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Game changer for agriculture

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If crops are exposed to risks, so are the companies which will "insure" them.

This week's column will discuss the revamped National Agricultural Insurance Scheme, which has been named Pradhan Mantri Fasal Beema Yojana (PMFBY). This is different from the extant schemes on agricultural insurance in many ways: objectives, coverage, calculation, payment of premium, and last but not the least, in the opening up of the sector to all the insurance companies engaged in this domain.

Objectives

The scheme lists four objectives. One, financial support to farmers suffering crop loss, or damages arising out of unforeseen events. The use of the word damage is important – for the trigger can be set at a particular yield level. The second objective is "stability" of farm incomes. The third is to encourage farmers to adopt innovative agricultural practices. Finally, the scheme will ensure continued flow of credit in the agriculture sector, which in turn will contribute to food security, crop diversification and enhancing growth and competitiveness of the sector, besides protecting farmers from production risks.

Coverage

With respect to coverage, the scheme is far more inclusive than before. All farmers, including sharecroppers and tenant farmers growing notified crops in notified areas are eligible for coverage. All farmers availing institutional credit through the Kisan Credit Card, or Seasonal Agricultural Operations (SAO) loans would be covered compulsorily, and this will encourage financial institutions to extend loans liberally to the farmers, as their loan is virtually secured against crop losses. The PMFBY goes a step further. It extends the scheme to the non–loanee farmers as well, and this is where the private sector players would be able to play a significant role in extending the coverage.

Regarding coverage of risks and exclusions, the PMFBY guidelines have provisions for prevented sowing/planting risks, yield losses to standing crops, post-harvest losses, and localised calamities. Thus, under prevented sowing, if a farmer cannot undertake sowing/planting due to deficit rainfall, s/he is under an insurance cover. With regard to standing crops, there's comprehensive risk insurance to cover yield losses on account of non-preventable risks, viz drought, dry spells, flood, inundation, pests and diseases, landslides, natural fire, lightening, hailstorm, cyclone, etc. Under post-harvest losses, coverage is available for up to two weeks from harvesting for crops which are allowed to dry in "cut and spread" condition in the field after harvesting against specific perils of a cyclone, cyclonic and unseasonal rains. Loss and damage on account of identified localised risks of hailstorm, landslide, and inundation affecting isolated farms in notified areas are also within the ambit of PMFBY.

It is important to understand the term "sum insured" (SI). It is the same for the loanee and the non–loanee farmer, and is equivalent to the scale of finance as decided by the District level technical committee, and has to be pre-decided, as well as notified. Thus, if the scale of finance for one hectare of paddy crop is fixed at Rs 50,00 for a district, a farmer's SI will be based on the area under cultivation in hectares. Obviously, there will be a variation in the scale of the loan in lands under assured irrigation. The maximum insurance charges payable by a farmer in Kharif season are 2 percent of the SI, or the actuarial rate - whichever is lower for all cereals and oilseeds.

For Rabi, the farmer has to pay only 1.5 percent. However, for all horticulture crops, the premium is capped at 5 percent, which is substantially higher, but then horticulture is also far more profitable, and also more prone to market and weather-related risks. Both the Central and state governments are expected to release 50 percent of the premium to the empanelled insurance companies at the beginning of the crop season on the basis of business projection.

Another essential concept is the "seasonality discipline". Like all insurance products, there has to be a specific cut-off date for each crop, and this is based on the crop calendar of different crops published by the Ministry. However, in case a state wishes to modify the Seasonality calendar, it can do so by convening a meeting of the state-level committee in which the insurance companies will also be present. The idea is that while encouraging more people to join, the seasonality discipline should not encourage adverse selection or "moral hazard".

This becomes especially relevant in the context of non-loanee farmers, for in the absence of formal credit, one is not sure when and where the crop has been sown. There is additional work here for the Insurance company or its channel partner which will have to verify the "insurable interest" and collect the land records, particularly of acreage,

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sum insured, crop sown and the applicable contract/agreement details in case of share-croppers/tenant farmers. However, most insurance companies have established an online portal to facilitate this process, and it is actually in this segment that the real challenge lies. The expectation is that the private players will try their best to extend their reach is in their interest to cast a wider net.

Before closing, it is imperative that one looks at what the scheme has to say about reinsurance – for if crops are exposed to risks, so are the companies which will "insure" them. As such the insurance companies are expected to appropriate "reinsurance cover" to safeguard their interests. However, in case the losses exceed 35 percent in a particular crop season, the government will step in to provide protection in equal measure.

The main takeaway is that this program hedges production risks and insulates the farmer from weather-related aberrations through a process which will also encourage greater financial inclusion of farmers as banks would develop a better appetite for extending crop loans. They have the assurance that at least their outstanding loans are completely covered. If the Centre, the state, the banks, and the insurance companies can pull this through, it will actually be a "game changer" for agriculture!

(Sanjeev Chopra is Additional Chief Secretary to Government of West Bengal. The views expressed are strictly personal.)

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