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ANALYSIS**

TOPIC

**Deepening Crop Insurance
Schemes in India**

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DEEPENING CROP INSURANCE SCHEMES IN INDIA

Context

- Recently, the Press Information Bureau (PIB) disclosed that the penetration and density of crop insurance programmes in India are significantly low amid huge increase in farmer enrolment under the crop insurance programmes.

Deepening Crop Insurance Schemes in India

- India, with its vast agricultural sector, has always been at the mercy of the monsoons. The **unpredictability of weather patterns** and the **increasing frequency of extreme weather events** have made farming a high-risk occupation.
- To mitigate these risks and protect farmers from potential crop losses, the government has introduced **several crop insurance schemes** like **Pradhan Mantri Fasal Bima Yojana (PMFBY)** and **Restructured Weather-based Crop Insurance (RWBCIS)**.

Current State of Crop Insurance in India

- India has implemented **four major crop insurance schemes**, most prominent among them is the **PMFBY**, which is the **third-largest crop insurance program globally**. Other schemes include the **RWBCIS**, the **Pilot Unified Package Insurance Scheme (UPIS)**, and the **Coconut Palm Insurance Scheme (CPIS)**.
- Increase in Farmer Enrolment:** The scheme witnessed a 27% increase in farmer enrolment from 2022-23, with 42% of non-loanee farmers and 41% of enrolled farmers (56.80 crore) indemnified from 2016-17 to 2023-24.
- Low Penetration and Density of PMFBY and RWBCIS:** Despite the phenomenal growth, the penetration and density of PMFBY and Restructured Weather-based Crop Insurance (RWBCIS) programmes are significantly low.
- Penetration and Insurance Density Statistics:** Their penetration in terms of gross premium as a percentage of GDP is 0.62%, and insurance density or per capita farmer premium is only ₹2,148.

Pradhan Mantri Fasal Bima Yojana (PMFBY)

- Insurance protection for food crops, oilseeds and annual horticultural/commercial crops notified by the state government.
- Uniform maximum premium** for all farmers:
 - ◆ **Kharif season** - 2% of sum insured.
 - ◆ **Rabi Season** 1.5% of sum insured.
 - ◆ **Annual commercial/horticultural crops** - 5% of sum insured
- The **difference** between actual premium and the rate of Insurance payable by farmers shall be **shared equally by the Centre and State**.
- If the sowing is not done due to adverse weather/climate, claims up to 25% of sum insured will be paid for prevented sowing/planting risk.
- When the crop yield is less than the guaranteed yield of notified crops, the claim payment equal to shortfall in yield is payable to all insured farmers.
- If 50% loss in mid season of crop then on account advance payment, up to 25% of likely claims will be paid as immediate relief.
- Losses caused due to inundation, hail storm and landslide would be assessed at individual farm level.
- Post harvest losses assessment for damage to crops cut and spread in the field up to 14 days on account of cyclonic rain and unseasonal rain in the entire country.

Weather Based Crop Insurance Scheme (WBCIS)

- Insurance protection for notified food crops, oilseeds and horticultural /commercial crops.
- Uniform maximum premium for all farmers like PMFBY:
 - ◆ **Kharif Season** - 2% of sum insured.
 - ◆ **Rabi Season** - 1.5% of sum insured.
 - ◆ **Commercial/horticultural crops** - 5% of sum insured.
- The difference between actual premium and the rate of Insurance payable by farmers shall be shared equally by the Centre and State.
- When the Weather indices (rainfall/temperature/relative humidity/wind speed etc) is different (less/higher) from the **Guaranteed Weather Index** of notified crops, the claim payment equal to deviation/shortfall is payable to all insured farmers of notified area.
- Provision for assessment of losses caused by hailstorm and cloud burst at individual farm level.

