Challenges faced by Crop Insurance Schemes

What is the issue?

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In India expectation of loan waiver causes farmers to stop payment against existing loans and chose crop insurance programmes.

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What is the status of crop insurance programs?

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- Union government launched the Pradhan Mantri Fasal Bima Yojana (PMFBY) in January 2016.
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- With the launch of PMFBY, the government has bringing in 50 per cent of the cropping area under crop insurance.
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- Budget allocation towards this scheme has increased substantially, and now covers as much as a third of the total budget of the department of agriculture.
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- There was a noticeably sharp increase in crop insurance penetration immediately after the introduction of PMBY.
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- While around 30 million farmers in the country insured their crops in 2015-16, this number jumped to around 57 million in 2015-16, a 90 per cent increase in coverage.
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What are the concerns faced by Insurance schemes?

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- According to latest data from NSSO, less than 10 per cent farmers insured their crops in the 2012-13 cropping year.
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- The interest among farmers about insuring their crops has been low, which is reflected in the modest coverage level.
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- There was a sharp decline in take-up of the insurance scheme in 2017-18, where the coverage came down to 49 million farmers, a 14 per cent drop from 2016-2017, Favourable weather could be one reason for this drop.
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- Apart from this farm loan waivers by large States in the last year may have played a more important role in this decline.
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Why farmers are reluctant to choose insurance schemes?

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- In the case of a crop loss for farmers who took loans from banks, the indemnity amount may be adjusted against the outstanding loan.
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- Farmers perceive crop insurance in its present form as an insurance against their loans, rather than as protection against their crop loss.
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- Therefore, an expectation of loan waiver works as a substitute to insurance, causing farmers to stop payment against the existing loans, and not buying insurance for the impending cropping season.
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- Further, due to non-payment of existing loans, banks also become reluctant to provide advance for the next cropping cycle, thus subscription to crop insurance decreases as a sum of both these effects.
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What is the way forward?

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- If crop insurance sold along with crop loan is provided by the bank branches, the insurance agencies do not need to set up additional channels for selling crop insurance, helping them reduce administrative costs.
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- The most important reason, possibly, is that it may help reduce default of institutional credit.
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- As more farmers access farm loans than insurance, tying insurance with loans can improve its offtake.
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- This process may also generate interest among farmers about insurance once they get acquainted with the schemes.
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