

# Insurance sector beset with its own problems

TV Jayan | Updated on November 19, 2019 Published on November 19, 2019

0



Undoubtedly 2019 will be a testing year for Pradhan Mantri Fasal Bima Yojana (PMFBY), the flagship crop insurance scheme launched by Narendra Modi-led NDA government in 2016. After a run of three relatively good years, insurance firms are staring at a bad year — in fact, a situation where claims can far exceed premiums collected.

The heavy rains in the last leg of the monsoon season were extremely unkind, leading to floods, particularly in the central and western parts of the country, resulting in huge crop losses. Many kharif crops in Gujarat, Maharashtra and Madhya Pradesh suffered massive losses. “A month back we had been expecting a profitable situation, but it has all gone now,” says Rajeshwari Singh, GM, State-owned Agricultural Insurance Corporation of India, which accounts for nearly half of the PMFBY pie.

Insurance firms that operate clusters in these States are particularly hit hard. With the increasing frequency of weather events such as droughts, floods and hailstorms, crop insurance is no longer a profitable venture, says an industry

insider.

A public-private partnership scheme, PMFBY was rather different from the crop insurance schemes that India had gone for in the past. Under the scheme, a farmer has to pay only 1.5 to 5 per cent of policy amount as premium, with the State and Central governments equally sharing the rest. As per cent provisional figures released by the government, in 2018-19, the total premium collected was ₹29,035 crore, with farmers contributing ₹4,889 crore. As many as 5.64 crore enrolled for the scheme, covering the gross cropped area of 30 per cent. According to a senior government official, in the 2019 kharif season, the number of farmers enrolling for PMFBY is expected to be 3.7 crore, a sizeable number of them non-loanee farmers.

Since its inception, the scheme has had its share of controversies. While a number of farmer organisations argued that it has been designed to benefit private insurance companies, the insurance firms have had their own set of grouses. The farmers have been suspicious of intentions of the private companies and arguing that they have been making a windfall at the behest of farmers. They point out that while gross premium collected in 2016-17 was ₹22,008 crore, the claims payout was ₹16,617 crore and in 2017-18 as against premium collection of ₹25,481 crore, the insurance firms paid out ₹21,705 crore. In 2018-19, they collected ₹29,035 crore and ₹14,246 crore has been paid in claims so far. But

these numbers are not final as there are a large number of outstanding claims, whose payouts are pending mostly because a number of State governments have to pay their share of premium subsidy.

Singh of AIC says the non-receipt of premium subsidy from the State government was a double whammy for the firms. “Only if the State government did, the Centre would release the matching subsidy. We were supposed to get 50 per cent subsidy upfront, but hardly receive the funds in time,” she says, adding that this often delays the claim settlements. In October 2018, the Centre decided to revise PMFBY operational guidelines, bringing in, among other things, a provision to impose penalties on delayed financial translations by any of the stakeholders.

According to Ashish Bhutani, CEO of PMFBY, and Joint Secretary at the Ministry of Agriculture and Farmers’ Welfare, the percentage of farmers enrolled for PMFBY through non-loanee route has gone up from 5 per cent at the inception to a good 42 per cent now.

The compulsory enrolment of all farmers availing crop loans for PMFBY, as is the practice currently in most States barring a few like Maharashtra which has made it voluntary for farmers to decide, has been a sore point among farmers. The Central government has been holding consultations with the State governments to make the scheme voluntary. “Maharashtra is a classic case. The maximum number of non-loanee farmers enrolled for PMFBY was from Maharashtra, where the scheme is voluntary. The farmers still enrolled because of their risk perception,” says an industry insider.

The major pain point of the PMFBY scheme is crop cutting experiments (CCEs). As many as 70 lakh CCEs need to be carried out in a short span of 2 to 3 weeks across the country to assess the crop yield, which is then used to calculate insurance claims. “It is a logistical nightmare,” said Bhutani, while addressing a

seminar at FICCI about two months ago. Disputes relating to not conducting CCEs in a proper manner has been one of the major reasons for inordinate delays in claim settlements.

## Charge of data fudging

Bhutani maintains that local officials often collude with farmers to inform them about the plots chosen for CCEs 50-60 days in advance. The farmers then deliberately avoid taking care of the field, leading to a poor crop. “It is commonly seen that while the plot where CCE is conducted has a poor crop, all surrounding fields are lush green,” he says.

