Analysis of Crop Insurance System in India

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Abstract

Brian Brett has rightly quoted, "Farming is a profession of hope" as it is tantamount with risk and uncertainties caused due to vagaries of nature beyond the control of the farmers and adversely affecting them in terms of loss of production and agricultural income. These risks need to be mitigated as the loss is not only borne by the farmers and their families alone but the country as a whole is suffers, especially the agrarian economies like India, thus, calling for a robust crop insurance system. The policy makers in India have unrolled various avatars of crop insurance by way of different schemes to make good of the damages caused by the unfavourable eventualities. This paper briefly discusses the crop insurance schemes that have been introduced so far especially the currently active PMFBY so as to understand the reasons behind the continuous failure of the schemes and come up with a better solution to the problem. Also the paper seeks answer to the question that whether the schemes alone will suffice or there is a need for a specific regulation on the subject matter?

Keywords: *crop insurance, schemes, PMFBY, regulation, etc.*

Introduction

In the words of the *Agricultural Crop Insurance Company of India*, "*Crop Insurance is a means of protecting the agriculturist against financial losses due to uncertainties that may arise from crop failures/losses arising from named or all unforeseen perils beyond their control*."[1] Also it motivates the farmers to make more investments in agriculture by spreading crop losses over space and time, helps in optimal allocation of resources in the production process and it accelerates adoption of new agricultural practices by protecting the economic interests of the farmers against possible risk or loss. It not only benefits the farmers but also the government in the sense that it reduces, to some extent, government expenditure incurred on relief measures extended to meet the havoc caused by natural calamities, and also it may act as anti-inflationary measure, by locking up part of the resources in rural areas.[2]

Need for Crop Insurance in India

***Rainfed Agriculture:** Agriculture in India is vastly dependent on the climate. Approximately 55% of it is rainfed. This leads to dependence on weather conditions which causes uncertain agricultural output.

***Risk to the farmers**: Due to climate and weather related factors primarily two types of risk arises i.e. Price risk and Yield Risk where former refers to the uncertainty about the prices that farmers receive for their produce and later refers to uncertainity regarding the quantity and quality of agricultural product harvested at the end of an agricultural cycle.

It becomes Imperative for the government to provide support to the farmers in terms of insurance against odds.

Crop Insurance Schemes in India

The concept of crop insurance is not new to India, though it received more attention after India's independence in 1947, the spadework was already put in place prior to independence as evident from the available texts from 1915-20. Post-Independence, the issue of crop insurance was long debated and discussed, committee es were formed, reports were submitted, model schemes were prepared but no solid attempt was made in this direction until 1972-73 when Government of India actively began with different experiments on crop insurance on a limited, ad hoc and scattered scale.

- ***First Individual Approach Scheme***

It was the first crop insurance scheme that was introduced in India in 1972 by the *General*

Insurance Department (GIC) of Life Corporation of India. It started in *Gujarat* for *H4 Cotton* on an experimental basis and later extended to the states of *Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra* and *West Bengal* and also included *wheat, potato* and *groundnut* under the coverage of the scheme. [3]

This scheme was based on "*Individual Approach*" i.e., the premium to be paid by the farmer was determined with reference to his own past yield and loss experience. This approach though desirable is beset with problems in Indian conditions. Further, the scheme covered only 3, 110 farmers for a premium of Rs. 4.54 lakh against claims of Rs. 37.88 lakh i.e. for one rupee of premium collected, a sum of Rs. 8.34 per farmer was paid as claims indicating a *high premium- claim ratio* which became one of the main reasons for the failure of the scheme.

- ***Pilot Crop Insurance Scheme***[4]

Implemented initially in *Gujarat, Tamil Nadu* and *West Bengal* on a pilot basis, this scheme, unlike the previous scheme was based on "*Area Yield*" or "*Homogenous Area Approach*", suggested by *Prof. V. M Dandekar* in *1979*. It provided an insurance cover against a deficit crop yield below the threshold level for the *Kharif Crops* only and then it further spread across *12* states till *1984- 85* and also covered *cereals, millets, oilseeds, cotton, potato* and *chickpea*. It was different for the Kharif and the Rabi crops and was confined to *loanee farmers* of institutional sources on a *voluntary basis*. It covered 6.23 lakh farmers for a premium of Rs.195.01 lakh against claims of Rs.155.68 lakh during the entire period.

Inability of the non- loanee farmers to participate in the scheme; major commercial crops like sugarcane and cotton not covered under the scheme; threshold being high even for low risk areas and a large number of holdings being kept from the coverage because they were either falling under the high-risk areas or their area was smaller than the unit area under this scheme- were some of the shortcomings impinged upon the coverage of the scheme.

