

## **Problems and countermeasures existing in the operation of the "insurance + futures" mode of agricultural products**

**Yuan He\*, Hui Qiu, YiMing Wang**

College of Finance and Economics, Hebei Normal University of Science & Technology, Hebei, 066000, China

\*Corresponding author: 1638467372@qq.com

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**Abstract:** With the development and progress of the society, the trading mode of agricultural products in China has changed greatly. At present, the development mode of "insurance + futures" has appeared and applied. That is, through agricultural product price insurance and agricultural product futures and other methods to disperse risks, so as to stabilize and increase the income of agricultural producers. However, in the process of operation, the agricultural product futures market system is not perfect, the insufficient cognition of farmers, the need to make the subsidy support policy clear and the risk dispersion mechanism is still not perfect. Based on this paper puts forward countermeasures and suggestions to further promote and improve the operation of agricultural products "insurance + futures" mode in China

### **1. Introduction**

As a traditional big agricultural country, China must solve the natural risks and market risks faced in agricultural production to develop agriculture. However, in reality, farmers cannot effectively analyze the market price information, so they will encounter the losses caused by the risks caused by the market price changes. The emergence of insurance has effectively alleviated part of the risk, and since then, the "insurance + futures" way has gradually emerged. It is also the innovative [2] of agricultural products trading mode in the way of "insurance + futures", which not only makes farmers acceptable, but also provides guarantee and support for their own income. Similarly, other participants can also obtain income.

### **2. A problem existing in the operation of the "insurance + futures" mode of agricultural products**

#### **2.1 The agricultural product futures market system is not sound**

As China started to develop the agricultural products futures market relatively late, so it is relatively backward in the organization degree of agricultural products, and the construction of the agricultural products spot market system is also lagging behind. resulting in the resource allocation efficiency of agricultural products futures market is also greatly reduced. It is mainly reflected in the lack of order in the agricultural product futures in the process of building the agricultural product futures market system, the lack of spontaneity in the trading system arrangement, and the lack of unity in the process of policy supporting facilities. Until 2019, China's agricultural futures types reached 23 [3], the lack of agricultural futures varieties and many agricultural products cannot participate in the agricultural futures market trading problem is still prominent, which is not conducive to the realization of the price discovery and risk transfer function in the agricultural futures market.

#### **2.2 Farmers' lack of cognition**

Farmers culture level generally in the middle and high school level, for agricultural products futures options and other emerging financial tools do not understand, the lack of futures market and price

insurance, it is difficult to have a comprehensive understanding of "insurance + futures" mode, some concerns make farmers difficult to participate in such a development mode. As a result, farmers take the initiative to participate in the "insurance + futures" project is not high. At the same time, most farmers have a mentality of fluke, they feel that the possibility of risk is not high, which virtually increases the difficulty of promoting price insurance projects. Therefore, the relevant risks still exist, and the actual development and business model has not been improved. In order for the "insurance + futures" mode to continue to implement and expand the scope of the pilot project, it needs to be recognized by farmers, and farmers need to improve their risk awareness and understand the risk guarantee function of this mode.

### **2.3 Subsidy support policies still need to be clear**

In recent years, the state financial funds' support for "agriculture, rural areas and farmers" has been continuously increased. In addition, the pilot scope of "insurance + futures" has been continuously expanded to support the implementation of agricultural product price insurance. Although the "insurance + futures" model is advocated by the government in the No.1 central document, the state does not specify the financial subsidy [1] policy for the project. The premium of agricultural price insurance is relatively high than for farmers, and the state has no specific financial subsidy policy. Undoubtedly, it reduces the enthusiasm of farmers to use the futures market to avoid price risk, resulting in the agricultural futures market cannot fully give full play to its function [3]. At the same time, after futures companies obtain financial support from the "insurance + futures" project subsidy to help farmers pay the insurance expenses, this behavior cannot obtain tax exemption. Therefore, the "insurance + futures" project subsidy provided by exchanges and local governments cannot be used with the maximum efficiency.

### **2.4 The risk dispersion system is imperfect**

Because the current China's agricultural product futures market is not mature enough, the corresponding agricultural product futures information is not perfect enough, which may cause the obtained futures price is not reasonable enough, thus affecting the operation effect of the "insurance + futures" mode. If the insurance company uses the futures market to transfer its own risks, if the operation mistakes, leverage effect or the price of the futures in the futures market, which will cause great losses to the insurance company. If an insurance company buys the corresponding futures put option through the futures company and lets the futures company bear the risk of operational error, the smaller futures company may suffer losses due being unable to pay the exercise funds of the insurance company. Due to the "insurance + futures" mode need insurance companies to provide design insurance rates, but also need futures companies for hedging operation, and our country insurance business and futures business respectively by the silver circ and CSRC, they do not have a unified regulatory system, it may be insider trading.

