joint-stock (private) insurance acted as an equal competitor in the market of voluntary insurance of agricultural producers' property for mutual insurance. Joint-stock insurance companies provided voluntary insurance of crops against livestock and horses against death. At the same time, as evidenced by many years of experience in mutual insurance in the pre-revolutionary period, with a positive financial result for the year, the insurance tariff and, accordingly, the insurance premium in mutual insurance companies could be several times lower than in joint-stock insurance, and in the absence of insured events or minimal insurance payments for the previous financial year, they could have acquired purely symbolic values with the same amount of insurance liability for the risks assumed [3].

The non-commercial nature of mutual insurance excludes profit from the insurance price, and the possible excess of insurance premiums over insurance payments and the investment income of the mutual insurance company ensure that the insurance price is reduced. There is no profit as such in mutual insurance. Its purpose

is to cover the costs of managing and providing insurance security. If there is a surplus at the end of the operating year, it is either distributed among the members of the company or credited to their premiums [4]. In view of this, mutual insurance should be cheaper than joint-stock insurance on this basis alone.

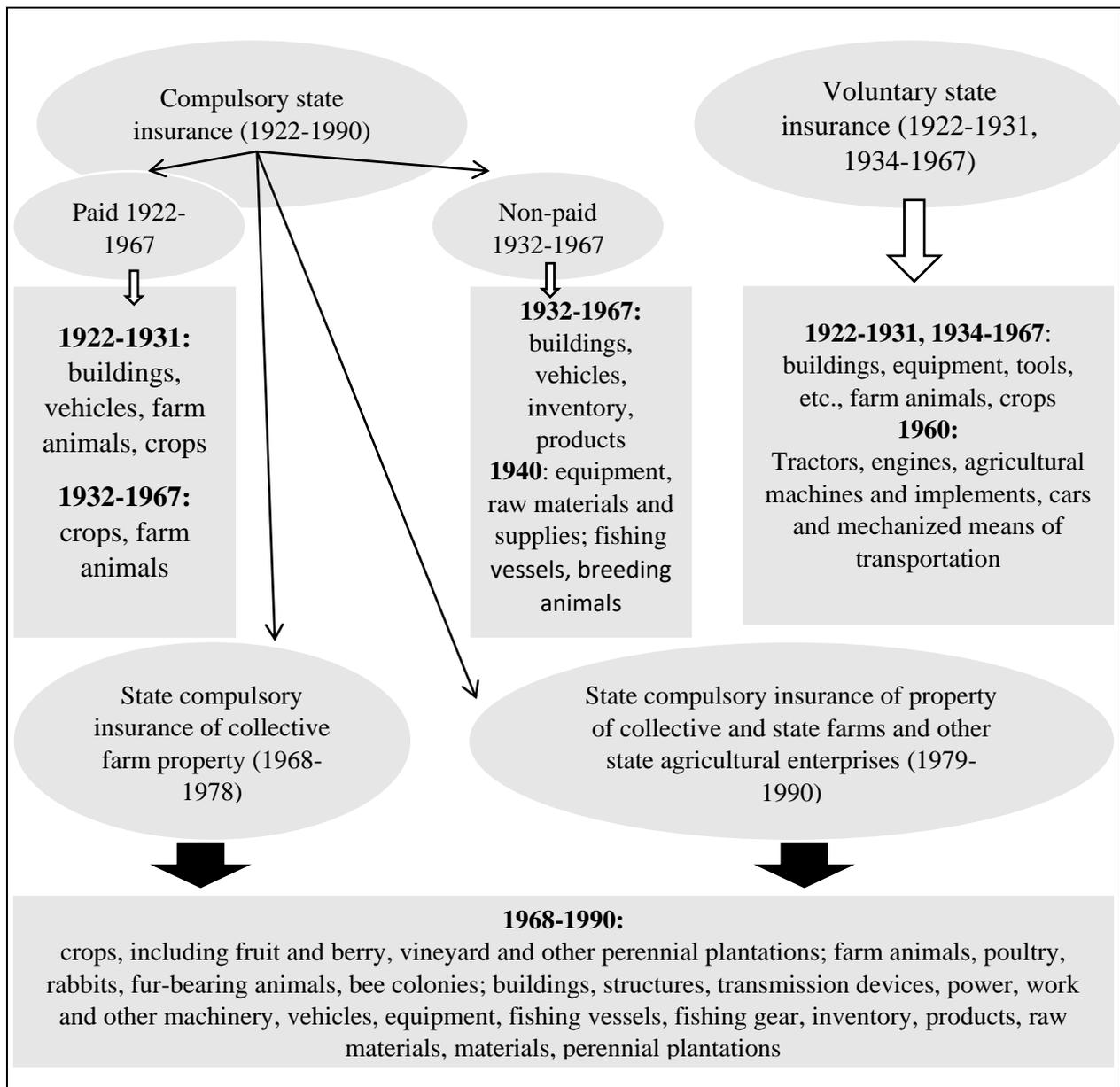
Thus, the financial and economic basis for organizing mutual insurance is the provision of insurance services at more attractive prices than commercial insurance. In addition, the widespread use of mutual insurance in the pre-revolutionary period was determined by the large number of risks that commercial insurers refused to insure due to their high loss ratio or high liability.

