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THE ROLE OF INSURANCE IN SUSTAINABLE FISHERIES
DEVELOPMENT IN FINLAND

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Abstract

Blessed both with extensive coastal and archipelagic waters and a rich abundance of lakes, Finland has traditionally relied upon fisheries as a source of high quality food. Recently aquaculture has expanded rapidly and now exceeds in value terms the output from coastal and inland capture fisheries. Sports and recreational fisheries are also of growing importance, not least as part of the tourism industry. The fishery sector now faces the risks and problems associated not only with the effects of long existing climatic conditions and the impact of recent economic recession but also with the special issues emerging from the structural and policy adjustments necessitated by membership of the European Union. Presently, coverage of the risks involved in fisheries and aquaculture is arranged primarily through fishermen's mutual insurance associations which are supported by substantial government financial backing. The paper examines in detail the characteristics of these insurance associations, the nature of the government support and the categories of risk and damage covered and indemnities paid. The additional support provided to fishermen through pricing mechanisms and subsidies, low interest rates and unemployment security are also described. The author notes that, notwithstanding these developments, only half of the fishermen are covered by association insurance schemes which tend to be too expensive for those smaller fishermen who earn only a part of their income from fishing. Moreover, minimum unemployment benefits are limited compared with those paid to most other self-employed persons. The need to tackle these issues and integrate with EU policies and practices is likely to induce considerable changes in the nature and scope of fisheries insurance arrangements in Finland.

FISHERMEN'S AND AQUACULTURALISTS' RISKS IN FINLAND

Due to Finland's geographical position in the Northern hemisphere, partly within the polar circle, the risks in professional fishing and aquaculture, as in many other occupations, are aggravated by the harsh climatical conditions during the winter and stormy seasons. Professional fishermen, aquaculturalists and the sports and hobby fishermen alike face many types of risks against which advance insurance coverage is desirable if not necessary.

In table I the types, scope and the nature of such risks are classified		
Types of risks	Scope of risks	Source of information
Economic	Assets structure Debts structure	Statistic and empirical
Fish stocks	Variations in the fish stock	Statistic. & empirical
Regulation	Scope: local, national, regional eg. EU-fisheries policy	Statistic. & empirical
Marketing	Regulations in fish marketing and trading, fish price, VAT etc.	Statistic. & empirical
Work safety	Accidents, prof. illnesses	Empirical
Social security	Unemployment allow. Sick leave compensate. Social safety nets	Empirical

This paper is organized in such a way that first there is an introductory section which describes the fishing and aquaculture sectors' importance and their roles in the Finnish economy, in particular the features which are important from the point of view of insurance coverage. Thereafter, the paper describes the nature, main features and scope of insurance schemes and underwriters operational in the country.

As to the *economic risks* they were, and still are, reduced to a certain extent for the Finnish professional fishermen and aquaculturalists by Governmental legislative arrangements for long-term loans (10 to 20 years repayment) on low interest rates for capital investments.

These loans are usually channelled through financial institutions. The investments may be in vessels, cultivation plants, equipment and improvements therein. Normally the property (such as fishing vessels/boats and gears) whose purchase is financed through these loans, are mortgaged to the lending financial institutions as the security for these loans. There is a special clause in the Finnish legislation on vessel mortgaging as security for a loan.

Secondly, guarantees for a minimum price level by means of marketing, transport costs from high producing to low producing areas and coverage of storage costs has been provided from budgetary funds. However, these arrangements conflict with the free market principles embodied in the EU directives and in the international pacts based on them.

The major and more comprehensive *economic risk* coverage for Finnish fishermen has been, and still is, through the six operational fishermen's insurance associations' underwriting and through private insurance companies' underwriting for aquaculture in the mainland and for both fishermen and aquaculturalists in the autonomous island of Aaland.

As far as *marketing risks* are concerned, free market principles of the international trading pacts on the one hand and the structural adjustments in exploitation of the stocks on the other are claimed to mitigate the economical risks of the fishermen and aquaculturalists.

This paper considers the changes needed in the *national regulatory framework* in order to eliminate the distorting elements in the free market mechanism and which are said to be against the European Union policy and other international trade agreements, particularly the GATT Uruguay Round.

As far as the coastal and inland capture *fish stocks* are concerned, it is claimed that the conservation of coastal fish stocks is maintained through replantations of up to 90 percent. A great deal of replantation of the fish stock also takes place in inland waters.

As far as *work safety* is concerned, there are no specific arrangements for fishermen or aquaculturalists in this risk area except the Government sponsored sick leave and old age pension schemes. Private insurance companies underwrite risks of this type at commercial rates which may be too expensive for small fishermen and aquaculturalists.

