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Crop insurance: new dawn for farmers?

The new scheme offers lower premium, more risk cover and hassle-free settlement

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Crop insurance schemes have not been a hit with Indian farmers in the past. High premia, limited coverage, complicated ways of assessing losses and delayed payment of compensation have kept farmers away from them.

Given the high risk of crop damage in India, with significant loss in food grain production in 18 of the last 54 years (which is once in every three years as per data from the Commission for Agriculture Costs and Prices), it has become vital to address the flaws in the existing crop insurance schemes — the National Agriculture Insurance scheme (NAIS) and MNAIS (modified NAIS).

Out of the total farm land of 195.26 million hectares in the country, only 42.82 million hectares or 22 per cent is insured. It is in this backdrop that the Centre launched the Pradhan Mantri Fasal Bima Yojana in January this year. While the outline of the scheme looks attractive, the success of the plan lies in its implementation.

Adequate sum insured

The main setback with the existing crop insurance schemes is that the sum insured (SI) is too small to make any difference to the farmer. In 2013-14, for instance, while the average per hectare output was worth ₹41,442, the sum insured (SI) under various crop insurance schemes was just ₹18,464 (kharif - ₹19,141 and rabi - ₹16,927).

While the insured sum here looks sufficient to cover the cost of production, it is way less than a farmer's income in a normal season. In MNAIS, the Centre capped the maximum premium that can be paid for a crop. So, in crops where actuarial rates were higher, insurers reduced the



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sum insured proportionately, says Ashish Agarwal, Head - Agri Business, Bajaj Allianz General Insurance, which covers about 38 lakh farmers under its crop insurance scheme in 2015-16.

For instance, suppose in Uttar Pradesh's Lalitpur district, the actuarial premium (based on the assessment of risk by the insurer) was fixed at 22 per cent for paddy, but 11 per cent was the cap on premium fixed by the Centre. So, even if the farmer wanted SI of ₹30,000/hectare, he would get cover for only ₹15,000 (₹30,000* 11% = ₹3,300 = is the maximum amount that can be

collected as premium, but the insurer can go only with his actuarial rate, so he will reduce the SI to ₹15,000: ₹15,000*22% = ₹3,300). This, however, will change with the new scheme. Under the Pradhan Mantri Fasal Bima Yojana, there is no cap on premium. So the farmer will be covered for the full ₹30,000 and the premium will be paid to the insurer — ₹600 by the farmer and ₹6,000 by the State and the Centre (earlier, the farmer paid ₹900 and the Centre ₹2,400).

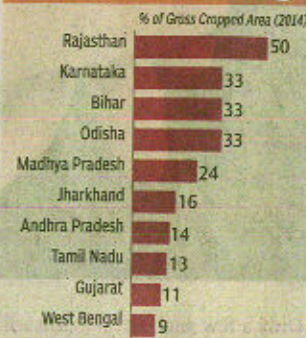
In the new scheme, the sum insured is the average of the past seven years 'threshold' yield for

How they compare

	NAIS	MNAIS	New crop insurance scheme
Premium rate	Low	High	Lower than even NAIS
Insurance cover	Full	Capped	Full
Settlement through banks	No	Yes	Yes
Localised risk coverage	No	Hailstorm, landslide	Hailstorm, landslide, inundation
Post harvest loss coverage	No	Coastal area - for cyclonic rain	All-India - for cyclonic and unseasonal rain
Prevented sowing coverage	No	Yes	Yes
Use of technology	No	Intended	Mandatory

Source: Ministry of Agriculture

Crop insurance coverage



Source: CACP

the specific crop (excluding calamity years) in the village it is grown, multiplied by the minimum support price (MSP).

Lower premium

In the existing crop insurance schemes, farmers cough up substantial costs for insurance. In the Pradhan Mantri Fasal Bima Yojana, however, the premium outgo will drop substantially. Farmers will have to pay just 2 per cent of the SI for all kharif crops, 1.5 per cent for rabi and 5 per cent for commercial or horticulture crops.

Wider coverage

Unlike in the earlier schemes, in the new one, there is greater risk coverage. For instance, there was no cover for risks specific to a region (landslide, inundation) in NAIS. In MNAIS, risk of loss to cyclonic rains was given only to coastal regions.

Under the Pradhan Mantri Fasal Bima Yojana all risks are covered. Post-harvest losses due to cyclonic rain or thunder are cov-

ered for farmers across India. Also, unlike in NAIS, the new scheme covers loss due to adverse weather conditions preventing sowing of crops after expenditure has been incurred.

Faster settlement

A delayed settlement process for crop loss defeats the very purpose of insurance. The delay in settling claims for existing schemes was sometimes as long as six months to a year. Amit Bhandari, Head - Health & Agriculture, Underwriting and Claims at ICICI Lombard General Insurance, says, "Estimation of yield through manual crop cutting experiments and the time lag in sharing the yield data with insurance companies results in delay in settlement."

To expedite the process, the Centre has directed the use of drones and other satellite-based technology when assessing crop damage and estimating acreage. It has also mandated authorities to use smart phones to capture images of crops to improve the quality of yield data. As the images come with GPS time stamping, the process will be more reliable.

Another leading general insurer says the Centre has now laid down the deadlines clearly. From the number of days within which the State has to give the certified yield data to the insurance company, to the maximum number of days within which the Centre/State has to pay their premium subsidy to the insurer, and the number of days for the insurance company to settle claims — everything has been put down on paper.

What is covered

- Losses from fire, lightning, storm, cyclone, flood, drought, pests
- Inability to sow after incurring expenses due to adverse weather
- Post-harvest loss due to unseasonal rains
- Localised calamities such as hailstorms

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