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Agricultural Insurance Schemes in India

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Agricultural insurance is one method by which farmers can stabilize farm income and investment and guard against disastrous effect of losses due to natural hazards or low market prices. Crop insurance not only stabilizes the farm income but also helps the farmers to initiate production activity after a bad agricultural year. In India, multi-peril crop insurance programme is being implemented, considering the overwhelming impact of nature on agricultural output and its disastrous consequences on the society in general and on farmers in particular. Present article contains brief information on different agriculture insurance schemes in India.

Introduction

Agriculture production and farm incomes in India are frequently affected by natural disasters such as droughts, floods, cyclones, storms, landslides and earthquakes. Susceptibility of agriculture to these disasters is compounded by the outbreak of epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes etc. All these events severely affect farmers through loss in production and farm income, and they are beyond the control of the farmers. With the growing commercialization of agriculture, the magnitude of loss due to unfavorable eventualities is increasing. The question is how to protect farmers by minimizing such losses. For a section of farming community, the minimum support prices for certain crops provide a measure of income stability. But most of the crops and in most of the states MSP is not implemented. In recent times, mechanisms like contract farming and future's trading have been established which are expected to provide some insurance against price fluctuations directly or indirectly. But, agricultural insurance is considered an important mechanism to effectively address the risk to output and income resulting from various natural and manmade events. Agricultural Insurance is a means of protecting the agriculturist against financial losses due to uncertainties that may arise agricultural losses arising from named or all unforeseen perils beyond their control (AIC, 2008). Unfortunately, agricultural insurance in the country has not made much headway even though the need to protect Indian farmers from agriculture variability has been a continuing concern of agriculture policy. According to the National Agriculture Policy 2000, "Despite technological and economic advancements, the condition of farmers continues to be unstable due to natural calamities and price fluctuations". In some extreme cases, these unfavorable events become one of the factors leading to farmers" suicides which are now assuming serious proportions (Raju and Chand, 2007).

Agricultural insurance is one method by which farmers can stabilize farm income and investment and guard against disastrous effect of losses due to natural hazards or low market prices. Crop insurance not only stabilizes the farm income but also helps the farmers to initiate production activity after a bad agricultural year. It cushions the shock of crop losses by providing farmers with a minimum amount of protection. It spreads the crop losses over space and time and helps farmers make more investments in agriculture. It forms an important component of safety-net programmes as is being experienced in many developed countries like USA and Canada as well as in the European Union. However, one need to keep in mind that crop insurance should be part of overall risk management strategy. Insurance comes towards the end of risk management process. Insurance is redistribution of cost of losses of few among many, and cannot prevent economic loss. There are two major categories of agricultural insurance: single and multi-peril coverage. Single peril coverage offers protection from single hazard while multiple – peril provides protection from several hazards. In India, multi-peril crop insurance programme is being implemented, considering the overwhelming impact of nature on agricultural output and its disastrous consequences on the society, in general, and farmers, in particular.

Crop Insurance Approaches

It is important to mention in the beginning that crop insurance is based on either Area approach or Individual approach. Area approach is based on "defined areas" which could be a district, a taluk, a block/a mandal or any other smaller contiguous area. The indemnity limit originally was 80 per cent, which was changed to 60 per cent, 80 per cent and 90 per cent corresponding to high, medium & low risks areas. The actual average yield / hectare for the defined area is determined on the basis of Crop Cutting Experiments (CCEs). These CCEs are the same conducted as part of General Crop Estimation Survey (GCES) in various states. If the actual yield in CCEs of an insured crop for the defined area falls short of the specified guaranteed yield or threshold yield, all the insured farmers growing that crop in the area are entitled for claims. The claims are calculated using the formula:

$$\frac{\text{(Guaranteed Yield - Actual Yield)}}{\text{(Guaranteed Yield)}} * \text{Sum Insured of the farmer}$$

The claims are paid to the credit institutions in the case of loanee farmers and to the individuals who insured their crops in the other cases. The credit institution would adjust the amount against the crop loan and pay the residual amount, if any, to the farmer. Area yield insurance is practically all-risk insurance. This is very important for developing countries with a large number of small farms. However, there are delays in compensation payments.

In the case of individual approach, assessment of loss is made separately for each insured farmer. It could be for each plot or for the farm as a whole (consisting of more than one plot at different locations). Individual farm based insurance is suitable for high-value crops grown under standard practices. Liability is limited to cost of cultivation. This type of insurance provides for accurate and timely compensation. However, it involves high administrative costs.

