How new crop insurance scheme can be a game-changer

Under the Centre's Pradhan Mantri Fasal Bima Yojana, farmers can benefit with both lower premiums and higher sums insured.

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According to the Commission for Agricultural Costs and Prices (CACP), the average SI per hectare under the existing national agricultural insurance scheme was just Rs 18,464 (Rs 19,141 in kharif and Rs 16,927 in rabi) in 2013-14.

That insurance penetration amongst India's farming community is abysmal is a known fact. Out of the gross cropped area of 195.26 million hectares in the country, only 42.82 million hectares or 22 per cent was covered under crop insurance in 2014. While the coverage was higher in some states — especially Rajasthan and also Chhattisgarh, Odisha, Bihar and Karnataka — it was hardly a tenth or less for the likes of Gujarat, West Bengal and Uttar Pradesh (see table).

But the low spread of agricultural insurance — one in every five hectares — isn't the only issue. Equally important is the inadequacy of cover, in terms of the sum insured (SI) or the maximum amount that insurance would pay in the event of crop damage.

According to the Commission for Agricultural Costs and Prices (CACP), the average SI per hectare under the existing national agricultural insurance scheme was just Rs 18,464 (Rs 19,141 in kharif and Rs 16,927 in rabi) in 2013-14. This is way below the gross value of output (GVO) for most crops. Take paddy, where the GVO on an all-India average yield of 36 quintals and minimum support price (MSP) of Rs 1,310/quintal in 2013-14 worked out to Rs 47,160 per hectare. Or tur (arhar), where these numbers stood at 8.5 quintals, Rs 4,300/quintal and Rs 36,550 per hectare, respectively.

If policy claims cannot cover even half of the value of produce when the crop suffers heavy damage, it only shows why farmers aren't really interested in taking insurance protection. And it also explains the poor spread of crop insurance in a country that has experienced five full-fledged drought years (2002, 2004, 2009, 2014 and 2015) in this century alone.

The Narendra Modi government's new Pradhan Mantri Fasal Bima Yojana (PMFBY) promises a departure from the existing crop insurance schemes. These currently cap the premiums at 8-9 per cent of the SI for rabi foodgrains and oilseeds, and at 12-13 per cent for annual commercial and horticulture crops. In the normal course, if the SIs were to be set closer to the GVOs, the actuarial premiums — i.e. based on proper statistical risk assessment — would work out even higher. In this case, the premiums have been lowered simply by keeping the SIs much below GVOs.

The PMFBY, going by what has been notified, removes any artificial capping of the SI, resulting in low claims being paid to farmers. The SI will be calculated by multiplying the MSP of a crop with the average seven-year 'threshold' yield (excluding calamity years) for the particular village panchayat area where it is grown. The premiums would be determined by the SI and not the other way round, as is the case now. Farmers will, however, have to fork out a uniform premium of just 2 per cent for all kharif crops, 1.5 per cent for rabi and 5 per cent for commercial/horticulture crops. The gap between the actuarial premiums and the rates payable by farmers would be fully met by the government. There is no upward limit on government subsidy.

If the scheme is implemented as promised, it will certainly be a significant step forward. But there are a few catches. The first is that PMFBY will be applicable only from the next kharif season, which may well witness a normal monsoon. The fact that it would not benefit farmers today, when they are in the grip of an excruciating drought, may somewhat limit the scheme's political appeal.

Secondly, implementing the scheme in letter and spirit will entail huge premium subsidy outgo, more so in a drought year. The implicit assumption seems to be that if low premiums attract more farmers, the increased insurance penetration and crop area coverage will succeed in driving down actuarial rates, as it has happened with mobile call charges. The CACP reckons the premiums to drop to 3.5 per cent of SI if 50 per cent of India's gross cropped area is insured. On an SI of Rs 50,000 per hectare, this would come to Rs 1,750. For the farmer, the premium cost will be Rs 350 per hectare assuming 80 per cent government subsidy.

Lastly, it's not clear whether and how much of the subsidy burden will have to be borne by the states. What would happen to farmers in states whose governments insist that the tab be fully picked up by the Centre?

On the whole, though, there is a lot to commend about the PMFBY from a farmer's standpoint. If the conditions of low premiums and the SI covering the entire GVO are met — along with quick claim settlements enabled by mobile and satellite technology **— it can turn out to be a game-changer for Indian agriculture.**

- See more at: http://indianexpress.com/article/india/india-news-india/some-assurance-how-new-crop-insurance-scheme-can-be-a-game-changer/#sthash.ZycWEZzH.dpuf