Finally, as regards *social security*, this paper highlights the absence of arrangements for unemployment compensation in Finland in contrast to Sweden where such a scheme has been operational since 1963 through a fishermen's unemployment providence fund.

FISHING IN THE FINNISH ECONOMY

It should be noted that in addition to numbers of "professional" fishermen in Finland there are some 380,000 persons who can be classified as sports fishermen and another estimated 2.4 million people who fish for recreation purposes only.

There are also many people engaged in fishing-related industries and trade, such as fishing vessel and boat construction and maintenance, fishing equipment, gears, nets, etc and transport, cooling, deep-freezing, fish processing and marketing, equipment manufacturing and service industries.

Out of the total capture fisheries catch, only some 27,000 metric tons went for human nutrition. The remaining 57,000 metric tons was used mainly for animal feed. Finland imports nearly fifteen times more fish and fish-based products for human consumption than what is exported. The total imports are about 32,000 metric tons and exports slightly over 2,000 metric tons. The bulk of the imports are from Norway.

The total number of species in commercial fish marketing and consumption in Finland is only about twenty while the total number of fish species in the waters is 64, which is relatively low compared with many other fishing waters.

AQUACULTURE

There are about 900 aquaculture production units in Finland producing mainly rainbow trout. The production takes place both in the inland freshwater raceway installations and the marine net installations (mainly salmon).

The total annual production for human consumption is between 17,000 to 18,000 metric tons representing a monetary value of US\$88 million while the total processed value of aquaculture products is some US\$122 million. The total monetary value of fingerlings produced for replantation in fish cultivation in 1993 was around US\$22 million.

Nearly all aquaculture production goes for domestic consumption with some minor exceptions, such as fresh rainbow trout eggs for human consumption which are exported, mainly to Japan. More recently, fresh fish and fish-based products exports for human consumption to Russia have been encouraging.

The total returns from aquaculture has become increasingly more important than the commercial capture fishing in Finland and is relatively high in comparison with the other EU member countries.

Governmental support has been granted mainly in terms of start-up capital and long-term loans with low-interest rates and grants for investments representing an annual monetary value of US\$6.6 million.

FISHING VESSELS AND BOATS

In 1994 the total number of registered fishing vessels and boats over 8.5 metres long on the mainland was some 530. Around 2,200 smaller boats are estimated to be used in professional fishing activities in the coastal and inland waters. Additionally, some 170 fishing vessels and boats were registered in the autonomous island of Aaland, making the total number of vessels and boats 2900.

It should be noted that only vessels over ten metres long can be insured through the fishermen's mutual insurance associations. The number of such vessels is apparently under 500.

FISHERMEN "MUTUAL" INSURANCE ASSOCIATIONS

The overall and systematic development of fishing as an occupation started in Finland in the 1920s and led first to the establishment of field-level fisheries extension services. In this process insurance against the risks involved had to be taken into consideration. First, fishermen debated the issues involved among themselves and after having reached a consensus, approached the Government authorities. They submitted a request for a reasonable coverage by the Government of the risks involved. The authorities responded favorably to the fishermen's request. This dialogue led to the creation of a system built upon Governmental support to cover a greater deal of the risks in such a risky occupation as fishing under extremely erratic climatic conditions.

From the beginning the risk coverage through commercial insurance arrangements proved to be far too expensive for small fishermen to bear on their own. These developments paved the way for the establishment of the first few fishermen's regional "mutual" insurance associations in the coastal areas.

In the 1950s, coastal fishermen changed to trawl fishing which meant more sophisticated fishing methods and equipment. Such improvements in the fishing technology were naturally more expensive and when casualties did occur, became more costly to recover. At that time, depth finders and fish-finding equipment were not common on fishing vessels/boats in the coastal waters of Finland. The introduction of such equipment reduces risks on one hand but increases the cost of vessels leading to larger claims when casualties occur.

During subsequent decades, however, the technological development was such that the fishermen, even the smaller ones, were obliged to make ever larger investments in their vessels and gear in order to survive in the industry. Such higher investments called for better risk coverage which was naturally more expensive.

Consequently, continued Governmental support was needed for the risk coverage through the fishermen's insurance associations, which number up to six in the mainland coastal areas. The fishermen's risk coverage is taken care of in the autonomous island of Aaland by a private insurance company along the same principles as the associations on the mainland.

Both categories of organization cover the risks of "professional" fishermen in territorial coastal waters and outside, and also in principle, in inland waters. The latter type of coverage has not, however, been undertaken to any significant extent despite the desirability of doing so. Although it may be stipulated in the terms and conditions of the insurance policy or by-laws of the association that risk coverage is also valid in the inland waters of the country, risk coverage has so far been restricted to the territorial and outside coastal waters only.