Property insurance for agricultural producers was made compulsory in the early years of Soviet rule. The principle of compulsory insurance helped to reduce the cost of insurance by lowering insurance rates with an emphasis on full coverage of agricultural producers [4]. The rapid growth of compulsory insurance contributed to the accumulation of huge financial resources, without which it was impossible to realize the functions of public administration. Voluntary insurance could not have solved this problem. At the same time, it should be noted that during collectivization and in the postwar period, the State Insurance of the former USSR conducted insurance operations in two forms: compulsory and voluntary property insurance of agricultural business entities. State compulsory property insurance was introduced in March 1922 in accordance with the Decree of the Council of People's Commissars "On State Property Insurance" of 1921[5].

The most important principle of Soviet-era insurance technology was the predominance of compulsory insurance (Figure 2). The Decree was based on paid insurance, which had been widely used in the Russian Empire before the 1917 revolution. Starting in 1932, a separate group of non-paid insurance objects (compulsory insurance of buildings, vehicles, inventory and products) was separated from the compulsory state salary insurance. Thus, since 1932, salary insurance has been applied only to farm animals and crops. The Law of 1940 "On Compulsory Salary Insurance" expanded the list of objects of compulsory non-salary insurance to include insurance of equipment, raw materials and supplies, and fishing vessels [5].

The four types of compulsory property insurance listed in the 1940 Law should be divided into two groups: the first group includes compulsory insurance of buildings, inventory, equipment, vehicles, products, raw materials and materials, as well as compulsory insurance of fishing vessels; the second group includes compulsory insurance of agricultural crops and compulsory insurance of animals [6]. The basis for this division into two groups is the difference in the methodology for setting the amount of insurance coverage.

For compulsory property insurance classified in the first group, the amount of insurance coverage is set at the full value of the relevant property according to a certain appraisal. In the other two types of compulsory property insurance, which are classified in the second group, the amount of insurance coverage is set in absolute terms [7].



**Fig. 2. Forms and types of agricultural property insurance in the directive economy (1921-1990)**

An exception to the general rule is the provision of the Law of April 4, 1940, which states that breeding horses, camels and donkeys over two years of age, as well as large breeding cattle, sheep, goats and pigs over one year of age belonging to collective farms are insured at the full value of the insurance assessment. Therefore, it should be recognized that although the Law was titled "On Compulsory Salary Insurance," only the two types of insurance included in the second group correspond to compulsory "salary" insurance [8].

With the abolition of voluntary insurance by the Resolution of the Central Executive Committee of the People's Commissariat of the USSR in 1931, it began to gradually recover in 1934. As mentioned above, under compulsory insurance, the insured was not always guaranteed that the insurance indemnity he or she received would correspond to the actual value of the lost insured property [8].

Voluntary insurance was supposed to provide additional insurance coverage for

property subject to compulsory salary insurance. This was the purpose of the resolution of the Central Executive Committee and the Council of People's Commissars of the former USSR of 27.07.1934. This resolution granted the State Insurance of the former USSR the right to conduct voluntary, so-called "supernumerary" insurance of buildings, equipment, inventory, etc., as well as certain types of animals, which were subject to compulsory "salary" insurance [9].

