PHD CHAMBER
PROGRESS HARMONY DEVELOPMENT
Estd. - 1905

IFI
Insurance Foundation of India
(A not for profit organization)

SEMINAR
ON
AGRICULTURE INSURANCE IN INDIA
Status and Need for Accessibility….
Concept Note

Agriculture forms an indispensable part of Indian economy. Despite its importance, it is still dependent on vagaries of nature. Natural calamities and untimely nature process can have cataclysmic effects on the health of agriculture output and thus on farmers too.

Agriculture in India has gone through immense changes in the second half of the twentieth century. It is believed that insurance works best when it is varied and voluntary. To protect the farmers against losses suffered by them due to crop failure on account of natural calamities, Government of India has initiated a number of policies under the National Agricultural Insurance Scheme (NAIS). The latest insurance project, announced by the government, is the yet-to-be-launched National Crop Income Insurance Scheme (NCIIS), which guarantees income to the farmer during fluctuating prices (he pays a maximum of 20% of the loss), and during yield losses due to natural calamities, including drought or unseasonal rain (70-50% of loss caused). It brings all the other existing national insurance programmes under its purview.

Untimely rains and hailstorms in many parts of the country during March 2015 damaged the crops worth of cores of rupees. In Haryana alone, farmers witnessed their worst time ever in recent history where wheat crop in one lac acres suffered near 100% loss because of rain and hailstorm. In Maharashtra, unseasonal rains across the state have ravaged more than 50,000 hectares of rabi crop, mangoes and other horticultural produce. It is estimated that this might have destroyed crops worth about Rs 1,000 crore.

As per the study, it is estimated that only 19% of Indian farmers have ever had crop insurance. Among the rest, 24% believe that the facility is not available to them and 11% say that they couldn't afford the premium. Majority of them are of the views that they are especially discouraged by delays in settlement of claims, which have often extended to a couple of years after the crop loss.

The National Sampling Survey Organisation (NSSO) 2013 also shows that only 4% of farmers, many of them high value croppers, have insurance. And yet, state expenditure on crop insurance premium was cut by 1.2% despite warnings of unpredictable rain due to climate change. High premium and compulsory clubbing of insurance with loans forcing farmers to pay premium and excluding non-borrowers are the most common reasons for this failure. Once crop losses occurred, claim-making was so bureaucratic and obstacle ridden that payments were delayed or not received. The method of calculating settlement eligibility is also rigid and unfair to the small holders, who need insurance most of all.

Threshold production is used as the basis for extent of crop loss. This means individual farmers take insurance, but their crop loss is not evaluated against expected yield for their own farm, but on threshold yield, which is the block's average yield in the past five or three years. The farmer's own loss is also not considered for the claim, but the average loss of the block. It is said that this doesn't show understanding of rural landscape, rainfall patterns and heterogeneity in agricultural practices. These difficulties discouraged farmers from being insured, which led to low coverage, and therefore high premiums, making them unaffordable for those aware of insurance.

Crop insurance has also often been linked to bank credit. A farmer taking farm loans from a bank must purchase insurance. This protected banks from loss, not the farmer.

Crop insurance is required not only to provide financial security to the farmers but also income protection to the farmers by insuring production and market risks. The insured farmers were ensured minimum guaranteed income. It is necessary to protect the farmers from natural calamities, pests & diseases and ensure their credit eligibility for the next season. The farmers needed an insurance policy that could fulfil all expenses incurred on losses and the scheme should be long-term and completely transparent. Farmers are currently paid insurance cover only for some of the input cost whereas the actual loss is much more than the compensation awarded. Insurance cover all the food crops (cereals, millets and pulses), oilseeds and annual commercial/horticultural crops.

Insurance that provides financial compensation for production or revenue losses resulting from specified or multiple perils, such as hail, windstorm, fire, or flood. Most crop insurance pays for the loss of physical production or yield. Coverage is also often available for loss of the productive asset, such as trees in the case of fruit crops.

In view of the all these various concerns and complexities, PHD Chamber is organizing a **seminar on Agriculture Insurance in India 24 July 2015 from 3:30 pm at PHD House, New Delhi.** The main objectives of the seminar are to deliberate on different aspects of the crop insurance.

The sessions will be joined by the senior officials from the Ministry of Finance, Government of India, Insurance Regulatory and Development Authority (IRDA), Agricultural Insurance Companies, Banks, Financial Institutions, representatives from farmer community etc.

Issues & Way Forward

Farming is an inherently risky business and farmers face many types of risks. The two most important risks that farmers face are:

1. **YIELD RISK:** Agriculture, in India is **heavily dependent on monsoon**, which at times is uncertain. **Immemorial weather** has been the major adversary that the farmers are not able to control.
2. **PRICE RISK:**
   - Price or market risk refers to **uncertainty about the prices farmers will receive** for commodities or the prices they must pay for inputs.
   - Revenue depends on production, prices, and interactions between the two. **Prices** received by farmers depend largely **on global market conditions**, while **yields depend on localized factors, such as weather.** The nature of price risk varies significan0t.ly from commodity to commodity.

TARGET GROUPS

- Agricultural Insurance Companies
- Small and Big Farmers
- Financial Institutions / Banks
- Academic Faculty
- Central and State government officials
- Agricultural equipment manufacturing companies
- Fertilizer companies