Crop Insurance

Why in News

The **domestic general insurance companies are gradually reducing their exposure to the Pradhan Mantri Fasal Bima Yojana (PMFBY)** to cut down their losses on account of high claims even as the Centre made the scheme optional and slashed its contribution.

- **PMFBY** and the **Restructured Weather Based Crop Insurance Scheme (RWBCIS)** were revamped in 2020.

Key Points

- **About the Pradhan Mantri Fasal Bima Yojana (PMFBY):**
    - **Launched in 2016** and is being **administered by the Ministry of Agriculture and Farmers Welfare.**
        - **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.
    - **PMFBY 2.0:** 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.
- **Restructured Weather Based Crop Insurance Scheme:**
    - **Launched in 2016** and is being **administered by the Ministry of Agriculture and Farmers Welfare.**
    - **Aim:**To mitigate the hardship of the insured farmers against the likelihood of financial loss on account of anticipated crop loss resulting from adverse weather conditions relating to rainfall, temperature, wind, humidity etc.
    - **Parameter:** WBCIS uses weather parameters as "proxy" for crop yields in compensating the cultivators for deemed crop losses.

Challenges in Implementation

- **Sustainability:** For Insurance markets to work they need- (a) Low risk; and (b) Low correlation in risk amongst those buying insurance.
    - Since the programme is aimed at covering risks of drought and floods, both assumptions are likely to be false.
    - This is because when bad weather hits, all regional farmers are affected (high correlation) and incidence of bad-weather is high (once in 5-7 years ie. loss probability of 14% - 20%).
    - The PMFBY states the premium rates to be 1.5-2% as the rest being subsidized by the government. This in the long term is bad and also encourages risk-taking especially for crops with low MSPs.
- **Claim Settlement Issues:** 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.
    - 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.
- **Lack of Awareness and Grievance Redressal:** The farmers are not aware of the crop insurance schemes. There is a lack of a decent grievance redressal system and monitoring mechanism for speedy settlements of farmer complaints; at both the Centre and State Governments level.
- **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

- **Awareness Generation:** Awareness generation will be one of the major challenges in the smooth implementation of the scheme.
    - The Government is also seeking active involvement of all stakeholders especially States and implementing insurance companies for the conduct of publicity campaign/awareness programmes in the rural areas to build farmer awareness about crop insurance schemes.
- **Bringing Behavioural Change:** A lot more needs to be done in bringing about a behavioural change regarding the cost of insurance being a necessary input and not a money-back investment.
- **Rationalising Waivers and Service Delivery:** Loan waiver schemes announced by state governments along with mandatory Aadhar linkage should be rationalised to enable PMFBY of greater coverage.
- **Role of Technology:** If the localized weather forecasting, drought risk, disease risk, soil analysis data which is now much easily available with technology can be made available to farmers they become pre-emptive of the risk and can plan that much better, thus reducing their losses.
    - The data can also help settle local level calamity disputes which can sometimes get tricky.
    - The technology can enable insurance companies to be better prepared and handle the premiums and settlements much more efficiently.
- **Beed Model:** The government can consider implementing the **'Beed model' of the crop insurance scheme**. Under this plan, the insurer's potential losses are restricted.

Source: IE