It should be noted that voluntary animal insurance on collective farms covered both animals subject to compulsory salary insurance and objects that were not subject to compulsory salary insurance at all, such as fur-bearing animals (in kennels), rabbits, poultry (on poultry farms) and bee colonies (in frame hives).

The next resolution of the Central Executive Committee and the Council of People's Commissars of the former USSR of September 17, 1935, established the same voluntary "overhead" insurance for agricultural crops. The Resolution of the Council of Ministers of the former USSR of 11.12.1959 "On Voluntary Insurance of Property of Collective Farms and Population" expanded the list of voluntary insurance objects [10]. Since 1960, tractors, engines, agricultural machinery and implements, cars and mechanized vehicles in collective farms have been covered by voluntary insurance.

Thus, the history of the development of compulsory agricultural salary insurance shows that it played an important role in the economic and financial strengthening of collective farms during the first five-year planning period of agricultural collectivization and contributed to the rise of the collective farm economy in the postwar period. The principles of compulsory payroll insurance were based on the principles of a centralized command and control economy [11]. They met the demand for simplicity in the organization and implementation of insurance in agriculture. At the same time, the mass nature of this type of insurance was only possible through compulsory property insurance.

Compulsory property insurance took into account the individual characteristics of agricultural business entities in full. Insurance was an instrument of state agricultural policy aimed at improving the efficiency of agricultural producers. The Decree of the Presidium of the Supreme Soviet of the former USSR "On State Compulsory Insurance of Collective Farm Property" of 1967 and Resolution of the Council of Ministers of the former USSR No. 814 "On State Compulsory Insurance of Collective Farm Property" introduced new conditions for compulsory insurance of collective farm property on January 1, 1968 [12]. Voluntary insurance lost its importance.

As for the insurance of property of state farms and other agricultural business entities of the Ministry of Agriculture, it was not insured at all until January 1, 1979. Only 11 years later, Resolution No. 499 of the Central Committee of the CPSU and the Council of Ministers of the former USSR of June 1, 1978, "On Improving the Procedure for Compensation for Losses of State Farms and Other State Agricultural Business Entities from Natural Disasters and Other Adverse Conditions" introduced mandatory state insurance for state farms. It was introduced on the same terms and conditions as those applied to collective farms. In the following years, insurance was extended to agricultural enterprises of other ministries and departments, which were later merged into the system of the former USSR's State Agricultural Committee. The

composition of the property subject to compulsory insurance in collective and state farms and other agricultural businesses was extremely diverse [11].