Weather index insurance has similar advantages to those of area yield insurance. This programme provides timely compensation made on the basis of weather index, which is usually accurate. All communities whose incomes are dependent on the weather can buy this insurance. A basic disadvantage could arise due to changing weather patterns and poor density of weather stations.

Weather insurance helps ill-equipped economies deal with adverse weather conditions (65% of Indian agriculture is dependent on natural factors, especially rainfall. Drought is another major problem that farmers face). It is a solution to financial problems brought on by adverse weather conditions. This insurance covers a wide section of people and a variety of crops; its operational costs are low; transparent and objective calculation of weather index; and quick settlement of claims. Agricultural insurance is one method by which not only stabilizes the farm income but also helps the farmers to initiate production activity after a bad agricultural year. Therefore, genesis and coverage of crop insurance schemes has been explained in details in the ensuring paragraphs.

Concept, Types and Benefits of Crop Insurance

Crop insurance is a means of "protecting the farmers against uncertainties of crop yields, arising out of practically all natural factors beyond their control". Crop insurance may be of different types according to different criteria. The types as per criteria used could be: (a) According to Perils insured: (i) Single peril insurance (ii) Named peril insurance (iii) Multi-peril insurance (iv) All peril insurance. (b) According to object insured: (i) Single crop insurance (ii) Multiple crop insurance. (c) According to basis of administration: (i) Public insurance (ii) Private insurance (iii) Cooperative insurance. (d) According to scope & application: (i) Voluntary insurance (ii) Compulsory insurance (iii) Optional local application of compulsory insurance. (e) According to basis of unit size: (i) Individual farm basis (ii) Individual household approach (iii) Homogenous Area approach (iv) Combinations. Overall benefits of crop insurance could be summarized as: (i) It cushions the shock of disastrous crop loss, by assuring farmers a minimum of protection. (ii) It improves the position of farmers in relation to agricultural credit. (iii) It can help normalize the availability of supplies and stabilize prices. (vi) It will help maintain the dignity of farmers. (vii) It enables maintenance of systematic records of crop production. (viii) It gives farmers greater confidence, in making greater investments in agriculture.

Status of Crop Insurance Schemes in India

Various crop insurance schemes launched in the country from time to time, however, the first concrete attempt could be made only in the 1970s. The summary of schemes evolved till date, is as follows.

1. Crop Insurance Scheme (CIS)
2. Pilot Crop Insurance Scheme (PCIS)
3. Comprehensive Crop Insurance Scheme (CCIS)
4. Experimental Crop Insurance Scheme (ECIS)
5. National Agricultural Insurance Scheme (NAIS)
6. Farm Income Insurance Scheme (FIIS)
7. Weather Based Crop Insurance Scheme (WBCIS)
8. Modified National Agricultural Insurance Scheme (MNAIS)

Various Agricultural Insurance Schemes in India

Insurance scheme	Period	Approach	Crops covered	Farmers covered (Lakh)	Amount (Rs. Crores)	
					Premium	Claim
CIS	1972-78	Individual	H-4 Cotton, groundnut, wheat, potato	0.03	0.05	0.38
PCIS	1979-85	Area	Cereals, millets, oilseeds, cotton, potato and chick pea	6.23	1.95	1.56
CCIS	1985-99	Area	Food grains and oil seeds	763	404	2303
ECIS	1997-98	Area	Cereals, pulses and oil seeds	4.78	2.86	39.78
NAIS	1999-2010-11	Area and Individual	Food grains, oilseeds, annual commercial and horticultural crops	1762	6593	22142
FIIS	2003-04	Area	Wheat and rice	2.22	15.68	1.5
WBCIS	2003-04-Continuing	Individual	Food grains, oilseeds annual commercial and horticultural crops.	195.33	2868	991
MNAIS	2010-11 Continuing	Area and Individual	Food grains, oilseeds, annual commercial and horticultural crops	4.89	N.A	N.A

Conclusion

Crop insurance is one mechanism that has been popular amongst Indian farmers, but they are not interested in paying the premium, and are not satisfied with the payment mechanisms and hence the program is not successful as expected. Despite various insurance schemes launched from time to time in the country has served very limited purpose. The coverage in terms of area and number of farmers is very small, payment of indemnity based on area approach miss affected farmers outside the compensated area and most of the schemes are not viable. Expanding the coverage of crop insurance would therefore increase government costs considerably. Unless the programme is restructured carefully to make it viable, the prospect of its future expansion to include and impact more farmers is remote. This requires renewed efforts by Government in terms of designing appropriate mechanisms and providing financial support for agricultural insurance.

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