Comprehensive Crop Insurance Scheme year[5]

The *Central Government* launched *Comprehensive Crop Insurance Scheme (CCIS)* in 1985-86. It was a multi- agency effort and both the central and the state governments shared the premiums and claims in the ratio 2:1. Based on the "*Homogenous Area Approach",* the scheme was linked to *short-term credit* and covered the loanee farmers growing food crops and oil seeds on compulsory basis. Till *Kharif* 1999, the Scheme was adopted by *15 States* and *2 UTs.*

The major setback to this scheme was that Saurashtra experienced severe droughts during 1985-87 and large- scale crop- failures during 1990-93 resulting in *high indemnity payments*. Other drawbacks include- *area approach*, coverage confined to *loanee farmers, uniform premium rate* for all the farmers and regions, *coverage of few crops* and *time lag for indemnity payment*.

- ***National Agricultural Insurance Scheme***[6]

It is a Central Sector Scheme implemented by the *Agricultural Insurance Company Limited* (AIC). The scheme was optional and was implemented by 25 States and 2 UTs in one or more seasons. With an aim to increase the coverage of farmers, it was available to all the loanee farmers (compulsory) and the non- loanee farmers (voluntary). It covered all crops including cereals, millets, pulses, oilseeds and annual commercial and horticultural crops. The scheme operated on the basis of both 'area approach', for widespread calamities, and 'individual approach', for localized calamities.

Some of the drawbacks of the said scheme include- high premium- claim ratio, not financially viable, considerable variations in yields and impact of natural calamities because of large unit areas chosen, delayed settlement of claims, does not cover the risks that the farmers face before sowing and the post- harvest risks.

To make good on these shortcomings, a Modified NAIS was implemented on pilot basis in 50 districts from Rabi season of 2010-11 and from Rabi 2013-14, it was launched as a full-fledged component scheme under the aegis of NCIP.

- ***Weather Based Crop Insurance Scheme***[7]

It was a *weather-based scheme* providing protection to the farmers against adverse weather incidences, initially launched on a pilot basis in *20 states* in *2007* and later on it was implemented by AIC and Pvt. Investors like *ICICI Lombard* together[8] on a full-fledged basis as a component of *NCIP* from *Rabi season of 2013-14*. The salient features of the scheme included- *coverage of all the cultivators, short and quick claim- settlement mechanism, compensation based on weather data* and *affordable premium rates* since the subsidy was provided by the government. *Distance of the farm from the weather station, non- coverage of perils other than weather, wider sowing/ planting window of the crop, differences in soil types & management practices, shift in climatic & weather patterns, etc. leading to weak correlation between the yield and the weather indices* were some of its limitations.

- ***Coconut Palm Insurance Scheme***[9]

Administered by the Coconut Development Board (CDB) and implemented by AIC, the said scheme was introduced on pilot basis in 2009-10 and was into action till 2013-14 as a component of NCIP. With an objective to provide timely relief to farmers suffering income loss due to sudden death of palms, to minimize risk, encourage replanting and rejuvenation to make coconut farming remunerative, it was introduced in the states of Andhra Pradesh, Goa, Karnataka, Kerala, Maharashtra, Odisha, Tamil Nadu and West Bengal. Being a government subsidized scheme, the burden was shared by the central and state government and the board (central agency) in 2:1:1 ratio. It covered 51,108 farmers for a premium of Rs.167.69 lakh against the claims paid of Rs.214.05 lakh till December 2013. And the total area covered during the same period was 25,938 hectares.

- ***Pradhan Mantri Fasal Bima Yojana***

It can be noted from the above that all the earlier crop insurance schemes had common drawbacks including- high premium- claim ratio, delayed claim- settlement, not covering all crops, etc. Realizing these limitations of existing crop insurance system, a new crop insurance scheme that was more comprehensive was launched under the name of Pradhan Mantri Fasal Bima Yojana (PMFBY), from Kharif season of 2016. Some of the salient features[10] of this scheme are as follows:

a) The scheme covers all the loanee and non-loanee farmers (on a voluntary basis), tenant farmers and sharecroppers.
b) The premium rates are lower and differ across seasons. It is a government subsidized scheme and the burden is shared equally by the central and the state governments.
c) It aims to prevent sowing/planting risks, loss to standing crop, post-harvest losses and localised calamities.
d) In this era of digitalisation, the modern technology will be put to use to reduce manpower and infrastructure that will result in more reliable and quick Crop Cutting Experiments (CCEs). Also the mobile based technology with GPS stamping will help improve the quality of data and make faster assessment of claims. The expenses will be borne equally by the Centre and the State, with a cap on total funds to be made available by the Central government.
e) Both the public and the private sector companies are allowed to participate in this scheme. An Implementing Agency (IA) will be selected by state governments through competitive bidding adopting a cluster approach consisting of 15-20 ‘good’ and ‘bad districts’, based on risk profile.
f) Time frame of one month has been provided for collecting the yield data after the final harvest and the processing, approval and payment of final claims based on the said data is to be completed within three weeks from receipt of yield data thus, speeding up the settlement of claims. Also, there will be timely release of premium subsidy to the Insurance Companies.
g) Adequate publicity will be given in all villages of the notified districts through fairs, exhibitions, SMS, short films, electronic and print media and documentaries to spread awareness among the farmers. Also a portal has been set up that is regularly uploaded with all published material information with regards to crop insurance.