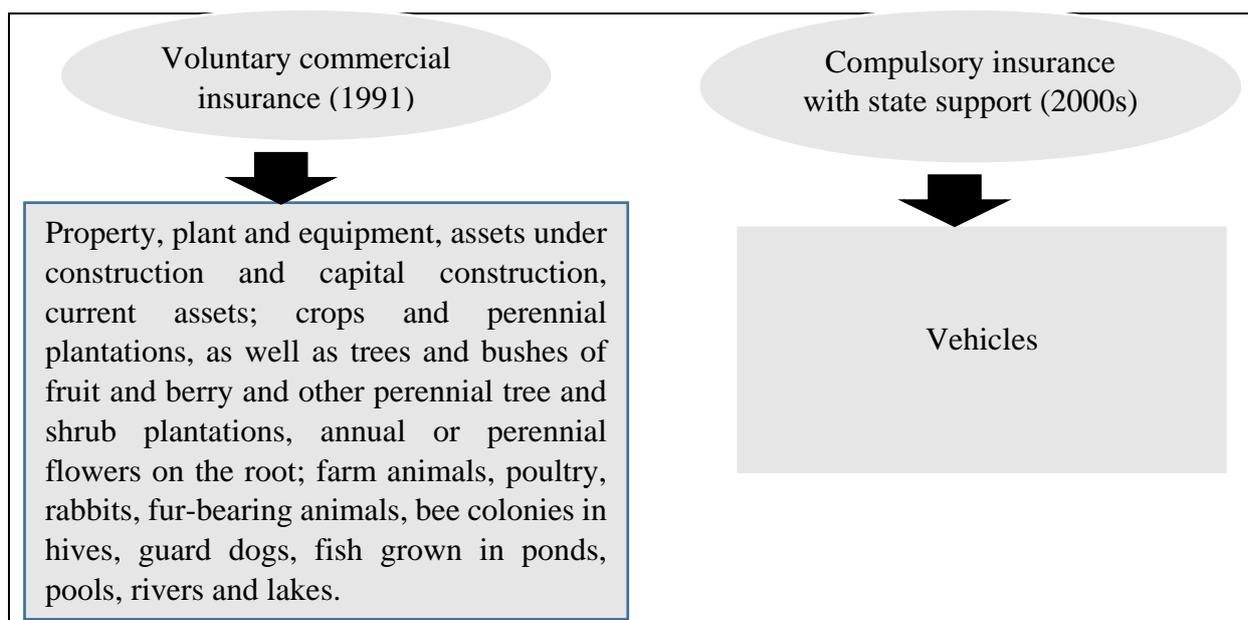
The most important change in the technology of crop insurance was the expansion of the list of insurance risks covered by the insurance. They included almost all unfavorable weather factors that could cause damage to agriculture. In other words, there was a transition to mass crop insurance against crop failure. The payment of insurance indemnity was not linked to the occurrence of a natural disaster, but to the decline in yields for each insured crop. Adverse weather conditions ceased to function as an insurance risk and began to play the role of insurable objective circumstances. However, their presence was a prerequisite for the payment of insurance indemnity. Thus, since 1968, crop insurance has been based on a system of insurance coverage that combines elements of the marginal and proportional systems of insurance liability [10]. The insurer's obligation to compensate for losses arose when the harvest decreased compared to the accepted limit (5-year average yield).

The amount of indemnity corresponded to the degree of crop decline, which is typical for proportional coverage. At this stage of the development of insurance relations in agriculture, only quantitative losses from crop decline or death were indemnified, i.e., without taking into account the decline in product quality. For the first time in insurance, compensation to collective farms was introduced for losses caused by natural disasters to fruit and berry and other perennial plantations, such as fruit trees, bushes, and vines. In view of this, the mandatory state form of property insurance of agricultural business entities was the most appropriate for the directive-planned agricultural economy of the Soviet period [13].

The state's monopoly on insurance activities facilitated the use of a uniform procedure and rules of insurance throughout the country, including the degree of insurance coverage, the mechanism of insurance payments, etc. The compulsory state form of insurance was convenient for all participants in terms of organizing the insurance process and operated continuously and stably.

In 1988, the Verkhovna Rada of the former USSR adopted a resolution "On the Procedure for Enactment of the USSR Law on Cooperation in the USSR". In accordance with this document, starting from January 1, 1991, property insurance of agricultural business entities and farms was made voluntary. In accordance with the Law of Ukraine "Priority Socio-Cultural and Economic Development of Rural Areas and the Agro-Industrial Complex", since 1993, agricultural business entities and tenants have been insuring their property on a voluntary basis. This year, for the first time, voluntary crop insurance was introduced. State compulsory insurance of collective and state farms ceased to exist (Figure 3).

Thus, since 1991, the agricultural insurance sector has undergone fundamental changes. First, the state monopoly of insurance activities was abolished. However, the principles of the mandatory insurance system that had been in place for decades did not disappear with the introduction of voluntary insurance. Most of the principles of compulsory agricultural insurance during the period of national economic reform were actually implemented, with some modifications, in the form of voluntary insurance covering specific types of property of agricultural enterprises.



**Fig. 3. Forms and types of property insurance of agricultural enterprises at the current stage of development of the insurance system**