## **3. Countermeasures and suggestions in the operation of the "insurance + futures" mode of agricultural products**

### **3.1 We will improve the agricultural products futures market system**

As a financial tool for the government to implement agricultural insurance, the agricultural product futures market is effective to deal with the frequent fluctuations of agricultural product prices through the agricultural product futures market. So perfect a set of standard trading system is very important, but also to have a unified policy and perfect agricultural futures varieties, let more agricultural products involved in agricultural futures trading, to ensure the stability of the process of the agricultural futures market system construction, the agricultural futures market risk transfer function can disperse and transfer agricultural price risk [3], at the same time stable agricultural price and supply and demand relationship is realized through the price discovery function. This has effectively reduced agricultural risk.

### **3.2 Improve the cognition and awareness of farmers**

Improve the awareness and awareness is one of the "insurance + futures" mode smooth promotion of important factors, first should solve the farmers' understanding of target price insurance and lack of risk awareness, this requires insurance companies, futures companies and local government agencies into the rural grassroots for farmers regular "insurance + futures" knowledge. Secondly, the three parties need to strengthen their own cognition of the operation mechanism of the "insurance + futures" mode, and master the operation process of the "insurance + futures" mode, and accelerate the training of talents who have a certain understanding of the "insurance + futures" mode. Finally, it is necessary to strengthen the training of farmers, have a deeper understanding and understanding of the "insurance + futures" mode, and explain the "insurance + futures" mode to farmers to guarantee the income of agricultural products, so as to improve their recognition of the "insurance + futures" mode. Farmers can understand the "insurance + futures" model of agricultural products and actively participate in the "insurance + futures" project to protect their own income, so as to improve the awareness of modern agricultural development of farmers, and gradually promote the scale of agricultural development.

### **3.3 We will improve and stabilize fiscal support policies**

The continuous expansion of the "insurance + futures" model needs financial support from the state. It is suggested that the relevant state departments should incorporate "insurance + futures" into the policy-based insurance system. On the one hand, it is necessary to include the cost of farmers purchasing agricultural product price insurance into the scope of financial subsidies. It is suggested that government financial subsidies and local financial subsidies help farmers solve 80% of the premium, and the rest is borne by farmers themselves, so as to reduce the high premium borne by farmers. Improve the enthusiasm of farmers to use the futures market to avoid price risks, and gradually form a sustainable development mode of financial subsidies and farmers' insurance. On the other hand, the government needs to give participation in the "insurance + futures" project of insurance companies and futures companies a certain proportion of financial support, reduce the "insurance + futures" mode of insurance companies and futures company cost, the country should use futures companies in the "insurance + futures" project of financial subsidies into tax-free projects, improve the enthusiasm of insurance companies and futures companies to participate in the "insurance + futures" mode. Through the national financial policy, we will enhance the enthusiasm of cotton farmers, insurance companies and futures companies to participate in the "insurance + futures" mode, so that the "insurance + futures" mode can be extended and continuously operated on a large scale.

### **3.4 Establish a risk dispersion system**

In order to make the operation of the "insurance + futures" mode more stable, the futures market needs to provide more reasonable futures prices, which requires a more mature futures market and a reasonable price discovery mechanism. Therefore, the domestic futures market not only needs to improve the trading rules of agricultural products futures and agricultural products futures and option contracts, but also needs to change the market structure of the agricultural products futures market with small and medium-sized retail investors as the market investment subjects, and develop institutional investors into the investment subjects in the futures market to improve the activity of futures trading. In addition, the hedging mechanism of the futures market undertakes the reinsurance function of insurance companies. Insurance companies and futures companies learn and cooperate with each other to ensure the smooth operation of the "insurance + futures" project, and to avoid problems such as operation errors and information asymmetry when insurance companies connect with futures companies. A regulatory system specifically for the "insurance + futures" mode and a risk barrier mechanism between the insurance market and the futures market should be established, so as to avoid the threat of futures risk to the insurance system. At the same time, the operation of the "insurance + futures" pilot can also be supervised in real time to restrict the occurrence of moral risks in the three parties.

#### **4. Conclusion**

"Insurance + futures" is based on the basis of agricultural insurance financial innovation, the agricultural futures market into insurance chain, activate the futures market price discovery and risk transfer function, for insurance companies, the model can make farmers effectively avoid the risk of agricultural price fluctuations, also can effectively guarantee farmers grow agricultural products, get more security and support, especially the risk transfer and avoidance, and farmers' income. While promoting the large-scale production of agricultural products, it can also better meet the modernization development of agricultural economy. Therefore, the "insurance + futures" mode is a financial innovation model conducive to agricultural development.

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