How to improve crop insurance coverage

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The Pradhan Mantri Fasal Bima Yojana must undergo a cost-benefit audit and be updated to allow for income stabilisation for farmers

The government has recently set up a Group of Ministers to review the 2016 Pradhan Mantri Fasal Bima Yojana (PMFBY) Scheme, as neither the farmers, the State/Central government nor the insurers seem to be happy with the outcomes achieved over the three-year period.

As it is back to square one as far as crop insurance is considered, it would be useful to review the principles behind one of the earliest approaches to a scheme of agricultural insurance in India, which was proposed by JS Chakravarti 100 years ago in 1920 for the Mysore State, covering insurance of granaries, implements, cattle and crop insurance.

It is pertinent to note that the crop insurance component was proposed as a scheme for stabilising the net farm income, and was based on the value of the crop rather than its quantity. The indemnity was equivalent to two-thirds of the farmer's average income, if the total rainfall during a season was less than a specified percentage. The area units were to be small and compact, over which the average annual amount of rainfall and its distribution were fairly uniform. The premium was to be equivalent to the land tax, and long-term contracts of five or ten years were preferred.

The scheme was designed so as to bring a farmer's net receipts to the level of his net income in ordinary years. The key principles of this scheme were the easy-to-understand triggers and a focus on income protection.

Currently, crop insurance is the third-largest portfolio in the non-life insurance industry. The premium outgo at a gross level for 2016-17, 2017-18 and 2018-19, respectively, was approximately ₹22,015 crore, ₹26,065 crore and ₹29,065 crore. Gross loss ratios were at 78 per cent, 89 per cent and 100 per cent respectively. In 2018-19, the total number of farmers covered was 56.4 million, with a gross cropped area coverage of about 30 per cent. Further, the premium for 2019-20 is estimated at ₹31,500 crore, with the gross claims ratio being over 100 per cent for kharif crop.

From 1985 to 2016, several schemes such as the Comprehensive Crop Insurance Scheme (1985), the National Agricultural Insurance Scheme-Rabi (1999) and the Modified National Agriculture Insurance Scheme-Rabi (2010-11), and the Weather Based Crop Insurance (WBCIS -since 2007) were operationalised with a limited degree of success.

Scheme specifics

Based on the learnings from the earlier schemes and the recommendations of a review committee (May 2014) led by PK Mishra, a revamped version of the crop insurance scheme was launched as the PMFBY, effective from the 2016 kharif season. The coverage includes losses on account of prevented sowing due to deficit rainfall or adverse weather conditions, yield losses due to non preventable risks, post-harvest losses, localised calamities and specified add-on covers.

The sum insured was based on the scale of finance, with the subsidised premium rate payable by farmers for food crops and oil seeds at 2 per cent of the sum insured for kharif, 1.5 per cent for rabi and 5 per cent for horticulture. The difference between this rate and the actuarial premium rate is shared equally between the Centre and the States.

The scheme includes a web portal that integrates technology in the implementation of the programme, the use of GPRS-enabled mobile phones for conducting crop cutting experiments, and *inter alia,* a programme for capacity-building and creating awareness.

The current guidelines provide for cut-off dates based on the crop calendar for activities and state interest payments for delay in the payment of premium and claims. Integration of the IT platform is provided to enable faster transmission of data, automated claim calculation and remittance to beneficiaries. Provision of

25 per cent on account payment for mid-season adversity and prevented/failed sowing are provided along with post-harvest losses occurring within a maximum period of 14 days from harvesting.

Implementation gaps

Despite large payouts, there is a negative perception regarding crop insurance schemes, primarily because there have been issues regarding claims assessment, settlement and quantum. Further, three States and four private insurers have decided to move out from the purview of the scheme.

While reviewing the PMFBY, the Group of Ministers should *inter alia* address the implementation gaps and then do a cost-benefit analysis.

Quicker claims settlement: There is a need to focus further on using technology to the desired extent through GPRS-enabled phones for conducting and managing large number of crop cutting experiments (CCEs) in a limited time period. Satellite imagery used systematically as in a pilot scheme can enable a reduction in the number of CCEs required. Improved implementation will also expedite claim settlements.

Distribution and intermediation: In the current top-down approach, the engagement of the farmers is limited while obtaining the coverage. By utilising a distribution network of the insurers and intermediaries, a better understanding can be developed and expectations rationalised.

Process improvements: Mobile money and all payments systems should be integrated with the crop insurance coverage to enhance the ability of a farmer to take a crop insurance cover directly with some measure of flexibility.

Coverage rationalisation: Add-on covers like damage to crops by wild animals need to be reviewed. Yield and weather data being a public good need to be made available at a more granular level and developed as a historical time series for pricing.

Price risk: Development of warehousing and cold chains and providing insurance coverage for the storage and deterioration of stocks can also contribute effectively to the reduction of price risk for farmers.

Utility for farmers: The ₹6000-payment under the PM-Kisan can additionally reimburse the insurance premium payment as an add-on, so that the farmer takes direct responsibility for obtaining the insurance coverage and protecting his income.

A critical measure of success will be the extent to which crop insurance leads to income stabilisation for the farmers in a manner similar to that envisaged in the 1920 scheme.

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