Crop Insurance: Another dressed up scheme*

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Among the pro-farmer policies that the NDA government claims to have initiated, one often flagged is the modified crop insurance scheme titled Pradhan Mantri Fasal Bima Yojana (PMFBY). Effective as of kharif season 2016, this scheme is supplemented with the Restructured Weather Based Crop Insurance Scheme (RWBCIS). While in the former crop loss is computed by comparing actual yield in a season based on crop cutting experiments by state government agencies with an indicator of expected or 'threshold' yield, in the latter it is computed using leading weather indicators. Together, the schemes promise enhanced and more reliable crop insurance for a much larger number of farmers, significantly higher coverage in terms of acreage and with no cap on the value insured.

If farmers in an agricultural sector that is still monsoon dependent are insured against a collapse in yield for reasons varying from inadequate moisture to a pest attack, their earnings are partially insured. If in addition they are guaranteed remunerative prices for their produce through a scheme that offers to procure surplus output at reasonable minimum support prices (MSPs), their earnings are likely to stabilize at acceptable levels. That was what the government promised to do when it was forced to announce that as of kharif 2018 MSPs would be set at 1.5 times the sum of paid out costs and the imputed value of family labour used. However, doubts have been expressed whether the government is serious about backing its MSP promise with adequate allocations and a strengthened procurement mechanism. And, though it is early days as yet, there is reason to be sceptical about the promise to insure farmers against yield decline as well.

Under the PNFBY, farmers are required to contribute only 2 per cent of the total premium in the case of kharif crops, 1.5 per cent in the case of rabi crops and 5 per cent in the case of horticulture crops. The Centre and States share the remaining premium burden equally. Unlike in the past when there was a cap on premiums resulting in the downscaling of insured values, there is now no cap. The unit for the cover is the village/village panchayat for major crops and the individual farm for losses due to hailstorms, landslides and inundation and post-harvest losses, which facilitates a more realistic assessment of loss. This scheme came with the promise of increasing coverage to farmers cultivating 40 per cent of gross cropped area in 2017-18 and 50 per cent in 2018-19. In addition, by adopting better methods for assessing divergence of actual production from anticipated levels and requiring online transmission of the results for automatic calculation of compensation as and when required, the scheme was expected to ensure that farmers' claims are registered and cleared relatively quickly.

However, barely two years since its introduction, it appears that the PNFBY is not delivering what it promised. Even before the introduction of the newly modified schemes in kharif 2016, official data suggested that the area covered by crop insurance was on the rise, from 45.9 million hectares in 2014-15 (kharif and rabi) to 53.7 million hectares in 2015-16. The subsequent increase in area, after the revised schemes were implemented, was much smaller, with the figure touching 57.2 million hectares in 2016-17 and then falling to 47.5 million hectares in 2017-18. This meant

that as opposed to the targeted coverage of 40 per cent of the gross cropped area in 2017-18, actual coverage was short of 25 per cent.

The immediate effect of the modified schemes in terms of the number of farmers covered, however, seems positive. The number of farmer applicants (kharif and rabi) for insurance cover increased substantially from 4.85 crore in 2015-16 under the earlier schemes to 5.74 crore in 2016-17. Since the launch of PMFBY evidence is available only as for two kharif seasons, assessment of performance under the new schemes is difficult. But kharif 2017-18 ended in October of 2017, and evidence on insurance is available as of mid-July 2018. That figure must be near final, since under the new schemes claims are to be calculated and settled within two weeks of receipt of data and all claims settled within two months of the harvest. Hence, there are numbers relating to two kharif seasons under the new schemes that are currently available. Those figures show that the number of farmers insured under the PMFBY and RWBCIS has fallen from 4.02 crore to 3.43 crore. Moreover, many subscribers to the scheme have taken it up because insurance is mandatory for those availing of crop loans. For kharif 2017, less than 30 per cent of farmers insured were those who had not availed of loans. This suggests that as opposed to the claim that publicity under the new scheme would increase the number of those opting for insurance, the popularity of crop insurance seems to be on the decline. Despite that total gross premiums have risen, because with no cap on insurance the whole of the value of the loan can be backed by insurance.

