PMFBY Needs a Relook

What is the issue?

- Five years after its inception in 2016-17, the Pradhan Mantri Fasal Bima Yojana (PMFBY) has run into rough weather.
- PMFBY needs a relook, as many States are opting out of it.

What is PMFBY?

- PMFBY is a flagship crop insurance scheme, launched in 2016.
- It is aimed at reducing agricultural distress at instances of monsoon fluctuations induced price risks.
- It fixes a uniform premium of just 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%.

Why States are opting out?

- Farmers are dissatisfied with both the level of compensation and delays in settlement.
- Insurance companies have shown no interest in bidding for clusters that are prone to crop loss.
- States (Bihar, West Bengal and Andhra Pradesh, Telangana, Jharkhand and now Gujarat) are opting out of the scheme.
- These States are launching their own versions.
- They couldn't deal with a situation where these companies compensate farmers less than the premium they have collected from them and the Centre.

What would be the impact, if not opted out?

- The sums can be serious for the States, given the current levels of fiscal stress.
- If this amount is not to benefit farmers directly, States run the risk of being accused of aiding insurance companies rather than farmers.

What did the companies do?

- In Maharashtra's Beed cluster, farmers are up against the State government

and insurance companies for not settling earlier claims.

- The insurance companies have decided to stay out of bids for this region for the current season.
- It is in the nature of the insurance business for entities to make money when crop failures are low and vice-versa.
- Over the last three years, insurance companies have collectively paid claims amounting to about 85% of the premium collected.
- There is a troublesome issue of 50% of farmers' insurance dues being funnelled into less than 50 districts.
- This raises questions on whether the scheme is being gamed by a few.

What needs to be done?

- The task ahead is to sweeten the deal for farmers and insurance companies.
- **Clusters** - The States are struggling to find insurers for its clusters.
- Insurance companies should bid for a cluster for about 3 years.
- By this, they get a better chance to handle both good and bad years.
- **Bids** - The bids should be closed before the onset of the kharif/rabi season.
- At present, bids remain open even as the monsoon is in progress.
- As a result, farmers may feel persuaded to buy an insurance policy when the weather is adverse, even as the insurer wants to exit the cluster.
- **Change of product** - The farmer is not enthused by crop insurance despite the 95-98% subsidy on premium.
- So, it means that the product per se needs improvement.
- Farmers deserve a better choice of insurance products to meet the specifics of each crop or region.
- For this, insurance companies should be offered more freedom to operate.
- **Beed 'model'** – In this model, a company assumes liability only up to 110% of the premium collected or shares gains in a good year with the State government.
- For now, this model can emerge as a way out of the current mess.

Source: Business Line

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