The scheme faced several challenges during its first year of implementation which pertain to extension of cut off dates for registration resulting in high premium rates; delay in submission of yield data to assess damages as the system relies on thousands of Crop Cutting Experiments (CCE); lack of trust in the quality of such data as they are not being video recorded and delay in payment of premium subsidy by the state governments to the insurance companies, etc. In order to address these issues, the scheme was revamped and with the beginning of the year 2020, the second phase of the scheme i.e. PMFBY 2.0 was introduced with some positive changes so as to implement the scheme in letter and spirit. Some of the measures taken are provided for below:

a) The IA was selected annually and so they had a year's time to get control of everything which resulted in a little functional presence at the block and the district levels, so the revamped scheme now provides for allocation of business to them for a period of 3 years so that they can implement the scheme in an earnest manner, including setting up local offices. Extra points were granted to the companies for their outstanding performance and even the tenders were awarded beyond three years so as to further incentivize quality service delivery to farmers.
b) To ensure discipline and timely disposal of claims, the Center decided to penalize the State Governments if they failed to release the premium subsidy timely by not allowing them to operate the scheme for the concerned season.
c) There were cases where the farmers took loans for a particular crop having higher value which was different from the one actually grown by them because the credit limits were linked to the "scale of finance" per acre, which was crop-specific, and farmers wanting to have the maximum possible loans sanctioned availed such loan facility. In the event of the crop failure, these farmers failed to get their claims against yield losses the crops grown by them.
d) The Center has now capped the limit of premium subsidy to a maximum of 30% in case of un-irrigated areas and 25% in irrigated areas. The insurance companies will now have to actively seek out farmers and convince them of the importance of crop insurance.

Undoubtedly, the scheme is comprehensive and to have better enforcement, measures have also been taken and that was all the government could possibly come up with as far as this insurance scheme is concerned. While it failed in its first phase of its implementation, we are not very sure of its success in the second phase too.

Need for a Separate Legislation

The launch of crop insurance scheme was a key step to quell mounting unrest among farmers and to mitigate some of the risk associated with with India largely rainfed agriculture. About 3 million farmers are reported to have committed suicide since 1995 and farmer distress has become a key electoral issue in every election across the country. Farmers usually complain of being duped by insurance companies and faces issues in claim payout. Most of the farmers are unaware of the terms of contract as they are not provided with the receipt by fraudsters and they disappear with the money.

More than 200 farmers from Madhya Pradesh took government owned agriculture insurance company to consumer court, complaining that the claims have been incorrectly calculated, payouts have been unfairly low and mandated procedures have been violated. Similar action by farmers in Maharashtra and Tamil Nadu were reported. Farmers across the country have alleged that the PMFBY[11]launched in 2016 has not benefited the farmers and Consumer protection Act is not able to fairly deal with issues related to crop insurance. There is need of separate legislation which will specifically deal with the issues being faced by the farmers across the country as India is the country whose majority population resides in village and dependent on agriculture. Legislation should address the problems specifically being faced by farmers as their issues are of nature which cannot be addressed in general by consumer protection act. These issues arise from highly uncertain factors and need a different solution.

Conclusion

Agriculture in India is a perilous endeavor because of the occurrence of untoward climatic incidents that worsen the status of the farmers, who are at the receiving end. About millions of them working the hardest yet suffer the most. Crop Insurance, an ex-ante adaptation strategy, transfers the risk from the insured farmers to the insurer agency and acts as a panacea to ills of the nature. In spite of its importance, crop insurance in India has neither gained much popularity amongst the farming community nor has any related crop insurance scheme been successful so far in improving the deplorable living conditions of the farmers because of their innate lacunas.

Starting from implementation in two- three states and covering a few crops, the successive schemes aimed at covering more and more farmers and maximum number of crops under their coverage. But every time the schemes faced similar challenges and had same limitations, for instance, higher premium- claim ratios, delayed settlements, not all crops covered, etc. The currently active PMBFY scheme though has made an attempt to do away with the limitations and cover majority population of the farmers, the scheme has not been yet successful and is facing challenges in its implementation. No country including India has been able to successfully address the issue of crop insurance till now, the reason being lack of specific regulation because in order to deal with such a sensitive issue, strong legal sanction is inevitable and a scheme in itself will not solve the problem. In India, there exists only a single regulation for the purpose of insurance which includes all types of insurance and there is no specific law in this regard to exclusively deal with the subject matter. So, there is an urgent need for a specific law in this regard.

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