Crops: India Isn't Doing Social Insurance Right

Friday 15 June 2018, by MOHANTY Satya N. (Date first published: 24 May 2018).

The Modi government is pushing insurance schemes in agriculture. But are they really making a difference?

The Pradhan Mantri Fasal Bima Yojna (PMFBY) gives insurance cover to farmers against calamities and crop loss, with an enhanced sum insured to cover the cost of cultivation. The premium paid by the farmer is 2% of the cost insured for *kharif*, 1.5% for *rabi* and 5% for horticultural and commercial crops, the rest being subsidised by the Central and state governments in equal proportion.

State governments notify crops for the PMFBY for different areas. It is mandatory for the farmers who take crop loans and is also open for non-loanee farmers. In 2016-17, the overall area covered by the scheme increased by 6.5% to 57.2 million hectares, but the number of farmers went up by 20.4% to 57.2 million, and the sum insured increased by 74% – from Rs 1.15 lakh crore to Rs 2.01 lakh crore. The premium paid increased by nearly 300% to Rs 21,882 crore, of which Rs 4,327.4 crore was the premium paid by farmers. For 2017-18, the gross cropped area under insurance has come down to around 47.5 million hectares, a drop from 30% of gross cropped area in 2016-17 to 24%. The target gross cropped area to be covered is 40%. We are basically back to where we were before the scheme started.

These low numbers, despite the government's push for insurance, high premium subsidy and higher insurance cover, are a major concern.

In 2016-17, the number of non-loanee farmers was 1.37 crore, against 4.35 crore loanee farmers. But in, reality if we normalise the Maharashtra figures (where in view of a court order, all farmers are being shown as non-loanee farmers), their figure will be less than 10% of total area. Hence, PMFBY is really covering the mandated category of crop loanees, that too mostly irrigated crops.

Catastrophic insurance is most meaningful for small and marginal farmers, and particularly for farmers operating in dry land areas. While NABARD's crop loan figures show a high percentage of small and marginal farmers, this doesn't necessarily mean that it is going to the most needy. Suppose 25 acres of land is shown against five adults in a family – this becomes five small farmers, even though the family holding is large. We have a paradox on hand – the farmers who require benefits the most, who are small and marginal farmers with dry cultivable land, are mostly left out, while benefits go to bigger farmers in irrigated areas. Since the premium that the farmer pays is very low and sometimes the state takes up the co-payment obligation, the reason for low penetration needs to be studied to find out whether it is because of the exclusions of tenants and sharecroppers, or because of the crop loan architecture which excludes small and marginal dry land farmers.

For the year 2017-18, insurance coverage area and number of farmers have come down, but the premium has gone up. Like 2016-17, the premium was 12.5% of the sum insured, which was considered high. Premium is a function of transparency, trust, fair claim to damage and timely receipt of premium subsidies by the companies. In many places, the premium is as high as 30-40% of the sum insured because of moral hazard problems.

Poor crop cutting experiments (CCEs) go against transparency and push up the premium, and stymie the long-term growth of the programme. When farmers, in cahoots with state functionaries, select the plot for CCE where the damage is the highest, as has been reported from Karnataka, Rajasthan and Madhya Pradesh, this rising premium trend is a necessary offshoot. In some places, the CCE plot gave a result of one-fourth of average yield, an unacceptable standard deviation. In some major states like Andhra Pradesh, Tamil Nadu, Maharashtra and Karnataka, as well as northeastern states, the state insurance subsidy accounts for 30-40% of the agriculture department's budget. Any expansion will eat into the department's budget, further stymieing department's ability to follow its own priorities. This is possibly the reason why some states are reluctant participants and do not proactively promote insurance.

The Centre's share of the premium accounted for one-third of the Department of Agriculture and Farmers' Welfare's budget in 2016-17. Since the programme covers only a fraction of farmers, this is a problem. When the covered area reaches the targeted 100 million hectares, when tenants and share croppers are also covered, the element of selectivity and strategies of budget balancing will inevitably creep in, which will crowd out the really needy. Paradoxically, risk pooling of a larger number will push out farmers most at risk.

With an increase in CCEs with the village becoming a unit, and data to be provided within one month of harvest by the state, available resources do not seem to be adequate. Delay in the release of state subsidy, delay in computation of claims and insistence on farm-level assessments of local catastrophes exacerbate problems. Insurance companies are not fully prepared and do not have the manpower to handle local calamities and post-harvest damage. This is a classic case of principal agent misalignment, where the insurance companies' abilities do not match the objective of the state. Social insurance also diverts attention from other features critically required for the sector, such as policies for handling glut and scarcity, flow of institutional finance and investment in the sector to enhance adaptive and mitigative capacity. Systemic risks including price risk still stubbornly continue.

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