Improving Pradhan Mantri Fasal Bima Yojana Scheme

For Prelims: Pradhan Mantri Fasal Bima Yojana Scheme, States opting out of PMFBY.

For Mains: Issues in PMFBY, Direct and indirect subsidies.

Why in News?

Recently, **Maharashtra has signaled** that it may opt out of **Pradhan Mantri Fasal Bima Yojana Scheme.**

- Andhra Pradesh, Jharkhand, Telangana, Bihar, Gujarat, Punjab and West Bengal - all predominantly agriculture states - have already opted out of the scheme.

What are the Major Provisions of Pradhan Mantri Fasal Bima Yojana (PMFBY)?

- Launched in 2016 and is being administered by the **Ministry of Agriculture and Farmers Welfare.**
    - It replaced the National Agricultural Insurance Scheme (NAIS) and Modified National Agricultural Insurance Scheme (MNAIS).
- **Aim:** To provide a comprehensive insurance cover against the failure of the crop thus helping in stabilising the income of the farmers.
- **Scope:** All food & oilseed crops and annual commercial/horticultural crops for which past yield data is available.
- **Premium:** The prescribed premium is 2% to be paid by farmers for all Kharif crops and 1.5% for all rabi crops. In the case of annual commercial and horticultural crops, the premium is 5%.
    - Premium cost over and above the farmer share was equally subsidized by States and GoI.
    - However, GoI shared 90% of the premium subsidy for North Eastern States to promote the uptake in the region.
- **Implementation**: By empanelled general insurance companies. The selection of the Implementing Agency (IA) is done by the concerned State Government through bidding.
- **Revamped PMFBY:** The revamped PMFBY is often called **PMFBY 2.0**, it has the following features:
    - **Completely Voluntary:** Enrolment 100% voluntary for all farmers from 2020 Kharif.
        - Earlier, it was compulsory for loanee farmers availing Crop Loan/Kisan Credit Card (KCC) account for notified crops.
    - **Limit to Central Subsidy:** The Centre has decided to limit the PMFBY premium rates - against which it would bear 50% of the subsidy - to a maximum of 30% in un-irrigated and 25% in irrigated areas.
    - **More Flexibility to States:** The government has given the flexibility to states/UTs to implement PMFBY and given them the option to select any number of additional risk covers/features.
    - **Investing in ICE Activities:** Insurance companies have to now spend 0.5% of the total premium collected on Information, Education And Communication (IEC) activities.

What are the Issues in PMFBY?

- **Financial Constraints of States:** The financial constraints of the state governments and low claim ratio during normal seasons are the major reasons for non-implementation of the Scheme by these States.
    - States are unable to deal with a situation where insurance companies compensate farmers less than the premium they have collected from them and the Centre.
    - The State governments failed to release funds on time leading to delays in releasing insurance compensation.
    - This defeats the very purpose of the scheme which is to provide timely financial assistance to the farming community.
- **Claim Settlement Issues:** Many farmers are dissatisfied with both the level of compensation and delays in settlement.
    - The role and power of Insurance companies is significant. In many cases, it didn't investigate losses due to a localised calamity and, therefore, did not pay the claims.
- **Implementation Issues:** Insurance companies have shown no interest in bidding for clusters that are prone to crop loss.
    - Further, it is in the nature of the insurance business for entities to make money when crop failures are low and vice-versa.
- **Identification Issues:** Currently the PMFBY scheme doesn’t distinguish between large and small farmers and thus raises the issue of identification. Small farmers are the most vulnerable class.

Way Forward

- **Improving PMFBY:** If the farmer is not enthused by crop insurance despite the 95-98% subsidy on premium, it means that the product per se needs improvement.
    - In this context, Insurance companies should bid for a cluster for about three years, so that they get a better chance to handle both good and bad years.
    - The bids should be closed before the onset of the kharif/rabi season.
- **Adopting Beed Model:** In Maharashtra **‘Beed model** is being followed’, where a company assumes liability only up to 110% of the premium collected or shares gains in a good year with the State government.
    - This model can emerge as a way out from the current mess.

Source: DTE