Following Finland's membership in the European Union at the beginning of 1995, the Government was obliged to conform with EU directive No 3699/93 on common policy for fishing and fish processing and marketing. Finland has sought the Commission's approval for continued Governmental support for risk coverage of fishermen through their insurance associations. The EU Commission has reportedly given its approval in the matter and permitted the risk coverage support to continue conditionally, operating under the same rules as it has in the past.

It should be noted, however, that there is a great number of other sets of legislation which regulate the fishing sector and occupation in Finland which is yet to be revised and amended so that they would correspond to the EU policy rulings, guidelines and directives in the sector.

Under the fisheries insurance associations law (331/58) and the respective decrees which have been amended several times, so called "professional" fishermen can get their fishing vessels and boats of more than 10 metres together with their fishing equipment insured through their regional fishermen's "mutual" association which they have to join.

The scope and nature of the associations' activities is illustrated in Table No 1 below.						
Name of Assoc.	No of Insurers	No of Insurance	Ins. Portfol. US\$ 000	No of damages	Indemn. US\$ 000	Govt. Cover
S. Finland	98	98	5,617	31	51	37
Nyland	116	405	7,204	65	190	146
Aabol.	119	1,308	10,252	65	261	206
Satak.	163	163	14,884	640	715	483
Oesterbott.	236	1,206	17,358	348	891	569
N. Finland	191	191	12,550	405	570	361
Total 1994	992	3,371	67,863	1,554	2,679	1,802
Total 1993		3,476	68,285	1,430	1,956	1,233
Aaland 1994	131		7,408	93	265	198

GOVERNMENT SUPPORT

One of the conditions for obtaining Governmental support is that the fishermen's associations have to apply in advance for approval of the general terms and conditions of the insurance and have their by-laws approved by the Ministry for Agriculture and Forestry (MOAF). The MOAF requests comments from the Insurance Department of the Ministry for Social Affairs and Health on the application before approving or rejecting the application.

The associations receive Governmental support annually in such a way that half of the indemnities which were paid by the associations during the first six months of the year are compensated to the associations by the MOAF after 1 July. The remainder of the support is refunded after the associations' audited accounts have been presented to the MOAF. The associations have to apply for the compensation from the MOAF with a detailed specification of the indemnities paid together with a specification of the damages covered.

In 1994 the Government support covered 67 percent of the total indemnities which amounted to FIM 12.8 million (equivalent to US\$2.6 million). The MOAF refinanced indemnities paid by the associations amounting to FIM 8.1 million (US\$1.8 million). The associations' share of the indemnities was about 20 percent. The remainder, about 13 percent of total indemnities amounting to FIM 1.6 million (US\$0.4

million) was paid by the fishermen themselves, a figure some experts believe to be too high.

In addition to the annual Governmental support to cover the indemnities paid by the associations to their members, the associations received capital support annually which is kept in a separate account and appears as liabilities on the accounts of the associations.

The annual appropriation for the capital support is at the level of 0.5 percent of the associations' insurance portfolio of the items insured during the previous year and continues annually until the total Government support to the fund reaches three percent of the associations' portfolio. Replenishment is automatic up to that level.

The association is authorized to use the accrued interest of the Government-supported fund for its operational expenses.

An association terminating its insurance operations must repay support funds received from the Government.

The insurance associations are also exempted from the state and communal taxes on their income and assets as well as stamp duty on their insurance business transactions.

Due to the fact that the insurance premiums charged by the commercial insurance companies are high, continued Governmental support is considered to be vital to maintain the fishing population in their occupation in the territorial waters of Finland, in the Baltic Sea and elsewhere. The trawl fishing in particular is hazardous in the coastal areas of Finland because the bottom of the sea is very uneven and rocky, resulting in considerable damage to fishing gear.

THE NATURE OF THE DAMAGES AND INDEMNITIES PAID

The most common damage claims paid in 1992 are those shown in the following table. The highest percentage of claims were for nets and lines (31% by value), followed by boats and vessels (29%), trawls (23%), fishtraps (15%) and other equipment (2%). Thus claims for gear (nets, lines and trawls) constituted more than half of the total value of claims.

Insured objects	Damages No	Indemnities paid Thousands US\$	Percent of all damages
Vessels & boats	234	592	29.0%
Trawls	220	474	23.3%
Nets and lines	718	624	30.6%
Fishtraps	238	313	15.4%
Other equipment	56	35	1.7%
Total	1,466	2,038	100.0%

Note: Based on annual reports of the associations for 1992.

CHARACTERISTICS OF INSURANCE THROUGH FISHERMEN'S INSURANCE ASSOCIATIONS

Only people who belong to the fishing population or comparable to the fishing population, and the

groups formed by such people can be insured through the fishermen's insurance associations.

