CROP INSURANCE IN INDIA - A BRIEF REVIEW

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ABSTRACT

The basic aim of crop insurance scheme, minimum support price, calamity relief fund, etc is protection of the Indian farmer from agricultural variability. However, crop insurance covers only about 10% of sown area and suffers from adverse claims to premium. These are problems with both the design and delivery of crop insurance schemes. The solution for these problems can be rainfall insurance and with a well established rainfall measurement infrastructure. Private and public insurers are currently experimenting with rainfall insurance products.

KEYWORDS: Crop Insurance, Indemnification.

INTRODUCTION

Economic growth and agricultural growth are linked to each other. Agriculture contributes to 13.9% of GDP and any change has a multiplier effect on the economy as a whole (Economic Survey 2011-12). Crop insurance helps in stabilization of farm production and income of farming community. It helps in optimal allocation of resources in the production process. On an average 12 million hectares of crop area is affected annually by these calamities severely impacting the yields and total agricultural production (1). It has been established that 50 percent of variation in the crop yield is due to variations in the rainfall.

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<th>Crop Insurance scheme in India in 2011-12</th>
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Source: - Economic Survey 2011-12
NEED FOR INDEX BASED CROP INSURANCE

Crop insurance is a risk mitigation tool.

1. Non availability of past records of yields, Land surveys, ownership and Tenacy
2. Large number of farm holdings
3. Small size of farm holding
4. Remoteness and inaccessibility of farm holding
5. Low value per unit
6. Large variety of crop, varied agro climate condition and package of practices
7. Difficulty in collection of small amount of premium from large number of farmers
8. Simultaneous harvesting of crops all over the country
9. Prohibitive cost of manpower and infrastructure

There are many cropping strategies and farming practices which have been adopted in the absence of crop insurance for stabilizing crop revenue. An average farmer has very low risk bearing capacity. A large farm household or a wealthy farmer is able to spread risk over time and space in several ways; he can use stored grains or savings during bad years, he can diversify his crop production across different plots.

The uptake of insurance services in agricultural sector is quite low compared to the other sectors of the economy like manufacturing, mining, etc. Farmers consider insurance as an unnecessary expense rather than an investment to protect their future.

The major role played by insurance programmes is the indemnification of risk-averse individuals who might be adversely affected by natural probabilistic phenomenon. Insurance offers a possibility to reduce the risk involved and encourages individuals to engage in cropping activities which otherwise they would not. In other Insurance policies the risk is for the particular insurer but in case of crop insurance the risk of unpredictable weather affects the complete area. Also, the premium rates are also very high which discourages the participation of farmers. Moreover, in crop insurance the individuals do not have control over the event, but depending on terms of contract, the individuals can affect the amount of indemnity.

A few studies conducted have confirmed that cultivators are less enthusiastic to avail crop insurance if there is no pay-out during the previous crop season. In other words, every ‘claim-free season’ throws-up a challenge of participation in the next season. Problem gets compounded if the cultivator doesn’t receive a pay-out in the initial two or three years.
CHALLENGES

✓ Low penetration of the scheme
✓ Scarcity of reliable data to determine the crop yield and farming population
✓ Lack of qualified personnel in agricultural insurance
✓ Lack of initiatives from commercial banks in agriculture finance
✓ Low literacy level in farmers
✓ Low priority for major farmers
✓ Lack of co-ordination between the banks and government of department
✓ Lack of awareness and proper knowledge about the procedure
✓ Premium is less compared to the claim in majority states
✓ Delay in the indemnity payment to farmer

CONCLUSION

Economic reasoning and empirical analyses strongly suggest that crop insurance subsidies encourage production changes that reduce aggregate negative environmental effects on farming. The production changes themselves may be relatively small for some crops but because insurance encourages planting on marginal lands the environmental impacts are disproportionately high. The insurance programs in 2012 are more diversified, at higher subsidy rates.

More research is also needed to measure the extent to which farmers respond to crop insurance subsidies by taking on more risk elsewhere in their operation, such as by shifting to cash rents or practicing less diversification.

REFERENCES