Falling popularity must be because farmers do not see adequate benefit in joining the scheme, possibly because claims are underestimated and disbursals are small. Media stories of farmers being issued cheques for paltry single-digit sums corroborate this view that low or absent compensation for perceived crop loss has undermined the popularity of the scheme. In the event, the promise implicit in the scheme linked directly to the Prime Minister (though supported with an equal subsidy from the states), has been belied with coverage falling rather than increasing sharply, even though the scheme is demand driven and insurance is mandatory for those availing of crop loans.

However, this deterioration does not seem to be true for the insurance companies, which include besides 5 public sector insurers, a significant number of private players (13). To start with, the new schemes have resulted in a huge increase in gross premiums, from Rs. 5,490 crore in 2015-16 to Rs. 22,550 crore in 2016-17 and Rs. 24,350 crore in 2017-18. In the case of kharif alone, the gross premium collected by the insurance industry rose from Rs. 16,600 crore in 2015-16 to Rs. 19,510 crore in 2016-17 or from an average of Rs. 41,000 per farmer to Rs.57,000 per farmer. These were also years when the area covered was falling. It is true that over these two consecutive kharif seasons the claims made are estimated to have risen from Rs. 10,505 crore to Rs. 15,900 crore. However, as of 16th July 2018, claims paid have fallen significantly from Rs. 10,284 crore or 98 per cent of claims to Rs. 9,629 crore or 61 per cent of claims. This has set off speculation that the real beneficiaries of the new schemes are the insurance companies and not the farmers whom it was intended to benefit. Tax payers' money, routed through central and state budgets, is seen as being transferred to the insurers to inflate their profits.

The central government's response to these criticisms has taken two tracks. The first, is that since 2016-17 was a good monsoon year, whereas that in 2015-16 was poor, it

is inevitable that claims would be lower relative to premiums. Premiums are derived from actuarial calculations that generate surpluses in good years, part of which is deployed by the insurers to cover losses in bad years. So, comparing the ratio of premium to claims paid in good and bad years conveys a wrong picture of industry bias. The second is that unpaid claims result from the failure of state governments to declare the opening of the scheme in time, pay up their share of the premium burden, and ensure estimation of claims correctly and in time. Many state governments, it is argued, do not deliver on these fronts. That is, the problem lies not in the scheme or with the Centre but with the state governments. To the extent this is true it is because other than for attributing the scheme to the prime minister and covering 50 per cent of the subsidy, the Centre does little for the scheme, which has to be managed by state agencies. But in many cases such allegations are not true, and the problem lies with the scheme itself.

In sum, the PMFBY is another instance of the role given to 'centrally sponsored schemes' under the Modi government. First, each scheme is linked directly or indirectly to the Prime Minister who is presented (often by Modi himself) as the patron of the hitherto neglected or marginalised. Second, state governments are called upon to contribute significantly to financing the scheme even though they are not meaningfully consulted when designing it. Third, while much is spent by the central government on propaganda, the scheme is not backed with financial adequate allocations or is designed in a way that makes its actual size and impact small or trivial. Demands to increase the Centre's share in the premium subsidy have fallen on deaf ears. Fourth, when explaining the resulting disappointing outcomes the culpability of the government is kept to a minimum, and, where difficult to conceal, attributed to failure on the part of the state governments, though the scheme is a central scheme.

The National Health Protection Scheme, touted as the world's largest government-supported health programme, the new 50-percent plus MSP and procurement scheme and the PMFBY are all examples of such central schemes. They are meant to attract attention and strengthen the government's report card through publicity, but are not meant to be implemented in ways that can actually make much difference on the ground.

*** This article was originally published in the Frontline Print edition: August 3, 2018.**