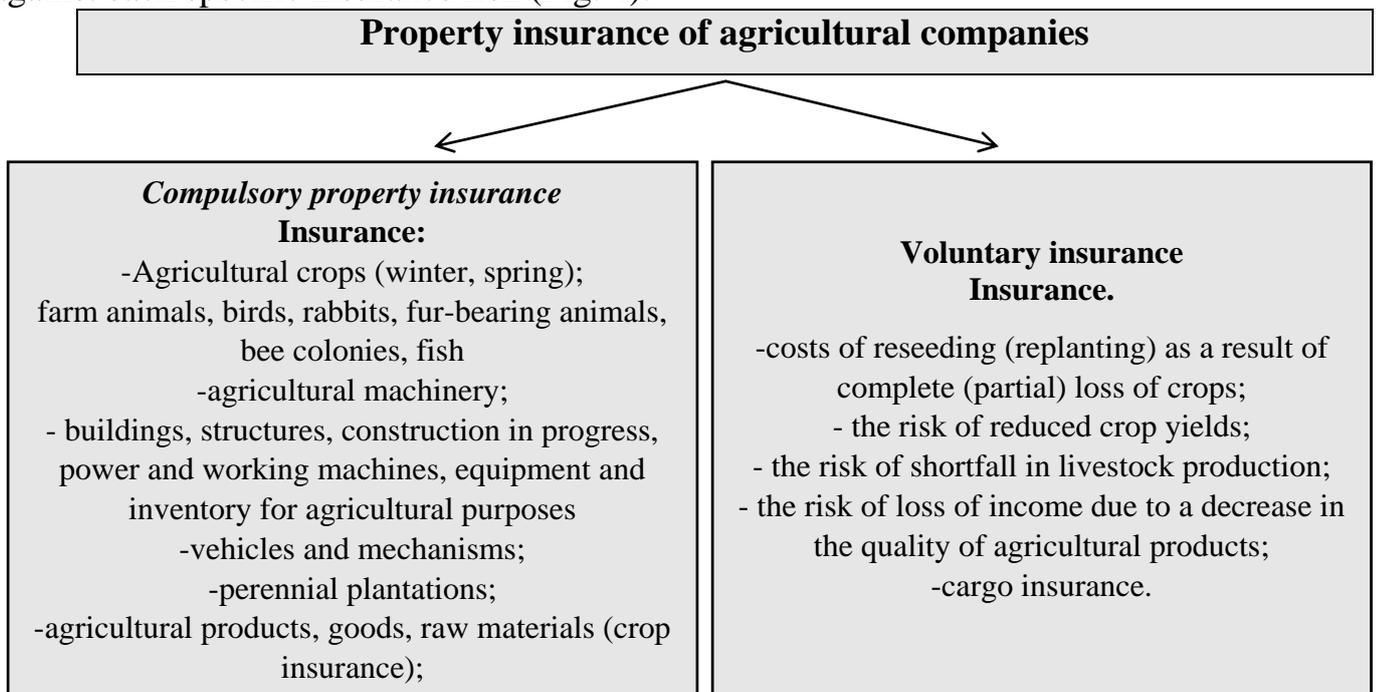
It should be noted that the new conditions for voluntary insurance of agricultural entities included the main provisions of the compulsory state insurance in force during the Soviet era. It should be noted that the management of the insurance companies attempted to make these insurance conditions attractive to agricultural producers, but for objective reasons there was no demand for them. Voluntary insurance of agricultural risks quickly became expensive (the cost of insurance services skyrocketed 1.5–2 times, with premiums reaching 10–15 % of the insurance value). Considering the continuous decline of agricultural production during the period of development of the agricultural economic relations system and the crisis of solvency and financial stability of agricultural enterprises and farms, most of them did not have the funds to pay the premiums for voluntary insurance. According to the current law, insurance premiums were to be paid at the expense of the profits of agricultural enterprises, most of which were unprofitable. At the same time, because of the low insurance culture of many agricultural enterprises, voluntary property insurance policies were often not concluded. These factors meant that farms hit by natural disasters were often on the verge of bankruptcy. Thus, the terms and conditions of the voluntary property insurance policies for farm operators, which had been in place since 1991, did not meet the interests and needs of farm operators. In this respect, voluntary insurance was not properly developed during the formative years of the national agricultural insurance system.

