

# CROP INSURANCE IN INDIA – PRADHAN MANTRI FASAL BIMA YOJANA

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## **Introduction:-**

India is a land of farmers where the maximum proportion of rural population depends on agriculture. Agriculture sector is the backbone of Indian economy. Being an agricultural dependent economy, there are immense opportunities in agricultural/rural insurance in India. The new areas like weather insurance, rainfall insurance and cyclone insurance give scope even for new private insurers companies.

Agriculture in India is highly susceptible to risks like droughts and floods. It is necessary to protect the farmers from natural calamities and ensure their credit eligibility for the next season. For this purpose, the Government of India launched many agricultural schemes throughout the country.

The *Pradhan Mantri Fasal Bima Yojana* (Prime Minister's Crop Insurance Scheme) was launched by Prime Minister of India Narendra Modi on 18 February 2016. It envisages a uniform premium of only 2% to be paid by farmers for Kharif crops, and 1.5% for Rabi crops. The premium for annual commercial and horticultural crops will be 5%.

This scheme is dedicated to bring in more than 50% of the farmers under its wing within the next 2–3 years. Around 25% of the claims will be sent to the farmer's direct account. Also, the scheme will remain as it is. This means that there will be no cap on coverage. Also there won't be any cap on the reduction in the insured sum.

This insurance scheme, unlike the previous ones, covers local calamities too, such as landslide, hailstorm, inundation, etc. inundation was not covered by the previous schemes. The government has proposed that there will only be one insurance company for the entire state. Mostly the private as well as the national agricultural insurance companies will be approached to implement it.

## **Objectives of Study:-**

- To discuss and explore the problems and prospects of crop insurance in the country.
- To examine the performance of the existing and earlier national crop insurance scheme implemented in India.
- To study Prime Minister Crop Insurance Scheme.

## **Crop Insurance:-**

Indian agricultural sector still mostly depended on monsoons. The erratic and uneven distribution of monsoon rains perpetuated yield/price volatility and hence farmers are exposed to risk and uncertainty. Crop insurance is bought by the agricultural producers, including farmers, ranchers, and others to protect

themselves against either the probability of loss of their crops due to natural calamities, such as floods, drought, and hail, or the expected loss of revenue due to decline in the prices of agricultural commodities unexpectedly. Thus Crop insurance was conceived as an instrument of risk management process in agriculture and as a measure to provide relief to innumerable Indian farmers whose crops were damaged by one or the other means. The design and implementation of contingent contracts is thus an integral part of development process in Indian agricultural sector.

### **Need for Crop Insurance:-**

Crop insurance is one alternative available to manage risk in yield loss by the farmers. It is an efficient mechanism to reduce the overall impact of income loss on the farmer. Thus, it is a means of protecting farmers against all natural factors beyond their control such as rainfall (drought or excess rainfall), flood, hails, other weather variables like (temperature, sunlight, wind), the pest infestation, etc.

It is a financial tool to reduce the impact of loss caused due to natural factors to the farmers. It is a risk management alternative process, where the production risk element is transferred to another party at a cost, which is called premium. To design and implement an appropriate insurance programme for the agriculture is therefore very complex process and a challenging task.

There are basically two approaches to crop insurance, namely, the individual approach method, where yield loss on individual farms forms the basis for indemnity payment, and the homogeneous area approach method, where a homogeneous crop area is taken as a unit for assessment of yield and the payment of indemnity. In fact in both the cases the reliable and the dependable yield data for past 8-10 years are required for the fixing premium on actuarially sound basis.

Majority people get their livelihood from agriculture sectors. So the Govt. of India is dedicated to protect its farmer's community's interest always. This will not only help in sustaining the livelihood of our farmers, but also increase the yield of crops grown. Natural calamities result in the poor yield of crops and as the crops gets damaged in midway and production becomes less. Another concern is when there is an over production of the crops which happens sometimes. Then the market demand falls and thus the farmers do not get very good prices for their crops and they suffer huge losses. This leads to greater economic losses for farmers and in some cases even, farmers have commit suicide. So to provide financial support to the farmers of this country, the Govt. of India has replaced the old crop insurance plan and it has drafted a new plan for the welfare of our farmers. The *Pradhan Mantri Fasal Bima Yojana* (Prime Minister's Crop Insurance Scheme) is a great initiative which will change the destiny of Indian farmers in the near future.

### **Weather Based Crop Insurance Scheme:-**

This scheme was introduced in 2007. This scheme was launched to protect farmers against loss caused due to natural calamities like rainfall (drought or excess rainfall), flood, hails, other weather variables

like (temperature, sunlight, wind), the pest infestation, etc. Under this scheme upto 25 to 50% subsidy on premium shared by state and central Government. The various data of this scheme are as under:

Sr. No.	Weather	Number of Insured Farmers	Sum Assured (In Rs.)	Premium (In Rs.)	Settled Claims (In Rs.)
1	Kharif 2012	3547463	724009.97	72647.97	54751.16
2	Rabi 2012-13	3706835	646622.05	57562.06	77740.13
3	Kharif 2013	5000339	891262.43	89820.20	66692.59
4	Rabi 2013-14	1287898	311593.89	28610.78	29801.44
5	Kharif 2014	2454658	600656.92	62087.91	60645.91
6	Rabi 2014-15	326093	57810.13	5763.48	7472.92
7	Kharif 2015	1654958	507562.59	50772.90	45536.60

(Amount in Lacs)

Source: Annual report IRDA 2015-16.