Performance Analysis of PMFBY and RWBCIS (2016-17 to 2023-24)

- Uptick in farmer enrolment with a 10% CAGR.
- The area and sum insured exhibited a negative CAGR of 8.4% and 5.1%, respectively.
- The claims payout recorded a 5% CAGR, indicating an uptrend from 2022-23.
- Farmers' share in gross premium was 15%, exhibiting a negative 4.3% CAGR.
- Insurers settled more than 94% of total claims with a 70% claim-to-premium ratio.

Concerns Raised in Crop Insurance Schemes

- One of the **primary issues** is the **higher transaction costs** of service delivery for small farmers, lack of coordination between insurers, banks, and governments, delays in indemnity payments, and an illiquid reinsurance market.
- Another challenge is the **skewed distribution of these crop insurance schemes**.
 - ◆ While **PMFBY** has been skewed towards loanee farmers (over 50%), **RWBCIS** is limited to resource-endowed male farmers, and their enrollment and premium payments are insignificant compared to PMFBY.
- **Inclusion of Farmers in PMFBY and RWBCIS:** PMFBY has been skewed towards loanee farmers (over 50%).
 - ◆ RWBCIS is limited to resource-endowed male farmers, and their enrollment and premium payments are insignificant compared to PMFBY.
- **Challenges in Service Delivery and Coordination:** Higher transaction costs of service delivery for small farmers.
 - ◆ Lack of coordination between insurers, banks, and governments.
 - ◆ Delays in indemnity payments.
 - ◆ An illiquid reinsurance market affected crop insurance penetration.
- **Financial Analysis of Insurers' Crop and Weather Insurance Businesses (2018-2022):** The claims or indemnity payments to premium income averaged 92%.
 - ◆ The average underwriting expenses to expected premium income was 36%.
 - ◆ The average combined ratio (indemnity and expense) stood at 128%, which indicates that for every ₹100 earned as premium income, insurers paid out ₹128.

Policy Suggestions

- To improve the quality and efficacy of insurance service delivery, institutional capacity of program implementation, inclusion, and regulatory oversight, several policy suggestions can be made.

- A **one-size-fits-all approach is not appropriate** for crop insurance programs.
 - ♦ PMFBY is a multi-peril yield indemnity insurance, while **RWBCIS is a parametric (index) insurance**. So, these two programs should not be jointly managed.
- The **agri-reinsurance market** and **distribution network** must be scaled up.
 - ♦ An effective distribution network should be in place to deepen insurance penetration.
 - ♦ The government should give **more flexibility and freedom to states** and farmers in choosing insurance products for risk hedging as per the proneness of the particular state to the specific weather vagary.
- **Separate Management for Different Insurance Programs:** The need for specialised agri(re)insurers and separate management for PMFBY and RWBCIS insurance programs.
- **Differential Actuarial Premium Rate (APR):** The importance of having different APRs for different insurance programs to encourage participation from uninsured and risk-averse farmers.
- **Alternative Risk-Sharing Models:** The implementation of alternative risk-sharing models or a cap-and-cup approach to reduce net subsidy on premiums.
- **Promotion of Agri-Reinsurance Market:** The need to promote the agri-reinsurance market and create a reinsurance pool for high-value crops.
- **Effective Distribution Network:** The importance of establishing an effective distribution network to deepen insurance penetration, with a mention of mobile network operators or banking correspondent channels for premium collection and claim settlement.

Conclusion

- Deepening crop insurance schemes in India is crucial for protecting farmers from the vagaries of weather and market fluctuations.
- While the government has made significant strides in this direction, there is still a long way to go.
- By addressing the challenges and implementing the suggested policy measures, India can ensure that its farmers are adequately insured, thereby securing the future of its agricultural sector.
- Improvements can be made to enhance the quality and efficacy of insurance service delivery, institutional capacity of programme implementation, inclusion, and regulatory oversight.

Mains Practice Question

[Q] Discuss the potential benefits and challenges ahead of crop insurance schemes in India. How can the crop insurance schemes in India be improved and deepened to ensure maximum coverage and efficiency?