A person is considered to belong to the fishing population, hereinafter referred to as "professional" fishermen, if his/her primary income or essential part thereof comes from fishing activity. Presently the minimum part of the income from fishing will have to be at least 20 percent of total income and as from 1 January 1997, at least 30 percent.

One of the conditions for fishermen's associations providing coverage is that the equipment covered must be solid and in good working order. In order to be covered, fishing vessels or boats must be over 10 metres long. The insurer must present an inspection certificate on the sea-worthiness of the vessel/boat issued by an officially authorized inspector.

If the applicant of the insurance has lost his/her right to be insured on the grounds which are stipulated in the by-laws of the association or in the insurance policy or on the grounds of any other terms and conditions of the association's business, the association can decline to provide coverage.

The insurance association's terms and conditions stipulate that the insurer has to insure all his/her equipment and trapping tackle etc. belonging to a specified category and that such insurance objects have to be insured at their full value at the time when the insurance is applied for.

RISK COVERAGE

Insurance coverage normally continues from one year to the next at the same premium and all other conditions unless one of the two parties concerned has given notice for its termination prior to 15th of December or if not otherwise stipulated in the terms and conditions of the insurance policy or elsewhere. If payment of the insurance premium for the following year is not made prior to the end of the insurance period for which coverage is bound, the responsibility of the association terminates without notice at year's end. Furthermore, the maximum total period for which coverage is bound cannot exceed ten years.

Insurable Objects:

- a) The actual fish trapping tackles such as:
 - woven trapping tackles;
 - salmon trawl lines, traps and anchors;
 - ropes and other attachable accessories.
- b) Fishing vessels and boats
- c) Means of transport and transport equipment used for fishing on ice and winter fishing, fishing huts, and floating and drawing equipment of seine nets.
- d) Vessels, boats and equipment used in sealing, excluding rifles and binoculars.

Insurance Premiums

It should be noted that the insurance associations whose area of operation covers the more Northern areas of the country where the risks are greater due to climatic and ice conditions, naturally have to charge higher premiums.

The following premiums were valid in 1994 for the Satakunta Fishermen's Association which operates in the central region in Western Finland:

Fishing vessels over 10 metres long	1.00%	
- bonus I		0.80%
- bonus II		0.65%
- bonus III		0.50%

The premium percentage on the equipment of the vessel/boat is 50% except on depth sounders, sounders with sonar, radios, sounders for trawls, equipment definition of

location etc.	0.50%
Damages on these equipment do not result in any increase in the premiums.	
Fishing boats less than 10 metres long and their motors	0.50%
Fishing equipment in the coastal fisheries:	
- Salmon and whitefish fishtraps	4.00%
- Herring and whitefish/lavaret trapping tackles	2.70%
- Herring fishing nets	3.00%
- Other fishing equipment	2.20%
- Gears for salmon fishing	2.70%
- Trawls	4.00%
- Nets for cod fishing	3.70%
- Salmon and cod fishing hooks	3.20%
Equipment for winter fishing, floating and drawing seine nets, tractors, motor slides etc.	0.80%
Warehouse insurance	0.70%

The highest premiums are charged for equipment used in coastal fishing due to the high risk of damage or loss caused by the roughness of the bottom along the Finnish coast.

Protection Guidelines

The insurer normally reserves a right to give protection guidelines for prevention or limitation of unnecessary risks and damages.

The following guidelines are normally written in the fishermen's insurance policy.

1. The uninsured trapping tackles may not be used together with the insured ones.
2. While fishing with woven trapping tackles and fishtraps, the ropes used even temporarily will have to be insurable ones.
3. In fishing and sailing for fishing the prevailing pertinent laws, orders, decrees and regulations for sailing should be observed.
4. The fishing vessel/boat used for winter fishing is to be inspected for that purpose by an authorized inspector.
5. While fishing during the season, when the ice starts weakening and melting, special caution and care should be exercised.
6. Where there is danger of fishing equipment being frozen in, its removal before this happens is required.
7. In using the fishing vessels and boats, the specific rules and regulations for their use should be observed.

The Association's Insurance Risk Coverage

Usually the association's risk coverage is 75 per cent of the monetary value of the damage, if not otherwise stipulated in the law or insurance policy. Where the insurance value is smaller than the refundable monetary value of the damage, in other words, there is the question of underinsurance, the association's risk coverage is 75 per cent of the ratio between the value insured and the refundable monetary value of the damage. The insurer himself is responsible for the rest value of the damage. In case the individual value of the damage in a vessel/boat or fishing equipment is more than US\$660 the insurance coverage is 95 per cent.

Other Preconditions for Payment of Indemnities

The insurance association must arrange for an inquiry and determination of the indemnities preferably within 14 days from the date when a notice on the damage was made.