Editorial

New Crop Insurance Scheme: A Monumental Bounty for Farmers

The Pradhan Mantri Fasal Bima Yojana of the NDA government, offering a monumental and path-breaking bounty of crop insurance at a nominal premium as low as 1.5% and 2% of sum assured is an unprecedented and epoch making life line ever extended, to boost the farm sector and de-risk the vast farming community in the country. Under this new scheme, the government has substantially reduced the premium to be paid by the farmers—1.5% on rabi crops, 2% on kharif crops and 5% on commercial/horticultural crops. In order to reduce delays and leakages, payment of compensation will be done through direct transfers into the bank accounts of farmers. This is expected to substantially drive up enrolment for crop insurance under the scheme.

This farmer-friendly initiative has come at a time when the country has been experiencing a protracted period of rural distress due to the below-average monsoons in 2014 and 2015. It is an all time supportive measure to alleviate rural distress by de-risking farming. The most crucial element of the scheme is to bring down the rate of premium to a maximum of 2% of the sum insured. The rest will be paid by the state and the central government. Currently, farmers have to pay premium ranging from 4 to 15 per cent to insure their crops. Also, under the previous crop insurance scheme, risks were only partially covered. The existing premium rates vary between 2.5% and 3.5% for kharif crops and 1.5% for rabi crops—but the coverage was capped, meaning farmers could, at best, recover a fraction of their losses. Also, the premium for commercial and horticulture crops was calculated on actuarial basis, meaning premiums could be as high as 25% depending on the risk factor involved.

The PMFBY is a most optimally beneficial crop insurance scheme for the farmer, as it provides for localized events and removes the cap. The premium rates to be paid by the farmers are also kept very low and the balance premium will be paid by the government to provide full insured amount to the farmers against crop loss on account of natural calamities. Moreover, there is no upper limit on government subsidy. Even if the balance premium is 90 per cent, it will be borne by the government. The government expects the scheme to help increase the insurance coverage to 50 per cent of the total crop area of 194.40 million hectares from the existing level of about 25-27 per cent crop area. This new and ambitious scheme aims to cover about 50 per cent of the farmers of the country in the next two-three years. At present, around 23 per cent of total cropped area of 194 million hectares is under insurance. According to the Cabinet note on the scheme, banks have to play a big role in ensuring its success. Banks have to mandatorily credit the claim received from insurance companies into famers' bank accounts within 14 days. Banks will also have to ensure that all farmers who have taken crop loans against notified crops are compulsorily insured. At the same time, those who have not taken crop loans, but want to avail the benefit of crop insurance should get the same. Banks have also to ensure that crop loans are disbursed to farmers according to the guidelines laid down and ensure that funds so allocated are properly used by farmers.

The scheme entails immediate payment of 25% of the due compensation; the money will go directly to bank accounts of the farmers. Going beyond the conventional methods of compensation and crop cover, the scheme provides for compensation for even loss of seed plants and post-harvest damage. It will also provide assessment for localised calamities -- including hailstorms, unseasonal rains, landslides and inundation - addressing a long-standing demand of farmers. Besides, instead of relying on yield data, which is often delayed, to settle claims, it will use smartphones, remote-sensing data and even drones to assess crop damage. Moreover, hitherto, because of area-based assessments -- in which the results of crop cutting experiments over a small area are used to pay claims for a larger area -- farm-level assessment is not done at all. Once farm-level assessments begin, claims for losses suffered in localised calamities will get paid.

The new Crop Insurance Scheme is in line with One Nation – One Scheme theme and it incorporates the best features of all previous schemes and at the same time, all previous shortcomings/weaknesses have been removed. It is evident from the table given hereafter:

No	Feature	NAIS [1999]	MNAIS [2010]	PM Crop Insurance Scheme
1	**Premium rate**	Low	High	Lower than even NAIS (Govt to contribute 5 times that of farmer)
2	**One Season – One Premium**	Yes	No	Yes
3	**Insurance Amount cover**	Full	Capped	Full
4	**On Account Payment**	No	Yes	Yes
5	**Localised Risk coverage**	No	Hail storm Land slide	Hail storm , Land slide , Inundation
6	**Post Harvest Losses coverage**	No	Coastal areas - for cyclonic rain	All India – for cyclonic + unseasonal rain
7	**Prevented Sowing coverage**	No	Yes	Yes
8	**Use of Technology** (for quicker settlement of claims)	No	Intended	Mandatory
9	**Awareness**	No	No	Yes (target to double coverage to 50%)

Source: Press Information bureau, govt. of India
NAIS: National Agricultural Insurance Scheme; MNAIS: Modified National Agricultural Insurance Scheme

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The new insurance scheme will cost the central government Rs 8,800 crore over the next three years, assuming that 50 per cent of the farmers are covered. At present, with 23 per cent insurance cover, the Centre spends Rs 3,100 crore a year on crop insurance. The insurance amount covered will also not be capped and so also the premium rates. States are also expected to incur the same amount of subsidy that is Rs 8800 crores.

For the Centre, there would be no upper limit on the subsidy and even if the balance premium is 90 per cent, it would provide for the same; in case any state denies bearing the cost.

This should also be seen in the overall context of the PM's insurance initiatives made through bank accounts, where he first rolled out life insurance and accident insurance and now has come out with crop insurance.

Insurance companies are also of the view this will be beneficial since unlike earlier, where there was a claim subsidy, this scheme would offer premium subsidy and would be more affordable to farmers. In the new scheme, assessment of farms for calamities such as hailstorm and unseasonal rains would be done to ensure that each individual farmer gets insurance, even if the damage is highly localised.

Thus, this new scheme is another significant step which will go a long way in taking the farmers of our country out of the quagmire they are stuck in, and provide a much needed fillip to the farm sector. There is no doubt that, if implemented properly, the scheme can be a game changer for the farmers.

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