### Pradhan Mantri Fasal Bima Yojana: An Overview:-

New Crop Insurance is a big Initiative, because despite of implementing several crop insurance schemes in India, farmers needs more protection from the government so that their farming risk can be insulated from various uncertain risks that they may encounter in their farming profession. The government has realized that the reason for thousands of farmers are committing suicide every year is not just because of climatic factors; it is also due to the lack of protection from risks and helplessness, and the crop insurance, is not reaching them effectively, when they need it the most in their life. Pradhan Mantri Fasal Bima Yojana is a mega step in this direction, and will impact deeply the economic condition of the farmers of India.

The fact is that, all the crop insurance models put in place so far since 1970s have met with only limited success and in fact their effective implementation was lacking. In 1985, a crop insurance scheme in India called Comprehensive Crop Insurance scheme (CCIS) launched. In 1997, an Experimental Crop Scheme was launched which lasted only for a year. In 1999, National Agricultural Insurance Scheme (NAIS) launched to protect the farmers against losses suffered by them due to crop failures on account of natural calamities like; floods, drought, hailstorms, cyclone, pests and diseases etc. However, insurance was available for select crops “notified” crops only. This scheme was open to all farmers but was made compulsory for those farmers who had taken some kind of farm loans. The farmers had to pay flat insurance premium depending upon crop type and this premium was subsidized by government.

Pradhan Mantri Fasal Bima Yojana Pradhan Mantri Fasal Bima Yojana (PMFBY) is the new crop damage insurance scheme that has been approved by the Union Cabinet in January 2016. It is one of the most important initiatives and Farmers Friendly launched by the Present BJP government for the farmer’s

welfare. A destiny changer for the farmers of India. It clearly reveals how our present government is seriously concerned for alleviating the problems of our farming communities in India and wants to provide every help to them always, who are the back bone of Indian Economy.

The scheme proposes mandatory use of the remote sensing technology, smart phones and drones for quick estimation of crop losses. This will speed up the claim process faster. Other features within next 2-3 years, the scheme aims to bring 50% farmers under the scheme domain. The settlement of claims will be fastened for the full sum assured. Further about 25% of the likely claim will be settled directly on farmers account. Further there will not be a cap on the premium and reduction of the sum insured.

#### **The new scheme is different from earlier schemes on the account of following:**

- ❖ It is open to all farmers but not mandatory to anyone.
- ❖ It is optional for loaned as well as non-loaned farmers.
- ❖ It has so far lowest premium.
- ❖ The existing premium rates vary in between 2.5% and 3.5% respectively for kharif crops and 1.5% for rabi crops respectively—but the coverage was capped, meaning farmers could, at best, recover a fraction of their farming losses.
- ❖ The farmers' premium has been kept at a maximum of 2% for food grains and up to 5% for annual commercial horticulture crops. For rabi crops, it is 1.5%. The balance premium will be paid by the government to furnish full insured amount to the farmers. Since there is no upper cap on government given subsidy, even if the balance premium is about 90 percent, the government will bear it. This scheme provides full coverage of insurance.
- ❖ While NAIS had full coverage, it was capped in the modified-NAIS scheme. It also covers the localized risks such as hailstorm, landslide, inundation etc. Earlier schemes did not cover inundation. It provides post harvest coverage. The NAIS did not cover while the modified NAIS covered only coastal regions.

#### **Benefits of PMFBY to the farmers:-**

- With Low Premium rates and Total Coverage of Insurance of Crops, Farmers will benefit financially.
- Widening of the term calamities (like Flooding of Crops and Damage after Harvest) will enlarge the Protection base and hence beneficial to farmers.
- Post Harvest Losses are also included, so it will give safety and confidence to the Farmers.
- Time Bound Payment of Losses will prevent delays and further worsening of Farmers's distress condition.
- Will decrease Farmers' Suicide (Since Crop Failure and Financial Distress earlier was undressed but now ensured).

- Easy usage of technology like mobile phone, quick assessment of damage and disbursement within a timeframe.

### **Challenges in Implementation:-**

Success of any government scheme mainly depends on its sincere implementation effectively. The key problem issues such as poor land records, flawed land titles, corruption etc. are common challenges to any crop insurance scheme in India. Further, the success of the scheme mainly depends on how sincerely it is implemented by the insurance companies throughout India. Further, we need to wait and watch as to how the scheme is monitored and supervised.

### **Conclusion:-**

New crop insurance scheme will bring about a major transformation in the lives of Indian farmers. This is a mega initiative to transform life style of farmers. The Scheme is a laudable measure taken by Government, as it is focussing more on the Crop Insurance which is the most vulnerable part of agriculture. The scheme is inclusive and will surely help the farmers of our country at the time of distress. The new scheme is significant as the country is facing drought for the second straight year due to the poor monsoon rains and the government wants to enhance insurance coverage to more crop area to protect farmers from vagaries of monsoon. Thus, new crop insurance scheme has the biggest potential to deal with the vagaries of nature on Indian farming. The premium to be paid by the farmers is kept very low when compared with earlier crop insurance schemes. Finally it can be concluded that it will become a destiny changer for our farmers.

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