But such fudging of data is not helping anybody. “With the increase in claim payouts, premium rates are going up,” says an agriculture ministry official. There are a number of districts where several crops have a premium rate of around 50 per cent and above. Cotton crop in Porbandar and groundnut in Rajkot in Gujarat and bajra in Barmer district of Rajasthan are examples.

Says Vijoo Krishnan, a farmer leader affiliated to the All India Kisan Sabha: “Farmers in most States are unhappy with the fact that the governments have made PMFBY compulsory for availing crop loans. As a result, they have been forced to take an insurance policy even when they do not want it.”

Farmers’ activist Devinder Sharma argues: “The process of awarding a cluster to an insurance company on the basis of bids does not lead to competition driving down the premium. On the contrary, cartelisation across clusters leads to high premiums even as threshold yields are manipulated.”

The Centre has identified around 40 districts around the country that account for nearly 50 per cent of the total claims in the country. The Centre is exploring the possibility of taking the high premium crops out of PMFBY and putting them under other crop insurance schemes. However, Singh of AIC feels that the high claim rates in these districts are quite explainable as most of these districts fall in arid zones.

*(With inputs from Vishwanath Kulkarni)*

Published on November 19, 2019

agriculture farming

0

COMMENTS

## Fasal Bima, a story of dashed hopes

The Hindu Businessline

## Reinsurance terms, a challenge for the industry

The Hindu Businessline

## Enjoy 1 year of unlimited access to 5000+ Magazines

Magzter |

Sponsored

## Something For Everyone In Thailand

CNN International with Mastercard |

Sponsored

## Radiance Suprema - Homes Starts from 50 Lacs

Radiance Suprema |

Sponsored

## Should you go for cyber insurance ?

The Hindu Businessline

## Delays in Tejas service: For prompt compensation make sure you provide all the relevant details

The Hindu Businessline

## Maharashtra's CM will be from the Shiv Sena, says NCP

The Hindu Businessline

## Chennai's Largest Integrated Township. 65+ Amenities.

SPR Constructions |

Sponsored

## Personal Loans @ 10.99% for Salary Above 25K INR

Paisabazaar.com - India's Top Finance Portal |

Sponsored

## हवा को शुद्ध बनाते हैं ये 5 पौधे, आज ही लाएं घर

Aaj Tak |

Sponsored

## Born between 1960-1975? Term Life Insurance Worth rs.1cr at Rs.2500/month

Term Life Insurance |

Sponsored

## Watch: Aircraft's "Grand Entrance" Through Clouds Is Viral

www.ndtv.com |

Sponsored

## ICICI Lombard, Fino tie up to offer sachet insurance products

The Hindu Businessline

## Karnataka shifting from services to product development: CM Yediyurappa

The Hindu Businessline

## Get Working Capital Loan | Get Loan Amount Upto 1 Cr. | Only at Paisabazaar.com

Paisabazaar.com |

Sponsored

## Enjoy An Extravagant Lifestyle at SPR's Luxurious Bungalows.

SPR Constructions |

Sponsored

## Ways to earn money online

The Panel Station |

Sponsored

## NCP, Shiv Sena, Congress iron out government formation strategy

The Hindu Businessline

## Nifty call: Buy in dips with a tight stop-loss

The Hindu Businessline

## Earn an MBA without leaving your job, Pay With Easy EMI

upGrad |

Sponsored

## Perfectly Crafted Apartments At Sholinganallur, Chennai. Sobha Palacia, Starting 1Cr\*

Sobha Palacia |

Sponsored

## 1,2&3 BHK Ready to Move Apartments Starting @23.40 Lacs, Coimbatore

Provident Green Park |

Sponsored

## Telecom tariff hike will undermine Digital India plan

The Hindu Businessline

## Vehicle registration up 4 per cent in October on back of festival sales, says dealers' body

The Hindu Businessline

## Luxury Apartment Prices in Bangalore Might Actually Surprise You

Luxury Apartments | Search Ads |

Sponsored

## The Cost of a London Apartment Might Surprise You

London Apartments | Search Ads |

Sponsored

## Getting your credit report just got easier. Check online for free

Indialends |

Sponsored