As a rule, domestic insurance companies prefer to implement decades-old methodological approaches that contradict current global trends, but which have been proven in practice, rather than take on unfamiliar risks. This leads to dissatisfaction of potential insurers with the quality of services provided and, as a result, distrust of the domestic insurance system. Hence, there is a need to develop new approaches to the organization of insurance activities, which would be a kind of synthesis of the best

traditions of domestic insurance and progressive trends in the global insurance market. Despite the variety of existing insurance products for agricultural business entities on the domestic insurance market, it should be noted that today a large number of risks in the agricultural sector of the economy remain uninsured. So far, in the domestic insurance practice, agricultural insurance has been considered only as a tool for managing weather risks and risks of damage or destruction of property. Many risks remain uninsured, such as: the risk of damage to crops; the risk of reduced yields; the risk of bird flu; the risk of damage to cargo due to temperature; the risk of damage to cargo by worms, rodents and insects; the risk of lower purchase prices due to deterioration in the quality of agricultural products; the risk of additional costs for reseeded (reseeded) due to complete (partial) destruction of crops; the risk of shortfall in livestock production; – the risk of loss (shortfall) [12].

Also, as of today, there is no type of insurance in the domestic insurance practice that would help to relieve agricultural producers from business risk (the risk of unforeseen losses and loss (shortfall) of income). In our opinion, in order to form a new comprehensive system of property insurance for agricultural business entities, it is necessary to study the needs of all agricultural producers and offer specific types of insurance products that will be more attractive to most of them.

The analysis of the production activities of a typical agricultural business entity makes it possible to identify the following main business processes that could receive insurance coverage: growing crops; keeping livestock and poultry; maintenance of agricultural machinery and technological equipment; storage and transportation of agricultural products [14]. According to the previous information, we have developed a classification of types of property insurance for agricultural business entities, according to which a different insurance product will be offered as insurance coverage against each specific insurance risk (Fig. 4).



**Fig. 4. Proposed classification of types of non-life insurance for agricultural corporations**

Thus, an important direction for improving the system of property insurance of agricultural business entities should be the development of new more advanced insurance products on the basis of compulsory insurance of property of agricultural business entities of all organizational and legal forms of management. In our opinion, the insurance terms should be supplemented by the principle of compensation for additional (indirect) losses arising from the occurrence of an insured event in respect of a particular type of property, which will provide more comprehensive insurance coverage for agricultural business entities.

**Conclusions.** To ensure high-quality insurance coverage of agricultural production, we believe that it is advisable to combine compulsory and voluntary forms of agricultural insurance. In the next 5-10 years, compulsory agricultural insurance should be a priority, as participation of all farms in the formation of the insurance fund will help maintain minimum tariff rates. Of course, along with compulsory insurance, it is necessary to provide insurance on a voluntary basis so that agricultural enterprises and farms can obtain insurance coverage for their agricultural production in a larger volume and for a wider range of insurance risks.

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### **Annotation**

***Bechko P.K., Nepochatenko O.A., Lysa N.V., Ponomarenko O.V., Trushevskiy O.O. Property insurance of agricultural business in the context of historical development***

*The agrarian sector is a key, vital and the most risky sector due to its specific reproduction process, which is closely related to natural, climatic and biological conditions. The protection of property of agricultural business entities is one of the priority tasks of state policy, which can ensure the country's food security and the functioning of economic entities on a self-financing and self-sufficiency basis.*

*The study of the history of property insurance of agrarians is an important methodological approach to its improvement in order to summarize both positive and negative aspects of this process and, on this basis, to develop methodological approaches for their adaptation to modern insurance practice. Researching the historical development of property insurance for agricultural businesses can provide insights into the evolution of insurance products and practices in the agricultural sector. It can help identify key milestones, changes in coverage, and the emergence of new risk management strategies.*

*The property coverage of agricultural business entities is one of the priority tasks of the State policy which can ensure food security of the country and the functioning of economic entities on the basis of self-financing and self-sufficiency. Agricultural businesses are exposed to a variety of risks, including natural disasters, extreme weather, pests, and market fluctuations. These risks can cause significant property damage, crop loss, livestock deaths, and economic hardship for farmers. Property insurance provides a financial safety net to help farmers recover from these risks and maintain their operations.*

*The article examines the history of agricultural property insurance and reveals that the main components of the insurance protection system have been repeatedly transformed under the influence of changes in the objectives and functions assigned to the insurance mechanism in the field of agricultural production. The author substantiates the scientific provisions and practical recommendations for improving methodological approaches to property agricultural insurance.*

**Key words:** *agricultural insurance, agricultural business, property insurance, compulsory insurance, voluntary insurance, history of insurance*